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Knowledge Network

Understanding Pension Auto-Enrolment. *Securing financial futures?*

Wednesday, 12 March 2025

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Introductory remarks

- Automatic Enrolment Retirement Savings Bill 2024 was published on 5 April 2024, 25 years after it was first mooted in 2006 by Séamus Brennan and flagged in the 2007 Green Paper on Pensions
- Automatic Enrolment Retirement Savings System Act 2024 was signed into law on 9 July 2024
- The Commencement Order for the Act was signed by the Minister on 30 September 2024 (S.I. No. 500/2024)
- The National Automatic Enrolment Retirement Savings Authority will be established on **31 March 2025**
- The first enrolments under the Auto Enrolment Retirement Savings System begin on **30 September 2025**
- AE will be an additional source of income in retirement on top of the State pension
- AE Retirement Savings Scheme to be known as “My Future Fund”

Why AE?

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- Report of Commission on Pensions: Irish population enjoying increased longevity – less time in employment, more time in retirement
- Approximately 33% of private sector workers are without pension coverage (CSO 2023)
- Changes in the old age dependency ratio – smaller proportion of working age people funding pension payments of increasing pensioner population
- Dual aim of AE system:
  - Increase supplementary pension coverage
  - Ensure adequacy of retirement incomes
- Current minimum employer obligation: PRSA access; no contribution requirements


"Help! I haven't saved enough for retirement!"

Key features of the AE Act: eligibility criteria

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- Eligibility criteria (excluded workers can opt-in):
  - Employees aged 23-60
  - Earning over €20,000
  - Not already in a ‘qualifying occupational pension scheme’ (includes PRSAs, RACs and PEPPs)

- Participating in an occupational pension arrangement is taken to mean making employee contributions **<u>and/or</u>** receiving employer contributions to an occupational pension

- Self-employed and unemployed individuals will not be auto-enrolled

- AE applied to existing and new staff including those on probation, casual and part-time employees

Key features of the AE Act: eligibility criteria

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- ‘Pot follows member’ approach

- Where someone has more than one job (or jobs) and pension contributions are not being made in respect of the additional jobs, they will be automatically enrolled in respect of the non-pension employment provided that the combined wages of all employment exceeds the earnings threshold i.e. €20,000

- **Note**: where an individual is in receipt of emoluments from multiple employments, the employer contribution obligations are allocated on a proportionate basis

Key features of the AE Act: eligibility criteria

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- If an employee meets the criteria of being between 23 and 60 years old, earns €20,000 or more per year and **is not** part of a company pension scheme that goes through payroll, they will be auto enrolled

- If an employee **is** part of a company pension scheme that goes through the company payroll, they will not be eligible for AE

Key features of the AE Act: contributions

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- Contribution rates (phased in over 10-year period):

AE	Employee	Employer	State
Years 1-3	1.5%	1.5%	0.5%
Years 4-6	3%	3%	1%
Years 7-9	4.5%	4.5%	1.5%
Years 10+	6%	6%	2%

- Matching employer and State contributions up to a maximum of €80,000 of earnings per annum

Key features of AE Act: Tax Relief

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- Different structure under AE versus occupational pension scheme/PRSA/RAC

- **Current Structure:**

- Income tax relief against earnings for employee contributions (including AVCs) to an occupational pension scheme, PRSA, RAC or PEPP and overseas plans

- Income tax relief is at marginal tax rate. No relief from USC/PRSI

- Tax relief subject to an age-related earnings percentage limit and a total earnings limit of €115,000

- Employer: contributions allowed as an expense under s774(6) TCA

- **AE**

- No income tax relief for employee contributions

Age	Percentage Limit
Under 30	15%
30-39	20%
40-49	25%
50-54	30%
55-59	35%
60 or over	40%

Key features of AE Act (cont'd)

- Mandatory participation period/opt-out options
  - Once enrolled must remain in Scheme for minimum period of 6 months
  - Re-enrolment after 2 years
  - Opt-out windows in months 7 & 8
  - Opt-out will not be available after phasing-in once 6% contribution rate reached
- Non-interference from employer
- Sanctions

