Ibec

A Universal Pensions Scheme

An Ibec submission to the

Universal Retirement Savings Group

May 2015

Key messages

1. **The introduction and roll-out of a scheme must have a clear roadmap:** For many businesses the introduction of Universal Pension coverage will be a major undertaking both administratively and from a labour cost point of view. Ibec believes the lead in time will need to be in the region of 5 years in line with other countries before the rollout of universal pension coverage can begin. Carried out improperly this rollout could introduce a large amount of uncertainty to Ireland's pensions and labour market environment for an extended period of time. As such certainty around a roadmap to progress, the design of the scheme and its implications will need to be comprehensive from the outset.

2. **The scheme's introduction needs to be reliant on clear observable economic criteria being met:** The introduction of the scheme, although necessary, is likely to have significant and negative impacts on the domestic economy in the short-run. As such the introduction of the scheme should be timed to kick in only when household incomes have recovered, unemployment is low and stable and there is medium-term certainty and forward guidance on labour market policy.

3. **A critical element of any solution will be personal ownership of pension savings by individuals:** This will be necessary to create public confidence. Some of this confidence must be stimulated by system design and supervision and some must be achieved by helping workers to become more self-reliant savers - whilst avoiding the need for them to make complex investment decisions.

4. **The introduction of a universal retirement savings will raise issues of equity with regard to public sector pensions**: The Government's credibility when launching the new scheme could be compromised if its own employees are left out of what is agreed to be a new and efficient long-term pension set-up for Irish workers.

5. **Ibec supports an auto-enrolment system with an opt-out for workers in companies of all sizes**: The auto-enrolment framework must be sufficiently simple and flexible to provide both ease of compliance and incentives to go beyond the statutory minimum. The contribution structure must incentivise saving appropriate to the earnings and employment situation of the individual. There should be just one opt-out option to minimise the administrative burden on employers.

6. **An employer contribution is a necessary incentive to increase workplace pension adequacy:** However, the rate at which the minimum is set should be sensitive to the economic realities of small businesses**.** Thought should be given to an initial low contribution rising gradually over a number of years. It would not be sensible to advocate a system which compromises economic recovery or has a negative impact on job creation.

7. **International experience suggests that government subsidies play a major part in the positive perception of universal retirement savings schemes**: The Universal Retirement Savings Group should consider if elements of international good practice (e.g. New Zealand's KiwiSaver scheme) with regard to incentive structure and design features could be incorporated into an Irish system.

8. **The minimum entry threshold should be set at a salary of €25,000 per annum**: This is twice the value of the state pension and ensures that the scheme is specifically targeted at 'lower' paid workers who require a supplementary retirement scheme. Low-income workers do not need to contribute in private pension plans, as they already have relatively high replacement rates from the public pension scheme.

9. **The upper salary threshold should be €50,000 per annum**: The substantial level of private sector provision should be preserved and not destabilised by the reforms, as it will usually be of a higher value than the new statutory minimum. Lower and upper earnings thresholds should be enshrined in primary legislation.

10. **The new scheme should be an entry-level low cost savings vehicle for workers whose employer does not offer their own scheme:** It could be based on defaults such as contribution levels, investment, funds, member communication, charges etc. It should be individual-specific; each employee would have a single retirement account accepting contributions from multiple employers over the working life of the individual.

11. **The system should be administered by government with monthly collection through the PAYE tax system**: The State should provide employers with information to pass on to employees, receive contributions, transfer them to the right scheme, invest in a timely manner, allocate people who don't make a choice to default schemes, administer requests for opt-outs and contribution holidays, provide information to the public and help build awareness.

12. **The pension industry should be responsible for the ongoing management and investment of the scheme:** Low charges and competition are likely to be the best route to drive down fees and it should be open to all potential providers to enter the market. The new scheme has to feel like a good deal to employees and employers.

13. **The scheme should have a waiting period of 12 months for new entrants:**. Workers who choose short-term assignments – such as students and individuals between long-term contracts – will often want to maximise their short-term earnings. Employers should not be expected to waste resources auto-enrolling and then refunding individuals with a high risk of opting-out on the basis of short work periods. Where companies have an existing occupational pension scheme, waiting periods and opt-out provisions for employees (e.g. short-term international staff) should take precedence.

14. **Compliance should set out to facilitate an effective self certification system and avert the need for costly and complex individualised compliance**: Self-certification and other processes should be designed on the assumption that employers want to comply – not that they will try to shirk their duties at every stage.

15. **The new requirements should not cause employers to level-down their existing provision:** The first principle the government must adopt in its approach to the reforms is do no harm. The most effective method of discouraging employers from levelling down their provision is by ensuring an optimal regulatory, cost and incentive scheme for existing occupational DB and DC pension schemes.

16. **Communicating the reforms in an efficient and easily understood fashion presents a huge challenge**: For many, the language of pensions will be new and complicated – the detailed requirements around auto-enrolment and opting-out should not leave both employer and employee confused and frustrated.

.

1. Introduction

Ibec welcomes the opportunity to submit on the introduction of a universal pension scheme in Ireland. Ireland's record of pension coverage is demonstrably poor. In recent years our favourable demographics, when compared to most developed countries, has allowed us to put our pensions problems on the long finger while we attended to a now recovering economy. This grace period is now, however, coming to an end. If this issue remains unresolved into the medium term it risks doing serious damage to our consumer economy leaving a generation with substandard pensions coverage and an unsustainable bill for the state. In this sense we welcome this consultation as a move in the right direction.

