Ireland to auto-enroll workers into retirement plans

By Editorial Staff *Wed, Feb 20, 2019*

Ireland's plan also calls for auto-escalation. By 2028, the total contribution for each member would be 12% of salary a year. The government will add 2%, for a total of 14% of salary, to a cap of €75,000 ($84,726).

Ireland plans to begin auto-enrolling workers in defined contribution retirement plans by 2022, according to a report in IPE.com this week. The republic's labor officials based their decision on months of feedback from employers, workers, pension industry groups, academics and advocacy groups.

An estimated 65% of Ireland's private-sector workforce has no private pensions savings, and Ireland is one of only two OECD (Organization for Economic Co-operation and Development) countries without a mandatory earnings-related element to retirement saving.

The other outlier is the US. Certain US states, such as Oregon, have begun auto-enrolling workers who don't have a retirement plan at work into IRAs, but there's no national mandate for participation in defined contribution plans. A national auto-enrolled "MyRA" program was initiated by the Obama administration but canceled by the Trump administration.

"While we have identified a unanimous consensus on the need for increased retirement savings," said Regina Doherty, head of the Department of Employment Affairs and Social Protection. "There is also a diverse range of views on the preferred manner and means of delivering the auto-enrollment solution."

Under the government's proposals, employees would initially contribute 1% of salary to the scheme, matched by employers. This would escalate by 1% a year for both parties for the first six years. By 2028, the total contribution for each member would be 12% of salary a year. New members joining after 2022 would pay the same percentage as everyone else.

The state will add a further 2% contribution, making a total of 14% of salary, with a salary cap of €75,000. This state subvention – 2%, compared with 6% from the employee – effectively provides 25% tax relief. Universal social charge (USC) and pay-related social insurance (PRSI) are payable on employee contributions.

There's still disagreement over how much risk the default investment option should take. The Society of Actuaries in Ireland said the default investment fund should be diversified, since the government's recommendation of a low-risk fund was unlikely to provide an adequate income at retirement.

Tax policy and coverage requirements are also topics of dissent. One actuary protested the abolition of the "existing 40% rate of tax relief" for contributions by higher-rate taxpayers. Under the proposal, their income tax would drop by a maximum of 25% of their deductible contributions instead of up to 40%.

"Savers on the standard rate of tax and those that pay no tax will benefit from the proposed new approach," said Roma Burke, partner at LCP. "But higher-rate taxpayers will be significantly worse off under the scheme as they will only get 25% relief, compared with 40% under the current regime. This will affect the average person who, according to the Central Statistics Office, earns a full-time wage of €46,402 ($52,437) a year and is therefore subject to the higher rate of tax."

The decision to exclude workers under age 23 or over age 60, those earning below €20,000 a year, and the self-employed from auto-enrollment was also criticized. These workers would be able to opt in to the system, however. Overall, 35% of the working population are currently not covered by private pensions. With the exclusions, the new proposals would only address 410,000 of a potential pool of 860,000 employees, one observer said.

Whether Ireland can meet the 2022 deadline remains to be seen. "Given the fundamental issues to be ironed out, industry opinion has been that 2022 was an ambitious deadline for bringing auto-enrollment into operation, but the minister said she expected the system to be operational by this deadline," the IPE.com report said.