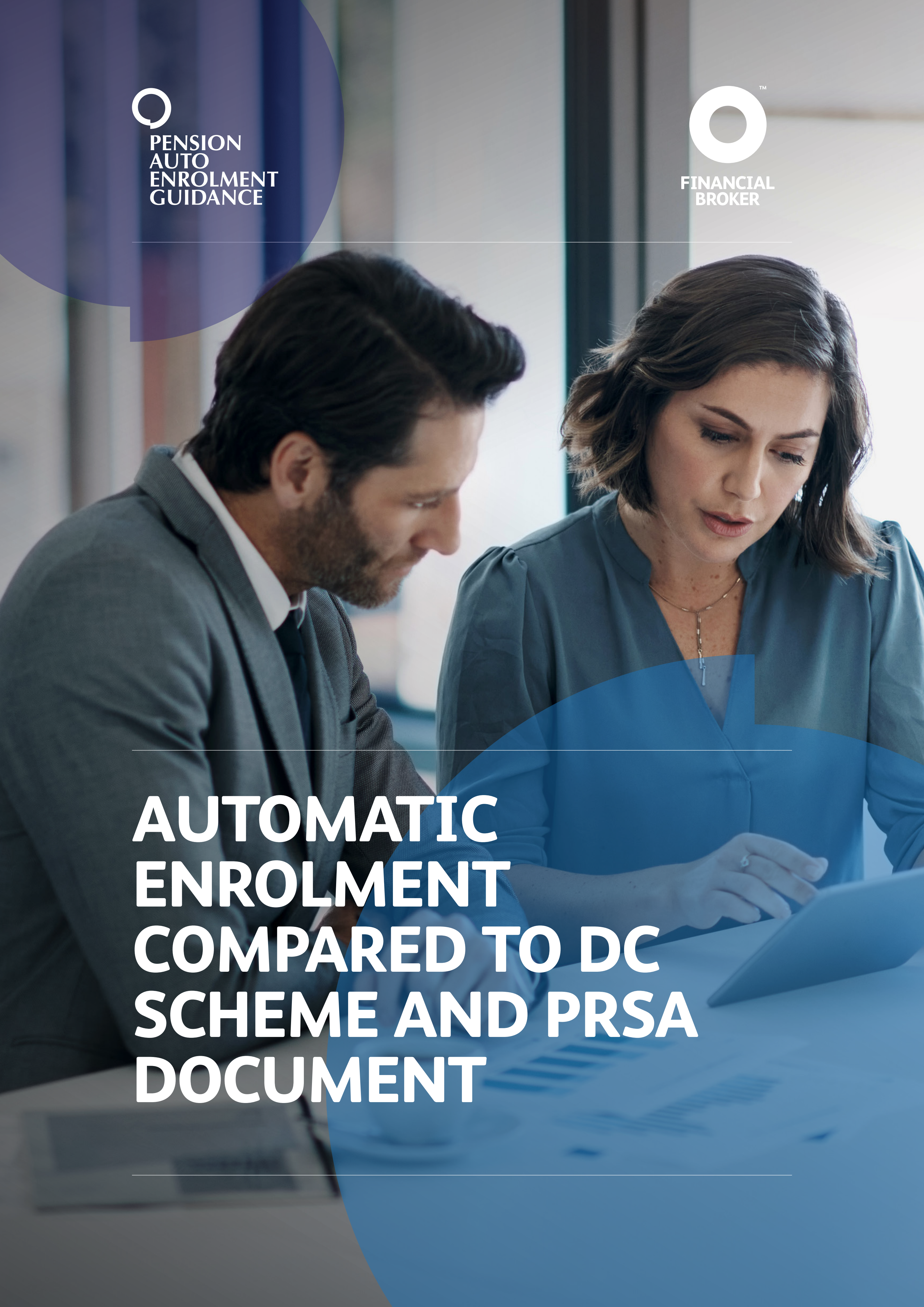

PENSION AUTO ENROLMENT GUIDANCE

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AUTOMATIC ENROLMENT COMPARED TO DC SCHEME AND PRSA DOCUMENT

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INTRODUCTION

Originally planned to commence in late September 2025, it now appears that the start date might be January 2026.