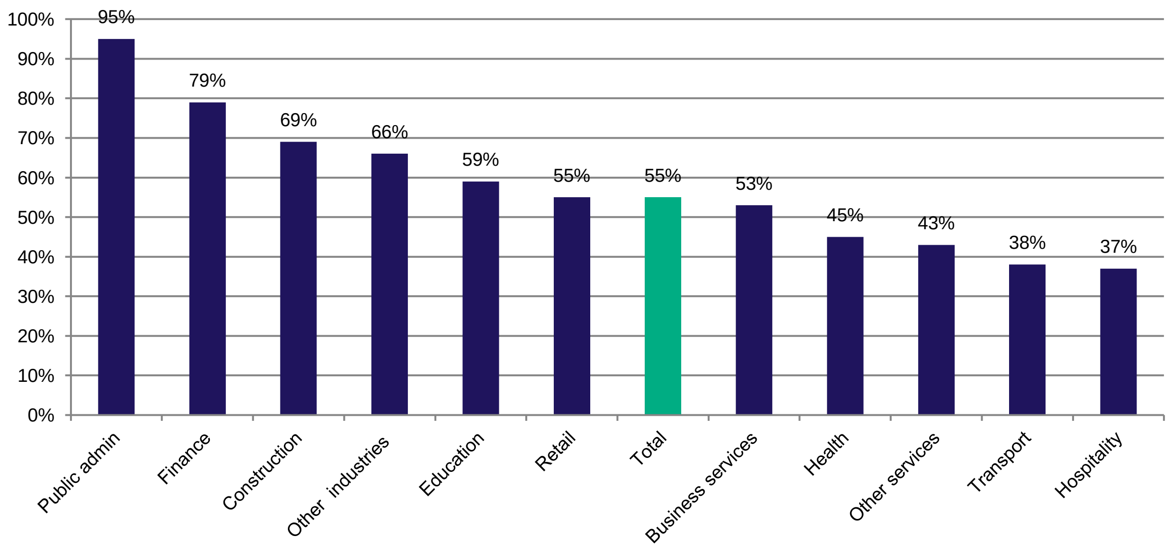
Ibec represents the interests of Irish business including indigenous and multinational enterprises and SMEs, spanning all sectors of the Irish economy. Ibec and its sector associations work with government and policy makers at national and international level to shape business conditions and drive economic growth. As part of the process for this preliminary submission on the consultation regarding universal pension's coverage we performed a qualitative survey of our membership with over 100 responses from companies of all sizes and industries. Additionally, we held a pensions roundtable to discuss issues in more detail.

Preliminary discussions underline the complexity and potential costs of this process. It will require clear timelines, a number of years of dedicated research and consultation as well as trust building between the state and employers and employees. This in particular has been damaged by recent initiatives such as the pension levy and will be an impediment to private sector buy-in to the process. The following sections outline in detail our views and the views of our members on the issues which arose in the consultation document.

2. Overview of pensions in Ireland

Private sector pension coverage in Ireland is relatively low by international standards. According to the OECD, only 41.3% of workers were enrolled in a funded pension plan in 2009. In addition this varies dramatically across different sectors and types of workers. This highlights the areas where new legislation regarding pensions may have the greatest impact. The following analysis is based upon date from the 2007 National Employment Survey and QNHS special module on pensions 2009. Although pension coverage is likely to have fallen since then, the relative position of different types of firms and sectors is likely to be the same.

Figure 1: Enterprises providing pensions by sector

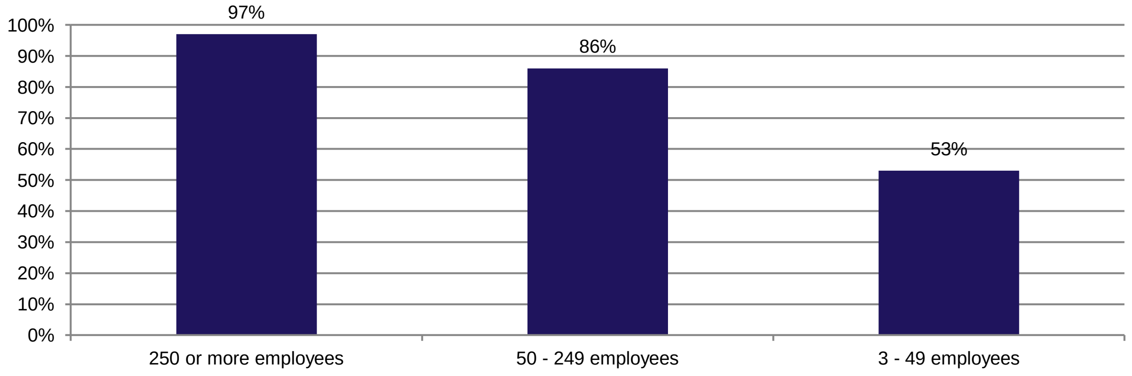


Source: CSO

It is important to note that the figures above simply refer to enterprises providing a pension- it does not mean that all employees within those firms are covered. Pension coverage differs dramatically by sector. It is particularly evident that people working in the public sector e.g. public administration and education have high levels of pension coverage. It is notable that 79% of financial firms have some form of a pension; this is likely to be due to the tradition of occupational pensions in these sectors and the higher salaries applicable there. By contrast only 37% of firms in the hospitality sector cover employees, this is to be expected as employment tends to be more casual with high levels of churn, relatively lower wage and more part-time employment. This suggests that the new pension legislation could impact on the performance of some of the more challenged sectors compared to others. The domestic facing sectors experienced the biggest setback during the crisis and although these sectors

have started to recover that recovery are still geographically and sectorally uneven. Taking the retail sector as an example, turnover still remains 20% below its pre-crisis level and therefore we should be cautious as to how the pension reform could affect any progress that has been made.

