Submission to the Department of Employment Affairs and Social Protection on Auto Enrolment

November 2018

Introduction:

Chambers Ireland is the largest business network in the State. With members in every geographic region and economic sector in Ireland, we are well positioned to understand the concerns of businesses and represent their views. As part of the public consultation on the process for the introduction of an Automatic Enrolment Retirement Savings System in Ireland, we consulted with member chambers and businesses to gauge their views on the proposal set out in the Strawman and its impact on employers, on ease of access for contributors and business competitiveness in general.

Context:

With just over one third of private-sector workers currently contributing to a pension scheme, the future of pension provision in Ireland is vulnerable and poses a significant risk to the quality of life of our workforce. Chambers Ireland has consistently highlighted the threat that inadequate pension provision for private sector workers poses to our future economic stability and overall wellbeing. Current contributions to the State pension fund will not be enough to pay the levels of benefits necessary for an adequate standard of living for future retirees. It is now necessary to introduce reforms to the system which will encourage all employees to plan for their future security. As the financial crisis in the last 10 years also demonstrated, private sector pension savings are also at significant risk from market fluctuations, with both the employer and employee in defined benefit schemes, and the employee in defined contribution schemes bearing that risk. This risk generally does not exist in public sector schemes.

Given the low level of workers currently saving into a pension scheme, Chambers Ireland is **supportive of an auto-enrolment pension scheme** with a **realistic lead-in time for businesses**. An incremental approach will give businesses a chance to adjust and plan. It is also crucial that any future auto-enrolment scheme will not affect the State pension and as this would place an unfair and disproportionate burden on business. We welcome such assurances as set out in the Strawman Proposal and wish to **reiterate the importance of the State Pension as a base income level** to future pension security for all citizens with the risk for that State Pension being borne by the State for all pensioners.

Further, we wish to reiterate our position, as set out in our Pre Budget Submission this year and in our submission to the Department of Finance **that tax relief on pension contributions currently in place must be retained**. Given the low level of workers currently saving into a pension scheme, there is a strong likelihood that removing it would further hinder uptake and affect mainly middle income earners. We continue to make this recommendation as it is vitally important that we encourage and incentivise active pension savings, also recognising that pensions fall to be taxed as they are paid out at standard tax and USC rates.

Ultimately, while we support f the principle of auto enrolment, its introduction is still a significant increase in the cost of employment for business. Therefore, we recommend that IT should come with a commitment that **under no circumstances will Government raise any other employment related costs such as Employer PRSI** for at least the duration of the lead in period.

With regard to the proposals contained within the Strawman, and based on the feedback we have received from chambers in our Network and their members, we will present our views under three headings:

- The ease of the administration of the AE scheme
- Cost and Competitiveness
- The target membership of the AE scheme

<u>Ease of Administration</u>

We note the proposals contained within the Strawman include the creation of a Central Processing Authority which would be responsible for cortactin licensing a small number of private AE “Registered Providers” to offer a range of savings products. Within the Strawman, we note the suggested approach is to create and operate a “carousel” approach, alternating between a small number of pre-registered providers who would be the “chosen” AE scheme provider for all and any employees who do not opt to choose a preferred pre-registered provider. The “carousel” approach would rotate between the pre-registered providers.

From the perspective of the business community, the administrative procedures agreed must ensure, particularly in the early years, that the scheme delivers on its objectives. It will be crucial the wider public understand it to be successful. This should in turn encourage greater engagement by employees in the system and increased contributions. For Auto Enrolment to be considered a success, it must be easy to understand form the perspective of the employee or contributor, thereby ensuring that any opt-outs are limited. It must also be straightforward for employers to administer.

One way of ensuring buy-in from society (employer and employee alike) is to ensure that the CPA operate effectively and efficiently. For this to happen, it will need to be properly resourced. We note that the Strawman contains a proposal that 0.5% of the assets under management will be leveraged to administer the schemes. However, we suggest that consideration be given to tapering the fees percentage over time from a higher initial percentage to on on-going rate over a defined period. It can be assumed that the costs for the first 3 to 5 years will amount to a higher percentage than 0.5%, as there will be set up costs and a smaller amount of funds to manage, and so there won’t be the same critical mass, buying power and the costs per unit will be higher. It is crucial that the CPA has enough funds to operate the service in the early years. We suggest that it would be worthwhile for Government to commit to subsidising the administration cost of the CPA in the early years to ensure the success of the scheme.

Cost and Competitiveness

As noted above, although employers acknowledge the necessity of pension reform and support the principle of auto enrolment, the introduction of compulsory employer contributions will be a significant increase in the cost of employment for business. The increase in mandatory employer contributions to a maximum of 6%, within a six year timeframe, would represent a significant addition to labour costs. Further, Government must also take into consideration the sectoral impact that would come with the introduction of an AE scheme. Retail, accommodation, food, and admin/support services are the least likely to have a private pension. Therefore, there needs to be careful consultation with these sectors as they will most likely be affected the most. We recommend that **contributions be built up evenly over 10 years by 0.6% per annum**. Otherwise this additional labour cost could have a particularly detrimental effect on competitiveness in some sectors. This is a long term project and a longer lead in period should have little impact on pensions ultimately payable whereas a short lead in period has a short term economic impact on the competitiveness of businesses. Government must ensure that the **existing tax relief** for employer contributions is also retained under the new system.

Further, we recommend that Government fund a **comprehensive, on-going education/ advertising campaign for employees** on the value of pensions, the importance of contributions and the age at which you make them. This will not only help employers to clearly articulate that this scheme forms part of the pay and benefits for an employee, which will assist in managing wage demands, particularly in the initial lead in years. In addition, increased education on pensions will benefit wider society and help promote the vale and importance on planning and saving for retirement.

Lastly, with regard to employees who opt out of an AE scheme within the first six months, we note that within the Strawman proposals, the intention is to refund employees their contributions, but no mention is made of employer contributions. We recommend that the State also **refunds employer contributions in event of opt-out**. This is a matter of equity between and if this is not the case, employer contributions will effectively end up subsidising the pensions of people that never worked for them, resulting in this proposal being viewed by as a general tax on employment.

The overall competitiveness of Irish business must be considered as part of any implementation plan for AE. While we support the principles of the initiative, it must be acknowledged that the scheme has potential to reduce competitiveness of business by increasing costs. This needs to be recognised and understood by Government before the scheme is rolled out. Depending on impact we may need to see the introduction of further supports for small business or other measures to mitigate business impact. We wish to reiterate that as part of the introduction of AE, that a commitment should be made that Government will not raise any **other employment related costs such as Employer PRSI** for at least the duration of the lead in period.

Target Membership and Pension Benefit

In respect of the proposals regarding the age and salary entry level/caps, we support the proposals in the Strawman for the auto-enrolment to be applicable to a wide age-range so that pension coverage is extended as widely as possible. However, from the perspective of those who will be eligible to pay into the scheme, we would like Government to consider the following points;

- Firstly, that those who are **self-employed should also be eligible** to pay into the scheme should they wish, and contributions should also be allowed to be deductible against corporate tax/ income tax for sole-traders.
- Further, Government needs to provide further clarity on what precisely will happen when pension contributors reach pension-age. In addition, concerns have been raises that under the auto-enrolment system currently being considered, the tax relief afforded to individuals on their personal pension contributions could cease. We recommend that **tax relief for employee pension contributions should remain** as it is in the context of auto-enrolment.