

I PENSIONS
I INVESTMENTS
I PROTECTION
I MORTGAGES





## INTRODUCTION

The last number of years has seen significant changes in the pension landscape – for both individuals and employers.

The date from which the State Pension is payable has now been fixed at age 66 but the way in which individuals qualify for the pension is changing and individuals can now choose to defer the start of the State Pension up to their 70th birthday.

Auto Enrolment, finally scheduled to start in January 2026 will go a long way to deal with the issue of pension coverage and will have a big impact on all employers whether they already have some form of pension scheme or not.

An estimated one third of all pension scheme members are deferred members and in need of advice regarding as to whether to leave their pension fund deferred or to transfer it to a new pension arrangement.

Last but not least, meeting the onerous governance regulations of IORPII has led to a major review of existing group schemes with many schemes moving to one of the Master Trusts that are now starting to dominate the pension market.

The purpose of this guide is to help Financial Brokers, when advising clients – both individual and corporate to understand the various pension changes that are taking place and how best to guide their clients to making the right decision.

## ABOUT THE AUTHOR

James Skehan, FIIPM, PTP, QPT has over 45 years' experience working in the pensions industry, many of which were in senior positions with insurance companies, financial brokers and corporate trustees.



He was Head of Pensions in New Ireland from 2001 to 2019 and was also CEO of General Investment Trust from 2008 to 2019.

Since 2020 he has been acting as an independent professional trustee and also advises employers and trustees on pension issues. He is currently working with a number of schemes which are transitioning to Master Trusts. He is the professional trustee of a scheme with over 5,000 members and assets of €300m which in 2022 saw a change in Registered Administrator following a critical/market review.

James is a Fellow of the Irish Institute of Pension Managers and holds the QPT and PTP qualifications – two of the professional trustee qualifications recognised by the Pensions Authority as meeting their requirements in compliance with the Pensions Act 1990.

James is a lecturer for the Retirement Planning Module of the LIA's Post Graduate Diploma in Financial Management, is author of a number of Pension Guides commissioned by Brokers Ireland for Financial Brokers and is a regular speaker at industry conferences.

## THE STATE PENSION

#### **Retirement Age**

Following a number of attempts to increase the State Pension Age to 67 and eventually 68, it has now been fixed at age 66.

Recognising an increase in the number of employees wanting to continue working, the government have also introduced a flexible approach to the date that the State Pension can be drawn with an increased pension payable if an employee defers the start date to between age 67 and 70.

In addition to greater flexibility as to when the State Pension is drawn down, legislation has been drafted regarding the date that an employee can retire form their job.

On the 1st of April 2025 the Employment (Contractual Retirement Ages) Bill was published and if enacted, it will have a major impact on when an employee can retire. The following is a summary of the main points of the Bill

- An employee can advise their employer that they do not consent to retire at the mandatory retirement age as set out in their contract, instead they can advise that they wish to continue to work until the State Retirement Age (66). This written notice must be given not less than 3 months and not more than 1 year before their current contractual retirement age.
- The employer must provide a reasoned reply if they wish to enforce the contractual retirement age and this must be reasonably justified by a legitimate aim and that

enforcing the contractual retirement age is appropriate and necessary. The reply must be given within one month of receiving the request from the employee.

#### **State Pension**

The State Pension is a core retirement provision for clients, as the vast majority of employees in the workforce will eventually qualify for some level of State Pension. CSO research in 2023 showed that at that time 59% of all workers with no pension provision expected the State Pension to be their 'main' source of income in retirement.

For others, the State Pension is an important building block to add to their private/ public sector pension benefits.

It is therefore important to be able to accurately determine a client's likely entitlement to the State Pension, the rate of pension they may qualify for, and when they can expect to receive the pension.

There are two state pensions:

- The State Pension Contributory, which is based on an employee's PRSI record.
- The State Pension (Non-Contributory) which is means tested

## PRSI CONTRIBUTIONS

#### How to Qualify

The **two key conditions** which an individual must meet to qualify for some level of State Pension (Contributory) are that they:

 Started paying PRSI 10 years before you draw down your state pension

And

 Have paid at least 520 weekly (i.e. 10 years' worth) reckonable (also called 'full rate') PRSI contributions.