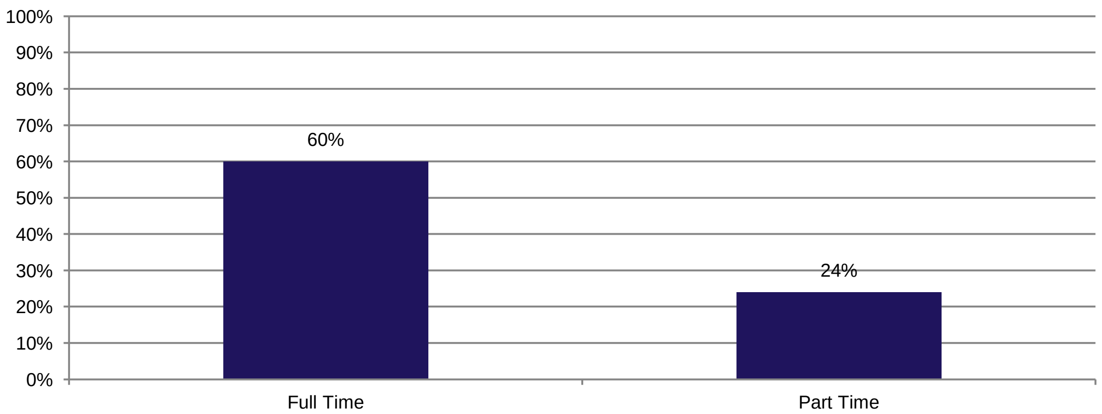
Figure 2: Enterprises providing pension by firm size



Source: CSO

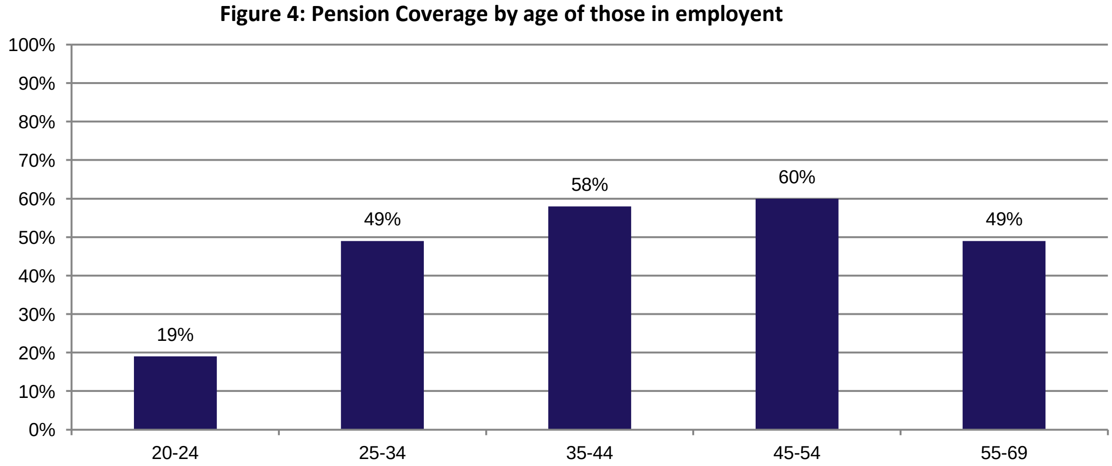
Not only does occupational pension coverage vary by industry but it also differs by firm size. We can see that smaller firms are less likely to provide pensions. Almost all firms (97%) who hire 250 or more employees have pension systems in place for some, if not all, employees. By contrast only 53% of firms who hire between 3-49 employees provide pension coverage to employees. With regards to implementing universal pensions, these figures suggest that some measures should be taken to give a longer lead in time for SME's before any universal pension scheme were to be introduced.

Figure 3: Pension Coverage by employment status



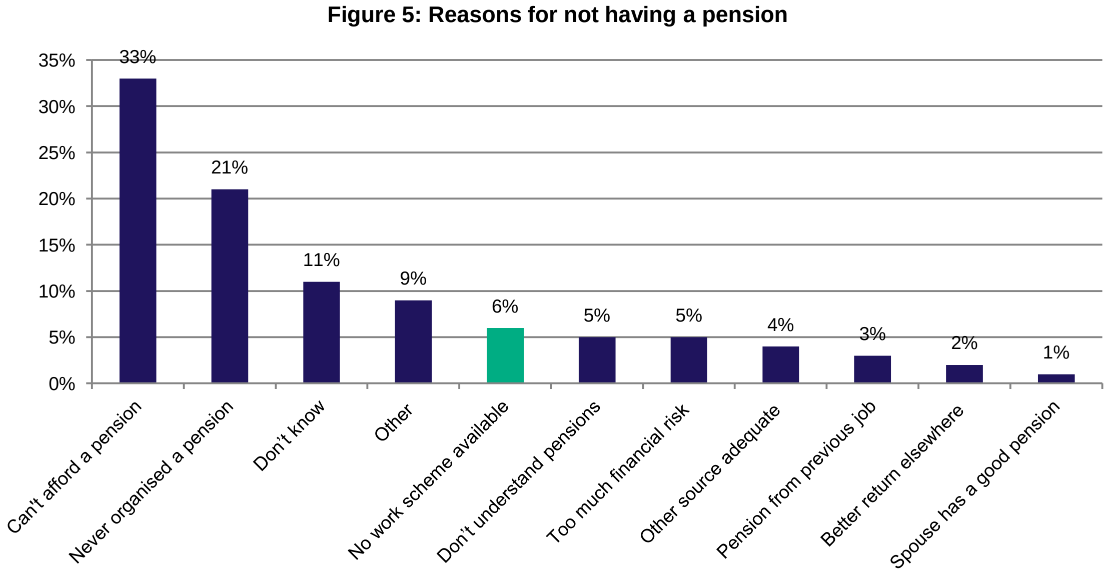
Source: CSO

From the 2009 QNHS module on pension coverage differs greatly between part-time and full time workers. Again this is likely to be due to the fact that many part time workers may be working in the hospitality and retail sectors- where wages are likely to be low and churn high. Thought needs to be given on how coverage should be extended to these differing groups and the administrative burdens involved for business.



Source: CSO

Regarding pension coverage by age, as the above table shows, the position is quite similar for the age categories between 35 and 55 with slightly less for those in the 25-34 and 55-69 age groupings. The lower figure for the 55-69 group is likely accounted for by the fact that those working beyond the age of 65 are less likely to have a pension and presumably this is why they are still working. The striking figure in this table is for the 20-24 age group at just 19%. This is perfectly understandable as many in that age group would be in early, more casual employment.



