PENSION AUTO ENROLMENT GUIDANCE

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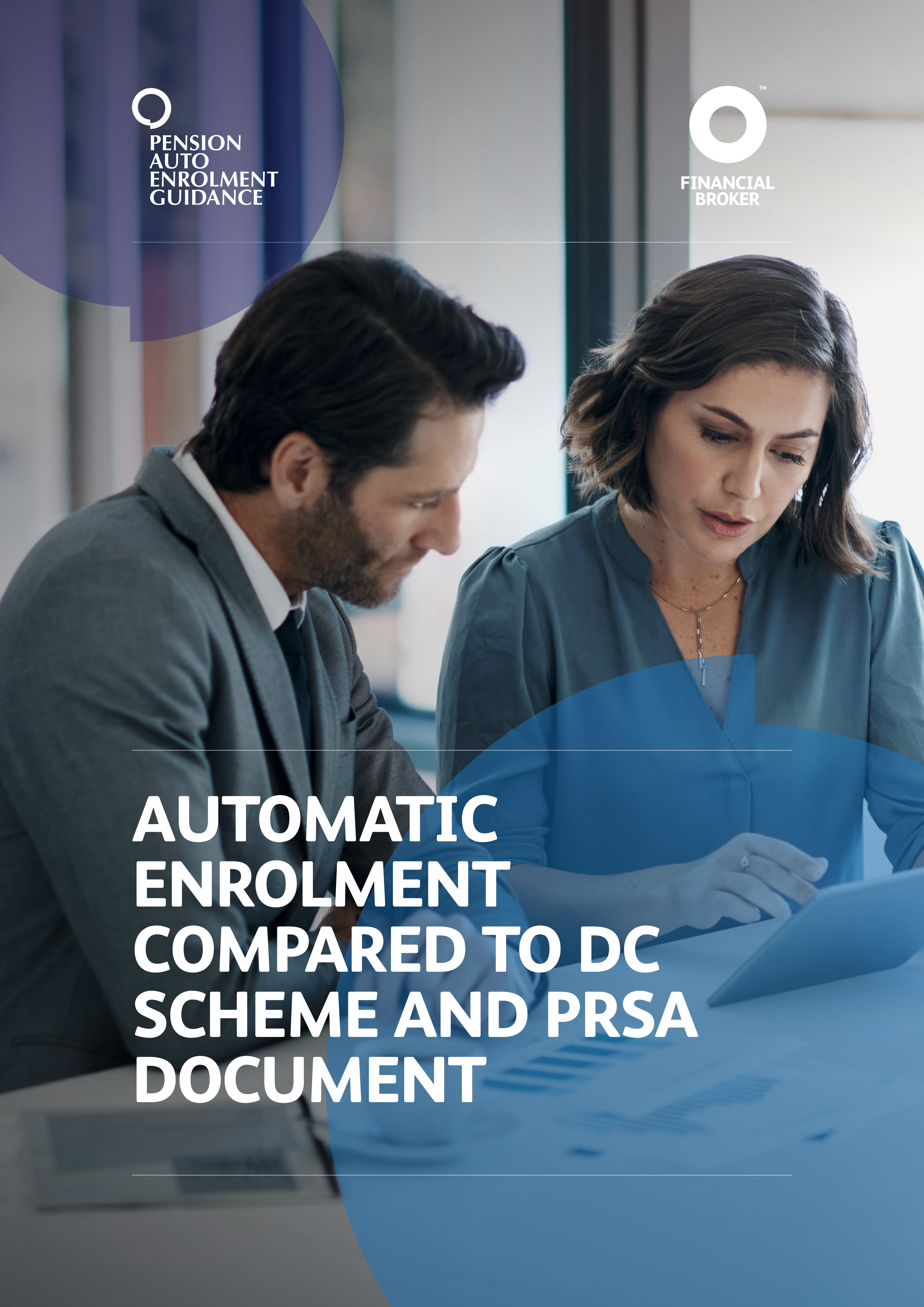

AUTOMATIC ENROLMENT COMPARED TO DC SCHEME AND PRSA DOCUMENT

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EXECUTIVE SUMMARY

This document outlines the introduction of the Auto Enrolment (AE) pension scheme planned by the government to start in early 2025. It details the requirements for employers to enrol employees aged between 23 and 60 earning more than €20,000 per annum, who are not already part of an occupational pension scheme or a PRSA. Employers will need to deduct employee contributions and match them with employer contributions, which will be invested by the AE scheme to build up a pension pot for the employee. The State will also contribute a third of the employee contribution.

The contribution rates will be phased in over time, starting at 1.5 % for both employee and employer in 2025-27, and gradually increasing to 6 % each by 2034 onwards. The employee contributions will not qualify for income tax relief but will be taken from net after-tax income with a State top-up equivalent to a 25 % tax relief.

