
Which is better for Ireland: Auto-enrollment or mandatory participation?

By Editor Test *Thu, May 2, 2013*

A report by the Organization of Economic Cooperation and Development says compulsory participation in national defined contribution plans is more effective and less expensive than auto-enrollment programs.

Compulsory pension savings as the most effective way to increase the adequacy of retirement savings, with auto-enrolment branded a more costly and second-rate policy, says a review of Ireland's pension system by the Organization for Economic Cooperation and Development, *IPE.com* reported.

The review of Ireland's pension system, commissioned by minister for social protection Joan Burton last February, criticized the country's defined benefit (DB) regulation. It argued that plan sponsors shouldn't be able to abandon underfunded plans and called for changes to the reinstated funding standard.

Ireland could increase participation in its "second pillar" defined contribution through compulsion, auto-enrollment or increasing the level of financial incentives from the government, the OECD report said. Of the three, compulsion was recommended as the cheapest and most effective course.

"Automatic enrolment is a second-best," the report continued, noting that the costs associated with establishing an auto-enrolment framework were likely to be higher."

The authors of the report cited the approach taken by New Zealand and its KiwiSaver reforms, as well as Italy's largely unsuccessful attempt to boost coverage. Auto-enrollment's "success in increasing coverage depends on how it is designed and on its interaction with incentives in the system," the report said.

Burton said the Irish government should try to drive up private pension coverage after the country's economy recovers. "The earlier we can bring forward reform the better. However, I am also extremely mindful of the current economic crisis, and this will inform my strategy for the future," she said.

It is uncertain if the government would consider compulsion.

Three of Ireland's largest political parties - the current coalition of Fine Gael and Labour, as well as the former administration's Fianna Fáil party - have previously spoken of auto-enrolment as a viable solution for Ireland. The Irish Association of Pension Funds (IAPF), meanwhile, called soft compulsion the most politically viable policy.

Pablo Antolin, principal economist in the OECD's private pensions unit and one of the review's authors, said compulsion was the think tank's preferred choice for Ireland.

He doubted that auto-enrolment could achieve the levels of coverage seen in countries with compulsory or quasi-mandatory pension savings, such as Australia, Chile or the Netherlands.

“You have to remember that implementing auto-enrolment is much more complicated [than compulsion], and you have to be very, very careful how you design auto-enrolment with all the other incentives that are in the system,” Antolin told IPE. “Auto-enrolment is soft compulsion for people, but for employers it is pure compulsion. On top of that, the administrative burden for employers is much higher with auto-enrolment than with compulsion.”

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