Source: CSO

The same survey also asked employees why they did not have a pension. The primary reason was not that their employers didn't provide a scheme, but that they simply couldn't afford one (33%). Only 6% said that their reason for not having a pension was that their employer did not offer one. A further 21% of employees said they hadn't got around to organising one. This suggests that the proposed auto enrolment model could bring about significant gains for this group. However care should be taken as to how the proposed scheme could affect the spending power of low income individuals and how much of an additional cost the proposed contributions will be.

Overall pension coverage varies significantly depending on the type of firm and worker and therefore new legislation will affect some more than others. It will have little impact on sectors and employees who are well covered in terms of pension provision, but it will represent a very significant challenge to be tackled for sectors and workers who up to now have very low participation rates for various reasons.

3. The economic and policy climate for Universal pensions

For many businesses the introduction of Universal Pension coverage will be a major undertaking both administratively and from a labour cost point of view. Ibec believes the lead in time will need to be in the region of 5 years in line with other countries (the UK took 7 years for example) before the rollout of universal pension coverage can begin. Carried out improperly this rollout could introduce a large amount of uncertainty to Ireland's pensions and labour market environment for an extended period of time. As such certainty around a roadmap to progress, the design of the scheme and its implications will need to be comprehensive from the outset.

The OECD's review of the Irish pension system states that it should be kept in mind that universal pension schemes in other jurisdictions were adopted in "specific national economic, social and political settings". As such although there are lessons to be learned from introduction and roll-out of such schemes in other jurisdictions there is no 'off the shelf scheme' which Ireland could introduce directly. Any universal pension scheme would need to be designed with local economic factors taken into account. Specifically, Ireland has a unique profile in terms of taxation (particularly for lower income earners), labour costs, industrial relations, pension disparity and competitive pressures which will need to be taken into account before a universal scheme can be introduced. Fortunately in the short-term Ireland's demographic advantage over the rest of Europe means we have the time to plan properly and get the introduction of a universal pension scheme right.

Any solution in terms of an Irish universal pension scheme must also be timed in such a way as to take account of the still fragile economic situation the country finds itself in. This is important from the point of view of firms but also households. Many of both still suffer from severe constraints on their incomes and legacy debts. The introduction of the universal pension would mimic the effect of an additional tax on both households and firms and as such will need to be timed to be rolled out when it is affordable. This ideally requires a stable economic period for introduction to mitigate its impact economically.

As an illustrative example, a report for the Pensions Authority by the ESRI (2006) used the HERMES macroeconomic model to show that the introduction of a number of stylised mandatory pension schemes (if introduced in 2007) all had negative short term impact which outweighed their short term benefits (models 2, 3 and 4 being closer to the proposed universal pension model).

Table 1: The impact of mandatory pensions schemes on economic variables compared to base situation 2007 - 2011

	Model 2	Model 3	Model 4
Real GDP	-0.68	-0.70	-1.35
Real GNP	-0.31	-0.32	-0.30
Employment	-0.68	-0.70	-1.18
Unemployment rate	0.38	0.39	0.25
Real personal disposable income	-2.83	-2.90	-5.62

Source: ESRI/National Pensions board

Although this relationship is likely to reverse or mitigate in the very long run the results are significant and negative in the short-run particularly when it comes to disposable income and employment. In addition, there are significant differences in impact depending on the design of the scheme. This emphasises the need for clear and well thought out design in the process.

In this context we agree with the OECD report that the potential effects of the proposal would need to be detailed in terms of cost, economic impact and affordability. Future policy analysis on universal pension coverage cannot omit or defer crucial information and analysis on the policy as recently happened with the white paper on universal health insurance.

Although planning should begin now there are a number of economic and policy criteria which would need to be met before roll-out of the universal pension scheme could begin in order to ensure economic effects of the scheme were mitigated. Table 2 outlines the criteria briefly.

Table 2: Economic criteria under which universal pension would be appropriate

Economic variable	Criteria	Rationale
Disposable Incomes	Mean real disposable household income must have returned to pre-crisis levels	Household incomes/living standards and domestic demand remain constrained
Unemployment	Unemployment must fall below 6%	Universal pensions will add substantially to labour costs in some sectors with employment effects
Policy certainty	Policy certainty must be given on the raft of recent labour cost increases driven by government	Pensions levy PRSI treatment of pensions Statutory sick pay UHI Minimum wage Payroll taxation JLCs and Sectoral employment orders

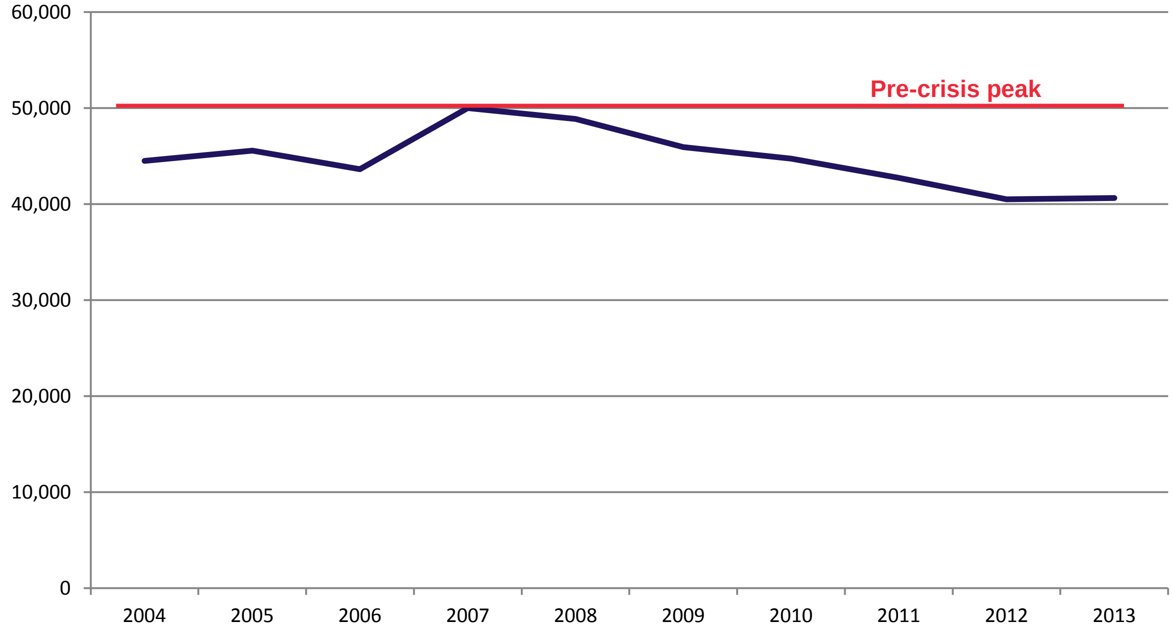
Firstly, the scheme should not be introduced until the disposable income of Irish households has recovered to its pre-crisis peak. Household wealth and incomes have been severely damaged by the downturn. As a result household disposable incomes by 2013 data are down €9,381 almost 19% on their 2007 peak.