Investment options will vary based on the employee's age, with higher risk options for younger employees and lower risk options as they approach retirement age. The AE scheme is a defined contribution scheme, meaning the pension pot value will fluctuate with the investment funds' performance.

The document also compares projected pension pot values at age 66 for employees starting contributions in 2025 at different ages and earnings levels, under the AE scheme, a DC scheme/PRSA with similar employer contributions, and a DC scheme/PRSA with accelerated contributions.

It is noted that many operational and taxation details of the AE scheme are yet to be determined and will be subject to future regulations and legislation.

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INTRODUCTION OF THE AUTO ENROLMENT PENSION SCHEME

1. The Government plans to introduce an Auto Enrolment (AE) pension scheme in early 2025. Under the AE scheme, employers will be required to:
   - enrol in the AE scheme employees aged between 23 and 60 earning more than €20,000 pa between all employments, who are not building up retirement benefits in their employer's occupational pension scheme or through a PRSA; and
   - for such employees, deduct an employee contribution and remit it with an employer contribution of a similar amount to the AE scheme to be invested by the AE scheme to build up a pension pot for the employee. The State will also contribute 1/3rd of the employee contribution to the employee's pension pot.

2. The AE contribution set as a % of the employee's gross earnings (up to €80,000) will be phased in as follows, assuming the AE scheme starts in early 2025:

	Employer Contribution	Employee Contribution	Government Top-Up	Total Contribution
2025-27	1.5%	1.5%	0.5%	4.5%
2028-30	3.0%	3.0%	1.0%	7.0%
2031-33	4.5%	4.5%	1.5%	10.5%
2034 onwards	6.0%	6.0%	2.0%	14.0%

The **employee contribution to the AE scheme does not qualify for income tax relief.** Therefore, while expressed as a % of gross earnings, the employee contribution will be taken from the employee's net after PAYE income; instead of tax relief, the employee benefits from the State top up to their pension pot of 1/3rd of the employee contribution, equivalent to income tax relief at 25%.

Employers The AE scheme is defined contribution, so that there is no guarantee on the level of pension pot it will provide at 66 for any employee member.

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3. Unless the employee chooses otherwise, their AE contributions (including their employer and State contributions) will be invested in collective investment funds operated by the Ae scheme as follows:.

Up to age 51	High Risk
51-60	Medium Risk
61 to 66	Low Risk

The AE scheme is defined contribution, so that there is no guarantee on the level of pension pot it will provide at 66 for any employee member; the value of an employee's AE pension pot will go up and down in line with the value of the investment funds in which it is invested.

4. The Pension Age of the AE scheme, at which employees will get their retirement benefits, is the State Pension age, which is currently 66.

For an initial unspecified period, the employee's AE pension pot will be paid out as a lump sum at age 66. However, it is envisaged that this will change at some point in the future to a lump sum of 25% with the balance transferred to an Approved Retirement Fund (ARF), used to buy an annuity or taken as a taxable lump sum.

5. Many of the detailed operational and taxation features of the AE scheme are not yet known and will be subject to various Regulations and legislation to be made in the future. This Review is based only on the information available to date:

- **Automatic Enrolment Retirement Savings System Bill 2024**, as passed by Dail Eireann;
- **Auto-enrolment - frequently asked questions (FAQ's),** published online by the Department of Social Protection, 6th March 2024; and
- **The Design Principles for Ireland's Automatic Enrolment Retirement Savings** System, March 2022, published by the Department of Social Protection.

Projected pension values at 66

The table overleaf shows, on stated assumptions, the projected pot value at age 66 for an employee assuming funding commencing in 2025:

- three different starting ages,30, 40 and 50;
- for each individual at two different current earnings levels (€40,000 standard rate taxpayer and €60,000 higher rate taxpayer in 2025) joining:

    (A) the AE scheme.

    (B) DC scheme/PRSA, with the employer paying the same contribution level as it would to the AE scheme and the employee paying the same net contribution level they would to the AE scheme.

    (C) DC scheme/PRSA with accelerated contributions, with the employer paying from day 1 the same contribution level to the scheme/PRSA as it would to the AE scheme from 2034 onwards, and the employee paying the same net contribution level to the scheme/PRSA from day 1 as they would to the AE scheme from 2034 onwards.

Employee contributions to a DC scheme or PRSA are deductible for income tax at marginal rate, within limits. However, employee contributions to the AE scheme are not deductible for income tax but are taken from net after PAYE income and attract a State contribution of 1/3rd of the employee contribution.

Therefore, to equalise employee contributions in terms of their net cost to the employee, as between contributing to the AE scheme and DC scheme/PRSA, the employee contribution to the DC scheme/PRSA is grossed up for the assumed rate of marginal income tax relief. The net cost of the employee's contribution is therefore assumed the same as between the AE scheme and a DC scheme or PRSA. The employer contribution assumed for the DC scheme/PRSA is the same as the employer would pay to the AE scheme.

