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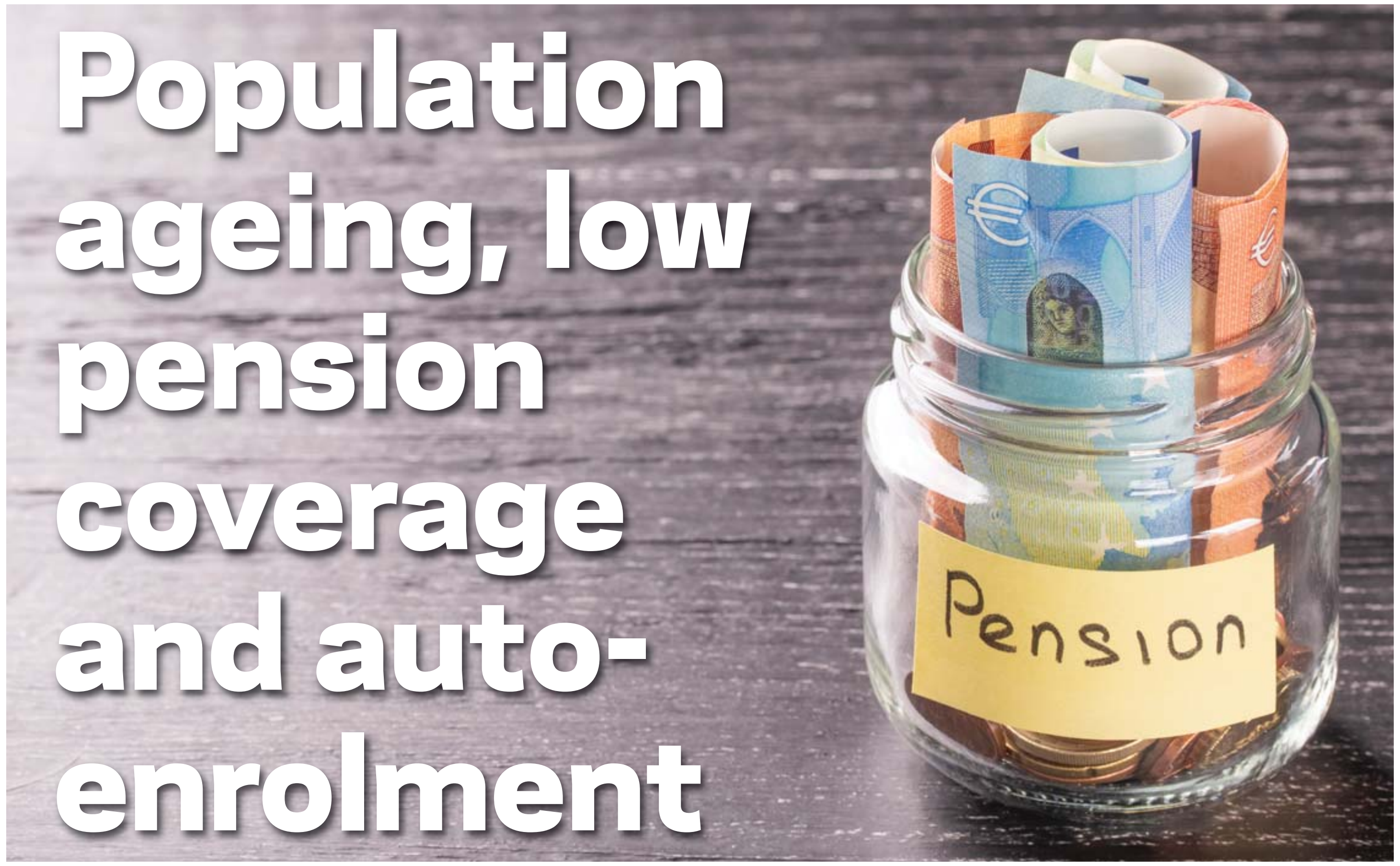
One in four people will be over 65 years by 2040. The Irish Congress of Trade Unions has long highlighted the need for a radical change in policy to fix our low pension coverage. In 2022, the Government will begin one of the most significant developments in supplementary pension provision by introducing 'auto-enrolment'. Congress Social Policy Officer DR LAURA BAMBRICK explains what's proposed and how Congress believes it can be improved.

Population ageing, low pension coverage and auto-enrolment



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WE'RE GETTING older. Not only as individuals, but as a country too. Ireland's birth rate is at the lowest level since records began in 1864 and, at the same time, we are living longer than previous generations. Women can now expect to live to an average 83.6 years, and men to 79.9 years of age.

As a result of these two trends – fewer babies and increasing life expectancy – almost one in four of our population will be over 65 years of age in the next 20 years.

Ill-prepared

Recent figures on pension coverage released by the state's statisticians at the CSO show that we are ill-prepared for population ageing.

Less than half of all workers are saving for their retirement in an occupational or private pension – 90 per cent of public sector workers are, compared to only one in three workers (35 per cent) in the private sector.