"We are in favour of an auto-enrolment scheme. However, we also know that employees struggle with joining a pension scheme due to the cost of living" – Ibec employers survey comments

Although incomes have begun to recover since 2013 it is difficult, given ongoing debt overhangs, to envisage the majority of households being able to give over a percentage of their income to a pension where that is not already the case. Pension coverage is lowest among low-skilled, young and casual workers –those who at the moment can least afford an increase in taxation.

In addition Ireland's consumer economy is still weak with average retail sales (excluding cars) still 20% below peak in value terms. The domestic goods and services industries such as hospitality and personal services with the lowest levels of pension coverage are also the industries most reliant on domestic demand. Further deterioration of consumer incomes at this stage would result in further pressure on domestic demand and subsequently on the ability of employers in low coverage sectors to pay their share of universal pensions. For these reasons household disposable incomes must have recovered to their pre-crisis peak before the introduction of new pension measures.

Figure 6: Mean Real Household Disposable Income (€)



Additionally, although it is linked to an asset, the introduction of a universal pension with employers and employee contributions will in the short-run act as a labour tax in the same way as income tax or PRSI. Given Ireland's relative labour cost disadvantage to many of its competitors this must be borne in mind when introducing a universal pension. Ireland's aggregate labour cost competitiveness disadvantage, although partly driven by compositional differences, with the UK is 28% and with the EU 15.9%. In a small open economy labour cost increases will have an impact on employment in both traded and non-traded sectors.

Although it is a necessary policy initiative in the long-run previous analysis (Table 1) shows that the employment impacts would be negative and not inconsequential. Given a drop of between 0.6% and 1.2% in employment on the introduction of mandatory pensions as suggested in Table 1 would today result in a loss in employment of between 10,000 and 25,000 jobs. As such the universal pension scheme must not be introduced unless unemployment is relatively low (below 6%) so as to ameliorate its impact on the labour market.

Finally, before a universal pension scheme can be introduced policy certainty must be given to firms in relation to additions to labour costs during the roll-out period. In recent years the government have taken an untargeted and costly suite of initiatives which have added to firm's labour costs. Many of these have undermined trust, added to uncertainty and are a major barrier in the face of acceptance of the introduction of a universal pension from both an employer and employee perspective. These include but are not limited to the pensions levy, changes to the PRSI treatment of pensions, statutory sick pay and universal health insurance as well as JLCs and Sectoral employment orders.

"The fund should be ring-fenced and protected for pensions rather than for the other uses" – Ibec employers survey comments

The most egregious of these with respect to the introduction of the universal pension is the pension levy which undermined trust from both employers and employees in government's intentions toward private sector pensions. It will be difficult to convince employees that the universal pensions is not 'just another tax' given the €2bn taken from existing private pensions under the pensions levy. From an employer point of view any period of roll-out will need to see a level of trust developed in relation to pensions and the labour cost environment given the breakdown over recent years. This would require medium-term (for the duration of the roll-out) forward guidance on governments planned additions to labour costs at a minimum. In the absence of initiatives building trust during the roll-out there is a real risk that compliance from employers and employees will be poor and buy-in minimal.

4. A Universal Retirement Savings System

Ibec members recognise that a secure and sustainable pensions regime is an essential part of a successful and dynamic economy. As major contributors to employees' pensions, employers play a key role in providing pensions and ensuring that a significant part of the population has a decent income in retirement.

However the State must take responsibility for providing support for those who are unable to provide for themselves in retirement. It must also ensure that the state pension system is designed so that it interfaces in a coherent way with occupational pensions and does not provide perverse incentives that discourage saving.

Ibec acknowledges that the present rate of pension accrual, both private and state combined, will leave many individuals with inadequate pension pots in retirement due to a lack of, or under saving. A new national approach is necessary if we are to combat widespread scepticism about long-term savings. This is especially true of lower earners, who have an incentive to maximise pay in the short-term to the possible detriment of longer-term savings provision. The disincentive to save is compounded by the complexity of the pension system – many individuals have little idea how to negotiate their way towards better provision.

As Insurance Ireland has argued[1] a critical element of any solution is going to be personal ownership of pension savings by individuals. This will be necessary to create public confidence. Some of this confidence must be stimulated by system design and supervision and some must be achieved by helping workers to become more self-reliant savers - whilst avoiding the need for them to make complex investment decisions.

Public confidence is also more likely to be gained if the new scheme provides certainty in terms of policy governance. Given the adverse impact of the financial markets on investments, low returns and concern about pension management charges, this may not be the most propitious time to promote increased savings amongst individuals. A difficult situation has been exacerbated with the imposition of the pension levy and a large share of the National Pension Reserve Fund being used to recapitalise Irish banks.