In the case of the (C) DC scheme/PRSA projection, i.e. accelerated contributions, it is assumed the employer and employee contribute to the DC scheme from day 1 at the DC scheme/PRSA contribution levels shown as applying to (B) above from 2034 onwards under.

Therefore, the contribution levels assumed, as a % of the employee's gross earnings, are as follows:

	Standard Rate Taxpayer									
	(A) AE Scheme				(B) DC Scheme/PRSA			(B) Accelerated Contributions DC Scheme/PRSA		
	Employee Employer State			Total	Employee Employer State		Total	Employee Employer State		Total
2025-27	1.5%	1.5%	0.5%	**4.5%**	1.88%	1.5%	**3.38%**	7.50%	6.00%	**13.50%**
2028-30	3.0%	3.0%	1.0%	**7.0%**	3.75%	3.0%	**6.75%**	7.50%	6.00%	**13.50%**
2031-33	4.5%	4.5%	1.5%	**10.5%**	5.63%	4.5%	**10.13%**	7.50%	6.00%	**13.50%**
2034 +	6.0%	6.0%	2.0%	**14.0%**	7.50%	6.0%	**13.50%**	7.50%	6.0%	**13.50%**

	Higher Rate Taxpayer									
	(A) AE Scheme				(B) DC Scheme/PRSA			(B) Accelerated Contributions DC Scheme/PRSA		
	Employee Employer State			Total	Employee Employer State		Total	Employee Employer State		Total
2025-27	1.5%	1.5%	0.5%	**4.5%**	2.50%	1.5%	**4.00%**	10.00%	6.00%	**16.00%**
2028-30	3.0%	3.0%	1.0%	**7.0%**	5.00%	3.0%	**8.00%**	10.00%	6.00%	**16.00%**
2031-33	4.5%	4.5%	1.5%	**10.5%**	7.50%	4.5%	**12.00%**	10.00%	6.00%	**16.00%**
2034 +	6.0%	6.0%	2.0%	**14.0%**	10.00%	6.0%	**16.00%**	10.00%	6.0%	**16.00%**

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Projected pot values at 66

The projected pot values at 66 for employees commencing pension funding in 2025, based on the stated assumptions, are as follows::

	Standard Rate Taxpayer - €40,000 initial earnings					
	(A) AE Scheme		(B) DC Scheme/PRSA - AE contributions level		(C) DC Scheme/PRSA Accelerated Contributions	
Age at start	Projected Contributions to 66	Projected fund at 66	Projected Contributions to 66	Projected fund at 66	Projected Contributions to 66	Projected fund at 66
30	€326,740	€556,761	€315,070	€494,791	€341,690	€607,988
40	€188,291	€263,359	€181,567	€240,334	€208,186	€309,666
50	€85,273	€100,684	€82,227	€94,139	€108,847	€136,957

	Higher Rate Taxpayer - €60,000 initial earnings					
	(A) AE Scheme		(B) DC Scheme/PRSA - AE contributions level		(C) DC Scheme/PRSA Accelerated Contributions	
Age at start	Projected Contributions to 66	Projected fund at 66	Projected Contributions to 66	Projected fund at 66	Projected Contributions to 66	Projected fund at 66
30	€490,109	€835,142	€560,125	€879,628	€607,449	€1,080,867
40	€282,437	€395,039	€322,785	€427,260	€370,109	€550,518
50	€127,909	€151,026	€146,182	€167,358	€192,366	€242,058

Important: The above projected contributions and pot values at 66 are not guaranteed and are illustrations based on the stated assumptions.

The assumptions made in the projections above were as follows:

Projected Assumptions

	AE Scheme	DC Scheme/PRSA
Earnings growth	3.0% pa The current €80,000 earnings cap on contributions is also assumed to be increased annually at the same rate.	3.0% pa
Investment return, before charges	Up to age 51: 5.33% pa corresponding to high risk investment. 51 to 60: 4.19% corresponding to medium risk investment 61 – 66: 2.73% pa corresponding to low risk investment	Same as for AE scheme, except for Accelerated Contributions DC scheme/ PRSA between ages 61 to 66 when a return before charges of 3.82% pa is assumed corresponding to 25% low risk + 75% medium risk
Charges	Total charge of 0.5% pa.	Total charge of 1.0% pa
Tax relief on employee contributions	None	The employee contribution rate used, less tax relief at the assumed marginal rate, equals the employee's AE contribution rate, i.e. same net outlay for employee.