The main reckonable PRSI classes for the State Pension are:

**Class A**, paid by most private sector employees, and public service employees recruited after the 6th of April 1995; and

**Class S**, paid by self-employed sole traders, partners, and proprietary directors.

An individual does not have to be living in the State to qualify for the state pension or to continue to receive payment. An individual can also be in receipt of the pension and continue working, if they want to.

While the state pension is not means tested, a dependant's pension if paid on top of the State Pension is means tested based on the dependant's income and assets.

#### **PRSI Contribution Systems**

There are currently two different methods used to assess the level of pension payable to a person when they reach their State Pension Age:

- The Yearly Average Approach (YA); and
- The Total Contributions Approach (TCA)

In the past, when a person retired, they received the higher of the pension calculated under each method. Starting in 2025 there is a gradual transition to the Total Contribution Approach over a ten-year period. During this time a person will receive the higher of the pension calculated on

- a. The Total Contribution Approach or
- b. The Transitional Calculation a combination of the Yearly Average and Total Contribution Approach.

The Total Contribution Approach is designed to align an individual's pension more closely with the PRSI contributions that they make and is considered to be a fairer system which removes the anomalies that exist with the Yearly Average Scheme.

The following table sets out how a person's pension would be calculated between 2025 and 2034 as follows:

| Age 66 in | Transitional Calculation OR | Total Contribution Approach |
|-----------|-----------------------------|-----------------------------|
| 2025      | 90% YA & 10% TCA            | 100% of TCA                 |
| 2026      | 80% YA & 20% TCA            | 100% of TCA                 |
| 2027      | 70% YA & 30% TCA            | 100% of TCA                 |
| 2028      | 60% YA & 40% TCA            | 100% of TCA                 |
| 2029      | 50%YA & 50% TCA             | 100% of TCA                 |
| 2030      | 40% YA & 60% TCA            | 100% of TCA                 |
| 2031      | 30% YA & 70% TCA            | 100% of TCA                 |
| 2032      | 20% YA & 80% TCA            | 100% of TCA                 |
| 2033      | 10% YA & 90% TCA            | 100% of TCA                 |
| 2034      | 100% TCA                    | 100% of TCA                 |

#### Yearly Average Approach

Under the Yearly Average Approach, the pension that a person qualifies for is based on their annual average weekly PRSI reckonable contributions (paid and/or credited) over their working life.

A person's working life is the number of years starting from the year they first started paying PRSI contributions and ending at the end of the calendar year before they qualify for the pension.

To qualify for the maximum pension a yearly average of 48 weeks or more is needed.

#### **Total Contributions Approach (TCA)**

Under the TCA, a person's total paid and credited contributions is calculated. If the total is equal to or greater than 2080 (this equates to 40 years x 52 weeks), they will qualify for the maximum pension. If their total reckonable PRSI contributions is less than 2080, they will receive a reduced pension.

#### Caring for Children

Under both systems, credits are given for years caring for a child – up to the age of 12, or for an

incapacitated child of any age. Under the Yearly Average Approach (Homemaker) credited years only count from April 1994, while under the TCA approach (Home Carer) years prior to April 1994 can also be credited.

#### **Contribution Shortfalls**

Where an employee's PRSI record will not give an entitlement to the maximum pension the shortfall can be made up by either qualifying for credited contributions or by paying voluntary contributions

#### Additional Pension for Adult Dependant

If an employee qualifies for the State Pension in their own right, an additional pension may be payable directly to an adult dependant of that client – known as a Qualified Adult, on a means tested basis.

The means test applies only to the adult dependant's financial income and assets, not those of the employee.

This would apply if the employee's dependent doesn't qualify for the State Pension in their own right.

