State to top up new pension scheme

SSIA-style plan will see State add €1 for every €3 put in by workers

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A new 'SSIA-style' auto-enrolment scheme for pensions will be unveiled by the Government today.

The plan will see employers and employees match contributions, with the State adding a top-up of €1 for every €3 put in by workers. So, for example, a €3,000 annual contribution by an employee would see €3,000 added by employers and €1,000 by the State.

Under the Supplementary Pensions Retirement Savings System, to be announced by Social Protection Minister Heather Humphreys, 750,000 workers aged 23 to 60 who earn over €20,000 will be automatically enrolled in a pension scheme through a new agency called the Central Processing Authority at the beginning of 2024.

Contributions to the pot will be made based on a percentage of gross salary and will build up over a decade. In the first three years, this will see employees and employers put 1.5% of the worker's salary into the pot, with the State adding 0.5%. This will rise to 3%, 3%, and 1% in years four to six; 4.5%, 4.5%, and 1.5% in years seven to nine; and 6%, 6%, and 2% beyond year 10.

However, employer contributions and the State top-up will be capped at a maximum of €80,000, though employees may continue contributing on earnings greater than €80,000 if they wish.

There will be options to leave the scheme, or contributions can be paused in the event of job loss. It is understood that the fund will also offer investments at different levels of risk.

The idea of auto-enrolment has been around for some time.

A plan was consulted on in 2018 by then-social protection minister Regina Doherty, though the pandemic put paid to any launch of the scheme.

The Government has committed to the plan because it is felt that not enough people have occupational or supplementary pension coverage to help maintain a reasonable standard of living in retirement above the State pension.

At the current highest rate, the State pension pays a little over €13,000.

Ms Humphreys said last month she was committed to the auto-enrolment plan which she said "a lot of work has gone into", but the Government is bracing for resistance from businesses who will be asked to contribute to pension costs.

The current system is not seen as sustainable, with up to a third of workers not having any supplementary income beyond retirement above the State pension.

The move will have a big impact on businesses, with Isme chief executive Neil McDonnell saying they need a lead-in time to get to the higher contributions.

Fine Gael has been warned by the country's largest trade union that it risks signing its "political death warrant" if the pension age is changed.

In her address on the opening day of the Siptu biennial delegate conference in Sligo, deputy general secretary, Ethel Buckley said: "Let us be crystal clear at this conference here today and say to Minister Heather Humphreys: 'Minister, our union is putting you and your party on notice.'

"If you cast aside all the evidence, if you ignore all the opposition, if you scorn the public outcry and increase the pension age to 67, you will be signing your party's political death warrant and Siptu members will make sure of that."

Last year, the Pension Commission report said the pension age should rise to 67 by 2031 and then to 68 by 2039.

The Oireachtas committee on social protection said the pension age should not go beyond its current 66.

Ms Humphreys has said any changes to the pension scheme would be led by a commission on welfare and taxation report.

She said the rate of workers per pensioner was due to fall from 4.5:1 to 2:1 by 2050 and that "this is not sustainable".

"It's a complex issue. There's a lot of difficult decisions to make here," said Ms Humphreys.

Landmark overhaul of pension system will target youth

:: Fund open to 23- to 60-year-olds

Philip Ryan

THE Cabinet will today sign off on the biggest shake-up of pensions in history that will see 750,000 workers pushed into saving money for their retirement.

Under the landmark reform, workers aged between 23 and 60 earning more than €20,000, who do not already have a private pension, will be automatically enrolled into a pension plan from 2024.

The scheme, estimated to cost €2.8bn in the first decade alone and designed to defuse the pensions timebomb, will see employees asked to contribute 6pc of their salary towards their pension, with their employer legally required to match this sum.

The Government will then contribute €1 for every €3 an employee saves – much like the Special Savings Incentive Account (SSIA) scheme introduced in the early 2000s.

It means that a young worker earning €40,000 a year could end up with a retirement nest egg of more than €650,000.

Workers will be automatically enrolled in the scheme but can opt out if they do not wish to continue.

Contributions to the auto-enrolment system will be introduced on a phased basis to begin with.

In the first three years, employees will contribute 1.5pc of their salary, which will be matched by their employer and the State will add an additional 0.5pc of the original amount put in by workers.

In years four to six, employees will contribute 3pc, which will again be matched by their employer, while the State will pay an extra 1pc into the pension scheme. In years seven to nine, the percentage payments will go to 4.5pc for employees and employers and 1.5pc from the Government.

After 10 years, employees and employers will contribute 6pc and the State will add 2pc.

It means a 23-year-old on €40,000 will make contributions of around €143,501, which will be matched by their employer throughout the lifetime of the scheme, while the State will add €47,834.

The employee will end up with a pension pot worth around €666,588, according to calculations.

The scheme will be capped at €80,000 of an employee's gross salary but people earning above that amount can still make additional contributions to the scheme.

However, employers will not be required to match the amount.

Launching the scheme today, Social Protection Minister Heather Humphreys will say that "young people, who are the pensioners of tomorrow, deserve to receive the same benefits of those retiring today".

She will also emphasise the low numbers of people planning for their retirement and highlight the push to "build a culture of saving for your retirement".

Employees will be automatically entered into the scheme but they can also exit it if they do not wish to continue making contributions.

They will also be able to re-enter the scheme at a later date if their financial situation improves.

A person with a private pension will be required to exit their current plan if they want to enter the Government scheme.

The employee's pension contributions will be invested in what is described as a "well-balanced and well-diversified default investment fund".

However, there will be three other fund options for employees who want to invest their money at different levels of risk.

An young worker earning €40,000 a year could end up with a retirement nest egg of more than €650,000