The introduction of more standardised pension provision could also raise issues of equity. For example, the existence of a separate defined benefit (DB) scheme for public servants is likely to be perceived as unfair by the general public. As the OECD has pointed out[2] : 'The government's credibility when launching the new scheme could also be compromised if its own employees are left out of what is agreed to be a new and efficient long-term pension set-up for Irish workers.'

Therefore the new universal retirement system should:

- encourage and educate individuals to take personal responsibility for their pension savings,
- be a low cost, high coverage supplementary savings scheme for those on lower incomes and without access to an occupational or private pension arrangement,
- supplement the existing public pension system ,
- provide certainty in terms of policy governance, for both employees and employers
- be seen as equitable
- be based on a simple regulatory framework that incentivises employers to comply.

A new universal retirement system should not:

- have negative and unintended consequences for growth and employment in some firms, particularly SMEs and businesses who operate on low margins
- be a new burden on employers in the form of contributions to employees' pensions funds or compliance costs
- be perceived as an additional tax by employees
- provoke a longer-term shift away from tailored occupational provision
- increase costs for many employers who already provide pensions, thereby forcing them to level down existing provision

[1] A Universal Pension Policy for Ireland: Policy and Implementation Issues based on International Best Practice, Insurance Ireland, 30/09/14

[2] OECD (2014), OECD Reviews of Pensions Systems: Ireland, OECD Publishing. http://dx.doi.org/10.1787/9789264208834-en

There are two options to reach this goal: (i) introduce compulsory enrolment; (ii) introduce automatic enrolment;

Mandatory enrolment

The OECD has argued that the simplest, least costly way to increase pension coverage is through compulsion. However it has also set a number of compelling arguments against this approach: (i) it may force some workers to become more indebted or divert funds from other necessary expenses earlier in their lives; (ii) mandatory pensions may be perceived as a tax, discouraging people from working; (iii) it can lead to a ratcheting down effect, where existing provision is lower than prevailing practice; (iv) low income workers may not need to contribute in private pension plans if they already have high replacement rates from the public pension system; (v) it will be seen as a new burden on employers.

Automatic enrolment

Automatic enrolment with an opt-out has gained popularity internationally as an alternative. Ibec supports this approach. We believe that this is a necessary policy response to the challenge of demographic ageing – but it must be comprehensive if it is to be effective, and firms need a clear timeline The auto-enrolment framework must be sufficiently simple and flexible to provide both ease of compliance and incentives to go beyond the statutory minimum The contribution structure must incentivise saving appropriate to the earnings and employment situation of the individual

The OECD indicates that automatic enrolment schemes are characterised by five main parameters that determine coverage and contribution levels: the target population, the financial incentives, the default contribution rate, the window for letting people opt-out and re-enrol and the possibility to take contribution holidays.

5. Target population

The Government has already stated[3] that it wishes to develop a roadmap and timeline for the introduction of a supplementary workplace retirement saving scheme, with a particular focus on lower paid workers. This policy objective goes some way to defining the target population.

Ibec believes that an entry earning level should be put in place because low-income workers do not need to contribute in private pension plans, as they already have relatively high (at least 50%) replacement rates from the public pension scheme. We support the objective set out in the National Pension Framework (2010) to maintain the value of the State pension at 35% of economy-wide average earnings.

Therefore the new Universal Retirement System should be specifically targeted at middle income workers who require a supplementary retirement scheme to achieve a 50% replacement rate. The new scheme should also seek to limit the number of students and other young people taking on short term jobs that could be caught under the proposals. Therefore the entry threshold should be set at a salary of €25,000 per annum (approximately twice the value of the state pension).

The most consistent single finding in Ibec surveys over the last fifteen years has been the commitment of business leaders to offering good quality pensions where they can. We still have a substantial level of private sector provision which should be preserved and not destabilised by the reforms, as it will usually be of a higher value than the new statutory minimum. Therefore, the new scheme should be an entry-level low cost savings vehicle and have an upper salary limit of €50,000.

The scheme should also be available to self-employed workers.

Lower and upper earnings thresholds should be enshrined in primary legislation and up-rated thereafter. The balance between them should not be changed, with the exception of inflation uprating. The lower threshold should strike a balance between ensuring that lower earners have the opportunity to make and receive contributions of sufficient size to be meaningful, and preventing the lowest earners having uneconomic deductions made from their pay packet.

[3] Statement of Government Priorities 2014 – 2016, http://www.merrionstreet.ie/en/wp-content/uploads/2014/07/Statement-of-Government-Priorities-Final-110714.pdf

The system should encourage people to start contributing at an early age but it is also important to limit the number of students and other young people taking on short term jobs who come within its remit (see above). Therefore a minimum entry age of 25 years would be appropriate.

The target population in terms of company size should also be considered. Ibec believes the scale of the challenge necessitates a collective response and it is vital that all employers participate in delivering the framework – there is no argument to be made for excluding any group of employers. Minimum employer pension contributions will join the existing framework of minimum employment rights in the workplace and for this reason must be available to all employees. The basis for a set of minimum employment rights is to ensure that all employees – regardless of industry or size of company – are entitled to a minimum level of remuneration. It is vital that pension contributions are seen in this way to embed the right behaviour and to discourage opt-outs.

6. Financial incentives

Tax deductions have been the main type of financial incentives that have been used by OECD countries to promote private pensions. However, such incentives benefit higher income households most and are less attractive to lower income households, who may draw little tax benefit. In order to enhance the financial value of tax incentives for such households, some countries have introduced flat subsides to private pensions, particularly for lower income individuals. The OECD cites New Zealand as an interesting case study, as both flat subsidies (a 'kick-start' payment) and matching contributions are used to encourage employees to opt-in and new employees not to opt-out. These financial incentives play a major part in the positive perception of KiwiSaver. Among countries with voluntary private pensions, New Zealand has experienced a substantial increase in coverage thanks to the introduction of automatic enrolment and government subsidies. Therefore, the Universal Retirement Savings Group should consider if elements of the KiwiSaver incentive structure and design features could be incorporated into an Irish system.