NAERSA

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- Establishment of a new authority: **National Automatic Enrolment Retirement Savings Authority**
    - Role:
      "to administer the scheme and to act in the best interests of members, collect contributions, arrange for the investment of contributions, manage participant accounts that will be accessible through an online portal, and facilitate the payment of savings at retirement"
- Prospective minimum standards
    - Department of Social Protection has confirmed that minimum standards for existing occupational pension schemes will be introduced in conjunction with Pensions Authority (years 7-9)
    - Ensuring employees in existing pension schemes are no worse off than were they auto-enrolled

NAERSA (cont’d)

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- The new body is due to come into existence from **31 March 2025**

- In February, a spokesperson for the Department of Social Protection said that:

> *“in advance of its formal establishment, NAERSA is in effect* ***operating on an administrative basis*** *within the Department of Social Protection with members of the Auto-Enrolment Programme Management Office* ***doing the necessary preparatory work*** *in advance of the launch”*

- Recruitment of a **CEO** and five to eight **Board Members** is needed in advance of the formal establishment

- In several years, NAERSA expected to become self-funding through participant fees (50 cent fee per participant per week)

Administration of Scheme

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- 40 civil service staff – most will be based in the Department’s offices in Letterkenny, Co. Donegal

- 15-year contract for administering new scheme (under contract from NAERSA) was signed with Tata Consultancy Services (TCS) in October 2024

- TCS has been the pensions administration provider for the National Employment Savings Trust (NEST) since 2011

- Department working closely with Revenue to agree the approach to capture employee payroll/pensions data for determining eligibility for AE

Investment Fund Tender

- The new scheme will use up to four investment management services providers
- Each provider will provide three investment strategies – high, medium and low risks
- The Department for Social Protection has confirmed that the tender for asset management will be published this week
- Contracts should be awarded in Q2 2025
- Default strategy – high, to medium, to low

Potential issues and areas of ambiguity

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- Broad definitions of ‘employee’ and ‘employer’ – casting a very wide net and may have unintended consequences
- Interaction with typically complex areas of pensions unclear e.g. Revenue maxima and pension adjustment orders
- Current DC schemes have more flexibility re early retirement
- Pension schemes with particularities or ‘quirks’ in their design
- AVCs
- Eligibility criteria for mandatory membership of existing scheme not aligned with AE scheme e.g. a higher age of entry

Potential issues and areas of ambiguity (cont'd)

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- Currently workers who pay tax at the higher rate are entitled to tax relief at that level on pension contributions – 200,000 worse off under AE?

- Lack of awareness – CSO data from December 2024 showed that just 28% of eligible workers were aware of the scheme

- Timelines – former CEO of NEST (the UK AE equivalent) has commented that Ireland was facing a *"challenging deadline"* for the *"complex"* implementation of its AE regime

- Limitations on contributions allowed under AE could make it difficult to save up an adequate retirement income

- Potential for arbitrage and toggling between systems

Employer considerations

- According to Irish Life figures, 98% of schemes have some form of pension gap and will be impacted by the new Scheme due to:
  - Scheme being voluntary or opt-out permitted
  - Waiting period
  - Excluded/non-mandatory cohorts (short term contracts, age)
- Employers should review existing pension arrangements and rules, contracts of employment, payroll systems
- Employers should also carry out an analysis of their workforce to ascertain what proportion would fall within the scope of the AE Scheme
- No mechanism whereby employees can be mandated to join existing pension scheme
- Communication process with employees and providing details of the Scheme and how it will operate in practice

Options for Employers

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- Assess pension coverage gap and decide on preferred approach:
  - Open membership of existing plan as-is to all employees on opt-in basis
  - Open membership of existing plan to all employees at AE rates on opt-in basis
  - Open membership of existing plan to all employees with only employer contributions
  - Do nothing – AE will pick up those not in pension scheme
  - Combination of the above depending on profile of workforce

- Single Scheme vs Dual Scheme approach

- New joiners?

- AE v Existing Arrangements: Pros and Cons

Panel Discussion

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