1 An assumed asset mix assumed of 90% equities & property, 5% in bonds and 5% in cash.
2 An assumed asset mix assumed of 55% equities & property, 40% in bonds and 5% in cash.
3 An assumed asset mix assumed of 10% equities & property, 85% in bonds and 5% in cash.
4 "Administrative fees for all provider/fund options will be minimised through leveraging the scale of a Central Processing Authority (CPA) with a maximum envisaged annual management charge of 0.5% of assets under management", page 9, The Design Principles for Ireland's Automatic Enrolment Retirement Savings System, Department of Social Protection, March 2022:

Comparison of features and benefits

Based on the details and information known at the date of writing, the AE scheme compares with the alternative of a DC occupational pension scheme or PRSA, as follows:

	Auto Enrolment Scheme	DC Occupational Pension Scheme	PRSA
Compulsory Employer contribution level, as % of employee's gross earnings	2025-27: 1.5% 2028-30: 3.0% 2031-33: 4.5% 2034 + : 6.0%	2025-30: either employee or employer must contribute to scheme on a regular basis to avoid compulsory enrolment of employee in AE scheme, but no minimum contribution level specified currently. 2031 +: at least 6.0% pa	2025-30: either employee or employer must contribute on a regular basis to PRSA to avoid compulsory enrolment of the employee in AE scheme, but no minimum contribution level specified currently. 2031+: at least 6.0% pa
Option to pay AVCs in addition to the compulsory employee contribution rate	No.	Yes.	Yes.
State Contribution, as % of employee's gross earnings	2025-27: 0.5% 2028-30: 1.0% 2031-33: 1.5% 2034 +: 2.0%	Nil. Employee contribution qualifies for income tax relief at marginal rate within limits.	Nil. Employee contribution qualifies for income tax relief at marginal rate within limits.
Investment of contributions	Choice of collective investment funds operated by the AE scheme, whose investment is subject to the prudent person rules. Default investment strategy if employee makes no fund choice: Up to age 51: High risk 51 to 60: Medium risk 61 to 65: Low risk	Choice of collective investment funds, whose investment is subject to the prudent person rules. Default investment strategy if employee makes no fund choice.	Choice of collective investment funds offered by PRSA provider. Default investment strategy if employee makes no fund choice.
Normal pension age access to fund	66	Between 60 and 70.	Between 60 and 70.
Benefit options on access to fund	Paid out in full as a lump sum for an initial unspecified period. Thereafter likely to be the same as for DC schemes and PRSAs.	Lump sum of up 25% of fund; balance can be transferred to an ARF or taken as a taxable lump sum subject to PAYE	Lump sum of up 25% of fund; balance can be transferred to an ARF or taken as a taxable lump sum subject to PAYE

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[5] 2031 is the latest date by which the employer will be required to make a contribution to a DC scheme or PRSA of a similar level as the AE scheme employer contribution, to avoid compulsory enrolment of the employee in the AE scheme. It could potentially apply before 2031.

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	Auto Enrolment Scheme	DC Occupational Pension Scheme	PRSA
Voluntary early retirement access to benefits before 66	Not allowed.	From 50 onwards, on retirement.	From 50 onwards on retirement.
Ill health retirement option before 60	in the event of retirement through incapacity or is in exceptional circumstances of serious ill health.	physical or mental deterioration which is serious enough to prevent the individual from following her/his normal employment or which seriously impairs her/hisearning capacity.	on becoming permanently incapable through infirmity of mind or body of carrying on his or her own occupation or any occupation of a similar nature for which he or she is trained or fitted.
Death in service	Full fund payable to deceased employee's estate	Fund up to 4 x remuneration can be paid out as a lump sum to deceased's estate and/or dependants. Any balance of fund in excess of 4 x remuneration, used to provide ARFs for dependants.	Full fund payable to deceased employee's estate
Employee opt out option	Yes: • Between 6 and 8 months after initial enrolment or re-enrolment; and • Between 6 and 8 months after increase in contributions in 2028,2031 and 2024. A refund of part of the employee contributions may be payable on opt out; the balance of the employee's fund remains invested. Employee is automatically re-enrolled in the AE scheme 2 years after opting out.	No. Membership of scheme is generally a condition of employment. Also opting out could trigger compulsory enrolment in the AE scheme if both employer and employee contributions cease or are reduced below the required level after 2030.	Yes, employee can stop contributions at any time without penalty. However, ceasing contributions could trigger compulsory enrolment in the AE scheme if both employer and employee contributions cease or are reduced below the required level after 2030.
Option for employee to suspend contributions for a period	Yes, at least 6 months after enrolment or reenrolment but not earlier than 6 months after previous suspension. Minimum suspension period is 1 year and maximum suspension period is 2 years after which employee is automatically re-enrolled.	No.	Yes. No penalty can be applied on suspension of contributions. However, if employer and employee contributions are both suspended, the employee must then be compulsory enrolled in AE scheme.

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