7. Default contribution rates

Ibec accepts the idea that both employer and employee must contribute towards addressing the problem of inadequate pension savings. A new universal retirement savings scheme will have a significant impact, as employers will have two additional costs to absorb the cost of a scheme contribution and significant administrative burdens associated with compliance. Where a larger company with a high participation rate may be able to absorb the requirements more easily into existing provisions, for an SME with no experience of providing occupational pension provision, even a small contribution rate will present a huge financial and administrative challenge.

Ibec also strongly opposes any attempt to equalise employer and employee contributions – this argument grossly underestimates the peripheral costs employers must absorb in addition to the contributions, and fails to take into account that statutory minimum saving must be set at a level all employers can afford. It also flies in the face of personal responsibility

An employer contribution is a necessary incentive to increase workplace pension adequacy but the rate at which the minimum is set should be sensitive to the economic realities of small businesses. Thought should be given to an initial low contribution rising gradually over a number of years. It would not be sensible to advocate a system which compromises economic recovery or has a negative impact on job creation.

Ibec would favour the solution chosen in the UK where, to minimise opt-out, contribution rates were set low initially and raised afterwards in an automatic manner according to a set calendar.

Further modelling data is required before giving a considered view on employee, employer or State contribution rates. Ibec will provide further and more detail business input on this issue over the coming months.

8. Opt-out and re-enrolment and contribution holidays

In the UK, people are allowed to opt out at any time, with an automatic re-enrolment every three years. This assumes that people may not have chosen the right decision when opting out. Feedback from UK business suggests that this is a heavy burden on employers who have to keep track of each employee's status with regard to membership and automatically enrol them back at regular intervals if they opted out. It also could create a problem of low contribution densities as a result of frequent opt-outs.

The opt-out options should be restricted to reduce administrative burdens. The New Zealand model seems most appropriate. The opting out decision can only be made once, within two months of automatic enrolment. After that period, people cannot opt out anymore and there is no automatic re-enrolment process.

Given the restrictive nature of the opt-out regime that we are proposing, contribution holidays are appropriate especially with the lower income target membership for whom affordability may be an important concern. In New Zealand, after the first 12 months of membership, workers can stop contributing for a minimum of three months, up to five years at a time.

9. Phasing

The key to a smooth implementation of the auto-enrolment framework is maximising employers' ability to absorb the new requirements into their current systems. Minimum disruption means lower cost and flexibility must be at the centre of these proposals. There should be a critical path towards auto-enrolment – key milestones that must be passed for the policy to function. The more flexibility in terms of timescales and processes to reach these milestones, the easier compliance will be.

The staging and phasing-in of the employer duty will be essential to ensure business support. Employers – especially the smallest firms – need time to plan ahead and absorb potential costs into their payroll systems. Alternative strategies would mean that a sizeable proportion of companies would experience a contributions 'cliff-edge' when they reach a staging date

Smaller businesses are currently less likely to provide occupational pension provision for employees and will need longer to prepare and budget for the changes – in this regard, staging on the basis of payroll size appears to be the most appropriate approach.

10. Operational matters and investment management structure

An important element of the new system would be for a low cost savings vehicle for those whose employer does not offer their own scheme. This could be an entry level to retirement saving and as such could be based on defaults: contribution levels, investment, funds, member communication, charges etc. It would have mandated minimal (default) contribution rates from employees and employers. The new vehicle would be individual-specific: each employee would have a single retirement account accepting contributions from multiple employers over the working life of the individual. Existing schemes could operate alongside this vehicle.

The system should be administered by government with monthly collection through the PAYE tax system. The State should:

- provide employers with information to pass on to employees;
- receive contributions;
- transfer them to the right scheme;
- allocate people who don't make choice to default schemes;
- administer requests for opt-outs and contribution holidays;
- provide information to the public and helps build awareness.

The pension industry should be given responsibility for the ongoing management and investment strategy of the scheme. As Insurance Ireland has pointed out[4], Ireland has a sophisticated DC infrastructure which can be deployed as part of the solution and it does not make economic sense for the Government to go to the expense of building a new pensions architecture. Low charges and competition is likely to be the best route to drive down fees and it should be open to all potential providers to enter the market.

In addition, any system where funds are collected through PAYE should not lead to delays in investment. In an efficient DC Plan that would mean within 10 working days. DC Plans are built on timely investments on a regular basis and if there is some form of backlog via PAYE which adds months then the compounding effect of that could be detrimental to the scheme.

[4] A Universal Pension Policy for Ireland: Policy and Implementation Issues based on International Best Practice, Insurance Ireland, 30/09/14, P8

The scheme should be soundly based, with a well-designed investment approach that should assuage any fears employers new to pensions might have about choosing an adequate scheme for their employees. All applicants to the scheme should be accepted under a public service obligation that is built into the scheme's design. Its objectives should be reflected in its guidance and marketing operations.

"To truly succeed ... a universal scheme should not be seen as a bad DC Plan" – Ibec employers survey comments

Therefore the scheme should be designed to complement, not undermine existing schemes. For this reason, it is essential that the scheme is – and is seen to be – independent of government. Members should be assured that decisions affecting their pension and the constitution of their scheme are being made by dedicated trustees with scheme-specific knowledge rather than politicians. The scheme should exert influence responsibly with a view to maximising the value of investments it will hold. The imperative to do so will only increase as the scale of the scheme's assets increases.

The scheme will potentially be one of Ireland's largest institutional investors and a major shareholder in Irish businesses – it is essential that it is a prudent and engaged investor. It must set high standards of corporate governance and deliver responsible investment management.

It is imperative for the success and credibility of the scheme that the quality of trust board business experience and understanding is extremely strong.