#### **Jobseekers Benefit**

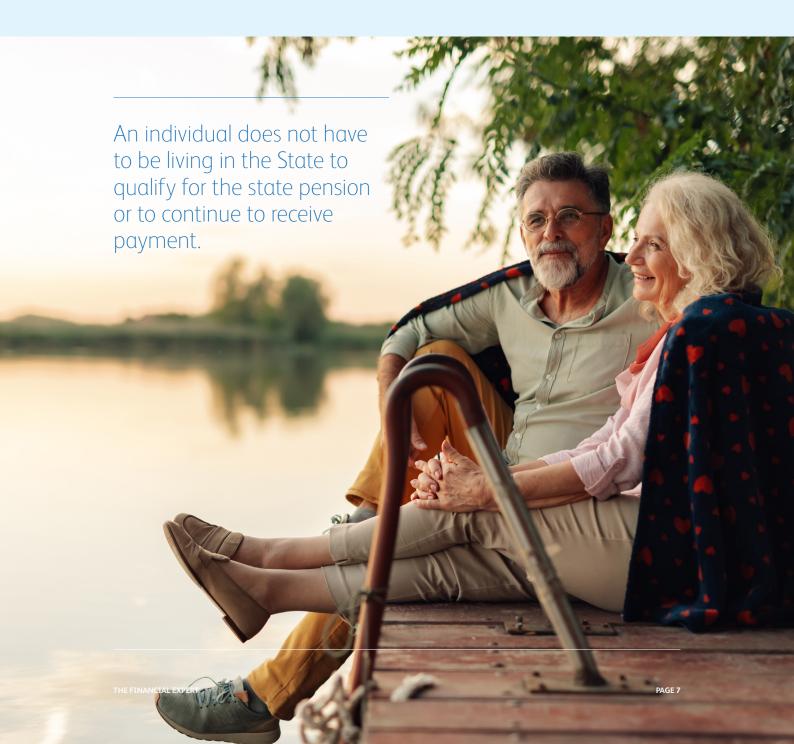
If an individual retires early, is under 66, and is unemployed they may qualify for Jobseekers Benefit. The benefit is paid for either 6 or 9 months depending on the individual's PRSI record. A key requirement is that the individual must be actively looking for work.

#### Benefit Payment for 65-year-olds

An individual who is over 65 and has retired or who turns 65 while in receipt of Jobseekers Benefit can

receive/continue to receive benefit until their 66th birthday, without having to be looking for work. This is an important benefit for individuals who retire from their employment at age 65 and the measure was introduced by the government to bridge this income "gap".

An individual in receipt of either of these benefits will earn PRSI credits which will count towards their qualification for the State Pension.



## APPLYING FOR THE STATE PENSION

## There are two stages involved in establishing a client's entitlement to the state pension and how it should be applied for.

In order to get an accurate fix on a client's likely State Pension (Contributory) entitlement, the first step is to obtain the client's PRSI record – online at www.mywelfare.ie. This will show paid and credited reckonable contributions up to the end of the preceding year.

From 2024, credited contributions for years spent as a long-term carer will also be displayed.



This is an example of the information shown on the statement:

| Year    | Paid<br>Contributions | Credited<br>Contributions | Long Term<br>Carers<br>Contributions | Reckonable<br>Contributions<br>for Pension | Reckonable<br>Credited<br>Contributions for<br>Pension | Combined<br>Reckonable<br>and Credited<br>Contributions<br>for Pension |
|---------|-----------------------|---------------------------|--------------------------------------|--|--|--|
| 1993/94 | 51 A1                 | -                         |                                      | 51   |  | 51   |
| 1994/95 | 51 A1                 |                           |                                      | -  |  | 51   |
| 1995/96 | 25 A, 52 S            |                           |                                      | -  |  | 52   |
| 1996/97 | 39 S                  | 13                        |                                      | 39   | 13   | 52   |

With this information on past PRSI record it is then possible to project a client's PRSI record to the end of the year prior to their State Pension Age, e.g. by assuming they work on or give up work at a certain point and get credited contributions, etc

#### Claiming the State Pension

A person should apply for the State Pension 6 months before their 66th birthday. The application form allows a person to decide the age (between 66 and 70) that they want the pension to start from.

If a person needs to get credit under either the Homemaker or Home Carer schemes, they should apply for this before submitting the application for the State Pension. This can be applied for online via MyGov.ie but the person needs to have a full Public Service card when applying.