At €248.30 per week, the contributory State Pension is only slightly more than the minimum income required to prevent a pensioner from living in poverty.

Consequently, workers without a second pension to supplement their State Pension are at risk of a big drop in their living standards in old age.

In other words, while the State Pension will keep the wolf from your door it will not stretch to cover the holidays, dinning-out or other luxuries you had enjoyed on your pre-retirement income.

With the growth in the proportion of the population aged over 65, the importance of discretionary income in retirement is no longer solely a private matter. It is fast becoming a matter of grave importance to the economy as a whole. If consumer demand is to be maintained into the future, we need pensioners to have sufficient money to continue spending on non-essential goods and services.

Auto-enrolment

Congress has long highlighted the need for a radical change in policy to fix our low pension coverage.

There is currently no legal obligation on employers to provide or contribute to an occupational pension for their workforce. Added to this, pensions are overly complex and not sufficiently understood to get low- and middle-income workers saving towards a financially secure retirement.

In 2022, the Government will begin one of the most significant developments in supplementary pension provision by introducing 'auto-enrolment'.

GOVERNMENT'S PROPOSAL	CONGRESS'S RESPONSE
Target membership Auto-enrolment will apply to all employees who are: ■ aged between 23 and 60 years; and ■ earning €20,000 or above; and ■ not a member of a pension scheme.	■ Include self-employed with no employees. ■ Set lower age threshold same as PRSI, 16 years. ■ Raise upper age threshold above 60 for new entrants. ■ No lower income threshold.
Contribution rates ■ Workers will contribute a minimum 6% gross earnings. ■ Employers will match workers' contribution. ■ State will contribute €1 for every €3 a worker saves. Contributions to be gradually phased in 2022 – 2027.	■ Workers contribution graduated from 1% to 5% on first €20,000. A flat 5% contribution on remaining earnings. ■ Employers contribute a flat 7% on all earnings. ■ State contributes €1 for every €2.50 a worker saves.
Opting out, re-enrolment and saving suspension ■ Participation will be compulsory for 6 months. ■ Workers who opt out re-enrolled every 3 years. ■ Workers can suspend contributions in limited circumstances. ■ Employer and State contributions will stop if a worker suspends savings.	■ Merge the opt-out, re-enrolment and saving suspension features into a time-limited 'contribution holiday', which can be claimed as a single continuous period or any number of separate periods. ■ Employer and State to continue contributing during a worker's contribution holiday.
Operational model ■ Workers will have access to a range of retirement saving products from approved pension providers via a newly established Central Processing Authority (CPA). ■ Workers' contributions will be deducted by employers directly from wages and transferred to the CPA. The CPA remit contributions to the pension provider.	■ Collect contributions in the same way as social insurance: the employer deducts the worker's contributions at source, the employer and worker contributions are then collected by Revenue and all contributions noted on pay slip. ■ Revenue to remit the contributions to a State fund.
Service providers ■ CPA will tender every 5-10 years for 4 commercial providers for provision of pension saving products. ■ Workers will be responsible for selecting one of the 4 providers and a saving option. ■ A maximum management fee of 0.5% p.a.	■ One provider, a public fund e.g. the NTMA. ■ The NTMA to contract out management and investment of proportions of the fund. ■ The 0.5% maximum management fee is excessive.
Draw-down arrangements ■ Workers can draw-down their fund at State pension age as a lump sum, annuity or other retirement products permitted under pension and tax law.	■ State provision of annuities that take the form of top-up payment on State pension, similar to an earnings related pension. The more contributions made by and on behalf of the worker, the higher their State pension.

Auto-enrolment will legally require employers to include all employees, who meet certain age and income criteria and who are not already members of an approved occupational pension, into a new retirement saving scheme and to make a minimum mandatory contribution. Workers will also have to make a minimum contribution into their pension pot, and this will be topped up by the State.

There will be a limited opportunity for workers to opt-out of the scheme after a short period of compulsory membership. Upon opting out their personal contributions will be returned to them and their employer and the State will cease making contributions to their pension savings. After three years, the worker will once again be automatically enrolled into the scheme by their employer, with the option to opt-out after the compulsory period has passed.

Auto-enrolment has proven to be hugely successful at increasing pension coverage in many countries, including Australia, New Zealand and the UK, who have very similar pension systems to the Irish system.

Saving

Auto-enrolment will be an additional pension instrument alongside all existing measures.

It is not being introduced to replace or undermine either the State Pension or tax relief on pension contributions.

The purpose of auto-enrolment is to get workers and employers who are currently not contributing to an occupational pension scheme to start saving for a financially secure retirement.

While we do have concerns around some features of the draft system the Government has proposed, which are outlined in the table above, Congress agrees in principle with the introduction of auto-enrolment as the most appropriate way of increasing pension coverage, income adequacy for pensioners, and employer responsibility to contribute to their workers' living standards in old age ■