11. Scheme Design

The contribution structure must incentivise saving appropriate to the earnings and employment situation of the individual

Given that it is more likely to be used by SMEs, it is also vital that the scheme is accessible and simple to understand. It is also important that the charges are seen as proportionate by the public in order to incentivise saving in the early years of the auto-enrolment framework. The proposed charging structure should be transparent and appropriate to meeting this public service requirement. The new scheme has to feel like a good deal to employees

Where companies have an existing occupational pension scheme, waiting periods and opt-out provisions for employees (e.g. short-term international staff) should take precedence.

There should also be a minimum level for contributions in any one pay period. This is necessary to ensure that the administrative burden associated with the process of making the contribution is proportionate to the level of the contribution.

An individual's scheme account should be portable and stay with them when they change employment – this feature should help to minimise the problem of individuals amassing separate small pension pots.

Waiting period

Although eligibility for auto-enrolment will cover all jobholders, subject to age and earnings thresholds, it makes sense to operate a waiting period of 12 months. Workers who choose short-term assignments – such as students and individuals between long-term contracts – will often want to maximise their short-term earnings. Employers should not be expected to waste resources auto-enrolling and then refunding individuals with a high risk of opting-out on the basis of short periods of work. Sectors where staff turnover is high will be hit disproportionately hard by having to auto-enrol too early. The retail, distribution, hotels and restaurants IT/hi-tech and communications sectors and other sectors that use a high proportion of temporary labour could face particular problems.

Compliance

There should be a simple regulatory framework that enables and incentivises employers to comply. Feedback from companies with operations in the UK suggest that this has been **the** major failing of the British system. Onerous certification requirements, poorly drafted basic pay definitions, unrealistically low salary threshold triggers and short waiting periods continue to cause problems for employers

Self-certification and other processes should be designed on the assumption that employers want to comply – not that they will try to shirk their duties at every stage. High-quality schemes will want to minimise their administrative burdens and avoid being forced to level-down because of unnecessary bureaucratic processes.

Compliance should set out to:

- facilitate an effective self-certification system
- avert the need for costly and complex individualised compliance.
- include checks and balances that ensure the certification process is robust
- be a simple and flexible mechanism through which to demonstrate broad equivalence with the required standards

12. Impact on existing schemes

Ireland has a substantial level of private sector provision which should be preserved by the reforms, as it is usually of a higher value than the new statutory minimum.

The first principle the government must adopt in its approach to the reforms is do no harm: the new requirements must not cause employers to level-down their existing provisions. The new auto-enrolment framework must be sufficiently flexible to accommodate a diverse range of pension arrangements.

The new scheme should not be allowed to target employers whose employees already have access to an occupational pension scheme.

Business would also support the principle of introducing a contribution limit for accounts within the scheme. This is an effective way of targeting the scheme at low to moderate earners without access to an occupational scheme. A contribution limit would minimise the potential for individuals to commit significant sums to a pension without seeking regulated advice.

However the most important method of discouraging employers from levelling down their provision is by ensuring an optimal regulatory, cost and incentive scheme for existing occupational pension schemes.

For example, favourable tax treatment of pensions has played a crucial part in the success of occupational pension provision. If occupational pension saving is to grow in the future, an attractive package of tax reliefs is essential. Stability is crucial to the success of pension saving and both employers and employees need certainty that the basis on which they plan for the future will not be undermined by government policy changes or the removal of existing reliefs.

Ongoing reform is also required in the current DC and DB regimes. Given current trends, DC pensions will rapidly become predominant in the Irish pension landscape. However there is a requirement for coherent investment strategies and pay out options, clearly delimited access to funds, strengthening governance and addressing high charges.

One of the problems of DB plans is that their promises have become increasingly hard to honour over time, largely as a result of increasing life expectancy and lower than expected investment returns which are reflected in increased annuity rates. However, the risk-based funding standard have also resulted in distortions in investment strategies which can become more short-term as market-consistent funding valuations force trustees and sponsors to focus on short-term price movements. Further reform is also needed to introduce more flexible DB plans that, for example, allow for accrued benefits to be cut in the case of under-funding and for risks to be shared with plan members and pensioners.

Education

Ibec members recognise the value of good education and high quality communications about pensions in achieving a greater awareness of risk, and the employees' role in managing that risk. This has been especially important in the aftermath of the recession, as sharp falls in the financial markets substantially increased deficits in DB schemes and shrunk many individual DC pension pots. The risk for employers is that such external factors could undermine employees' appreciation of a universal offering or adversely affect attitudes towards saving for retirement. Ibec members accept that they have a role to ensure that their employees are well-equipped with the knowledge to negotiate basic pensions information. However, government also should play a key role.

For many, the language of pensions will be new and complicated – the detailed requirements around auto-enrolment and opting-out should not leave both employer and employee confused and frustrated. As the employer duty will be introduced over a long period, communicating the reforms in an efficient and easily understood fashion presents a huge challenge.

Ibec Head Office
84/86 Lower Baggot Street
Dublin 2
T: + 353 1 605 1500
E: membership@ibec.ie
W: www.ibec.ie/membership

Galway
Ross House
Victoria Place
Galway
T: + 353 91 561109
E: west@ibec.ie
W: www.ibec.ie/west

Cork
Knockrea House
Douglas Road
Cork
T: + 353 21 4295511
E: cork@ibec.ie
W: www.ibec.ie/cork

Ibec Europe
Avenue de Cortenbergh
89, Box 2
B-1000 Brussels
BELGIUM
T: + 32 (0)2 512.33.33
F: + 32 (0)2 512.13.53
E: europe@ibec.ie
W: www.ibec.ie/europe

Limerick
Gardner House Bank Place
Charlotte Quay Limerick
T: + 353 61 410411
E: midwest@ibec.ie
W: www.ibec.ie/midwest

Donegal
3rd Floor, Pier One Quay Street
Donegal Town Donegal
T: + 353 74 9722474
E: northwest@ibec.ie
W: www.ibec.ie/northwest

Waterford
Business Park Cork Road
Waterford
T: + 353 51 331260
E: southeast@ibec.ie
W: www.ibec.ie/southeast