This was advised in a tender document for investment services issued by the Department of Social Welfare in March 2025 where it advised that it ***"expects contribution collection to commence in January 2026".*** This further delay to the start date was confirmed by the government in April.

This document:
1. Outlines the main features of the Auto Enrolment (AE) pension scheme
2. Compares projected pension pot values at age 66 for employees starting contributions at different ages and earnings levels, under the AE scheme and a DC scheme/PRSA with similar employer contributions
3. Compares the main features of the AE Scheme with DC Scheme/PRSA

The Auto Enrolment Scheme (AE) is to be known as the **"My Future Fund"**

Sources of Information
This document is based on the information available to date:

- The Design Principles for Ireland's Automatic Enrolment Retirement Savings System, March 2022,
- Auto-enrolment - frequently asked questions (FAQ's),
- Automatic Enrolment Retirement Savings System Act 2024
- Finance Act 2024
- Request for tender for the provision of investment services March 2025

PENSION AUTO ENROLMENT GUIDANCE

INTRODUCTION OF THE AUTO ENROLMENT PENSION SCHEME

1. Commencement Date

The commencement date for Auto Enrolment (AE) pension scheme was intended to be by the end of September 2025. However, an update from the Department of Social Welfare in March stated that it "expects contribution collection to commence in January 2026." This further delay was confirmed by the government in April.

2. Employer Role

Employers will be required to:

- enrol in the AE scheme employees aged between 23 and 60 earning €20,000 or more 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.

3. Contribution Rates

The AE contribution set as a % of the employee's gross earnings (up to €80,000) will be phased in as follows

	Employer Contribution	Employee Contribution	Government Top-Up	Total Contribution
Year 1-3	1.5%	1.5%	0.5%	3.5%
Year 4-6	3.0%	3.0%	1.0%	7.0%
Year 7-9	4.5%	4.5%	1.5%	10.5%
Year 10 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%.

The Auto Enrolment Scheme (AE) is to be known as the **"My Future Fund"**

Investment

Employees will initially be invested in the Default Fund which will operate on a lifestyle basis as follows

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

Employees can then decide if they wish to invest contributions into one or more of the three investment options that will be available or to remain invested in the default fund.

Three investment managers will be appointed and all the investment funds are to be managed on a passive basis. The appointments will be for an initial term of 7 years although this can be extended by a further 3 years.

In May 2025, Amundi, Blackrock and Irish Life Investment Managers were named as the preferred investment managers.

Employees will receive the benefit of the average return of each manager depending on the risk fund selected.

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.

Retirement Age

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

Early Retirement

Early retirement is not allowed unless the employee qualifies for ill health retirement.

Retirement Benefits

The only option at retirement is to take the fund as a lump sum, 25 % of which will be tax free and the balance taxable. At some point in the future employees may be able to use the balance of their fund to purchase an annuity or to invest in an ARF.

Death Benefit

If an employee dies before reaching retirement date the value of their account, after deducting PAYE is paid to their estate.

Projected Pension Values at 66

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

- 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.

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.

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		
	Employee	Employer	State	Total	Employee	Employer	Total
Year 1-3	1.5%	1.5%	0.5%	**3.5%**	1.88%	1.5%	**3.38%**
Year 4-6	3.0%	3.0%	1.0%	**7.0%**	3.75%	3.0%	**6.75%**
Year 7-9	4.5%	4.5%	1.5%	**10.5%**	5.63%	4.5%	**10.13%**
Year 10 onwards	6.0%	6.0%	2.0%	**14.0%**	7.50%	6.0%	**13.50%**

	Higher Rate Taxpayer						
	(A) AE Scheme				(B) DC Scheme/PRSA		
	Employee	Employer	State	Total	Employee	Employer	Total
Year 1-3	1.5%	1.5%	0.5%	**3.5%**	2.50%	1.5%	**4.00%**
Year 4-6	3.0%	3.0%	1.0%	**7.0%**	5.00%	3.0%	**8.00%**
Year 7-9	4.5%	4.5%	1.5%	**10.5%**	7.50%	4.5%	**12.00%**
Year 10 onwards	6.0%	6.0%	2.0%	**14.0%**	10.00%	6.0%	**16.00%**

Projected Pot Values at 66

The projected pot values at 66 for employees, 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	
Age at start	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
40	€188,291	€263,359	€181,567	€240,334
50	€85,273	€100,684	€82,227	€94,139

	Higher Rate Taxpayer - €60,000 initial earnings			
	(A) AE Scheme		(B) DC Scheme/PRSA - AE contributions level	
Age at start	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
40	€282,437	€395,039	€322,785	€427,260
50	€127,909	€151,026	€146,182	€167,358

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

Projected Assumptions

The assumptions made in the projections above were as follows:

	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
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 amd employee contribution level, as % of employee's gross earnings	Employer and employees will each contribute Year 1-3: 1.5% Year 4-6: 3.0% Year 7-9: 4.5% Year 10 onwards : 6.0%	Employee and /or employer contribution as decided by the employer Qualification rule for scheme to continue to be exempt from AE to be published 6/7 years after implementation of AE., but no minimum contribution level specified currently.	Employee and /or employer contribution as decided by the employer Qualification rule for scheme to continue to be exempt from AE to be published 6/7 years after implementation of AE. but no minimum contribution level specified currently.
Option to pay AVCs	No.	Yes.	Yes.
State Contribution, as % of employee's gross earnings	Year 1-3: 0.5% Year 4-6: 1.0% Year 7-9: 1.5% Year 10+: 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 as selected by the Scheme Trustees but generally a wider range of funds than the AE Scheme. 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 but generally a wider range of funds than the AE Scheme. Default investment strategy if employee makes no fund choice.
Investment style	All funds to be passively managed	Both actively and passively funds can be offered	Both actively and passively funds can be offered
Access to pension fund	66	Between 60 and 70.	From age 60.
Benefit options on access to fund	Paid out in full as a lump sum for an initial unspecified period. 25% tax free, the balance taxable. At some future date, employees may be allowed to purchase an annuity or to invest in an Approved Retirement Fund. Also possible that the AE Scheme will offer drawdown options.at some date in the future.	A. Lump sum of up 25% of fund; balance can be transferred to an ARF, used to purchase an annuity or taken as a taxable lump sum or B. Lump sum based on salary and service to a maximum of 1.5 times Final Salary. Balance of fund used to purchase an annuity. (AVCs have the ARF option)	Lump sum of up 25% of fund; balance can be A. transferred to an ARF, used to purchase a pension or taken as a taxable lump sum or B. retained in the PRSA (Vested PRSA) and withdrawals taken from it

	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. if retired from all employments.
Ill health retirement option before 66	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/his earning 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 taxable. Payable to deceased employee's estate.	Fund up to 4 x remuneration plus the value of any personal contributions can be paid out as a lump sum to deceased's estate and/or dependants, as decided by the trustee. Any excess, used to provide ARFs or purchase annuities for dependants.	Full fund payable to deceased employee's estate, can be inherited tax free by spouse.
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. A refund 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.	Membership of scheme can be voluntary or a condition of employment. Employees who opted not to join the scheme will need to be enrolled in AE.	Membership of scheme can be voluntary or a condition of employment. Employees who opted not to join the scheme will need to be enrolled in AE.
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.	Normally not permitted.	Yes. No penalty can be applied on suspension of contributions. However, if employee stops contributions, employer contribution will also cease. If employer and employee contributions are both suspended, the employee must then be compulsory enrolled in AE scheme.

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June 2025