Approximately one month before their selected retirement date, a person should receive a notification advising them of the rate of pension that they will receive. The pension will be paid gross, but it is subject to income tax and the revenue will adjust a person's tax credits to allow for this. USC and PRSI are not payable.

At the same time the person should get notification of their entitlement to free travel and they can also apply – via MyGov.ie for other benefits including a contribution to fuel costs and a free TV licence.

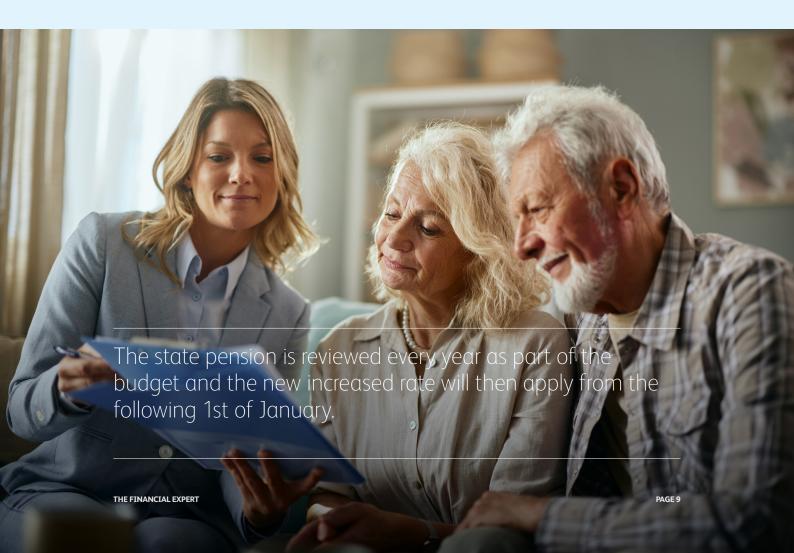
#### Current rates of pension

The state pension is reviewed every year as part of the budget and the new increased rate will then apply from the following 1st of January.

From 2025 the maximum weekly pension has been increased to €289.30 with proportionate increases for those who qualify for a reduced rate of pension.

The pension is increased by  $\leq$ 192.70 if there is an adult dependent under age 66 and by  $\leq$ 259.40 if the adult dependent is 66 or older.

The pension is increased by €10 per week if the individual is aged 80 or over and €22 per week if they are living alone.



## DEFERRED SCHEME MEMBERS

Providing advice to individuals who are deferred members of existing pension arrangements is an important service for Financial Brokers to provide whether the individual is a member of

- a) A Defined Contribution Scheme (DC), a PRSA or
- b) A Defined Benefit (DB) Scheme

#### **Defined Contribution Scheme**

It is estimated that one third of DC scheme members are deferred members with pension pots left in the scheme of their previous employer.

These individuals need advice as to whether to leave their pension pot in the old scheme or to transfer it to either their new employers pension scheme or to a pension arrangement in their own name – either a PRB or a PRSA.

Each option has its own advantages and disadvantages, and the relative merits of each option need to be carefully considered.

It is estimated that one third of DC scheme members are deferred members with pension pots left in the scheme of their previous employer.

|                         | Deferred Benefit<br>(DC Scheme)  | New Employer<br>DC Scheme  | PRB   | PRSA   |
|-------------------------|--|--|---|--|
| Access<br>to Benefits   | From age 50  | Must be taken at<br>the same time as<br>benefits under the<br>new DC Scheme  | From age 50   | From age 50 (if retired from all employments)  |
| Charges                 | Group scheme charges likely to be lower than PRB or PRSA.  Trustees may be able to negotiate lower charges as scheme grows | Group scheme charges likely to be lower than PRB or PRSA.  Trustees may be able to negotiate lower charges as scheme grows | Individual can negotiate charges with advisor. Likely to be higher than a Group Scheme.   | Standard PRSAs have capped charges, Non Std PRSAs normally have higher management fees.  Individual can negotiate charges with advisor. Likely to be higher than a Group Scheme.               |
| Investment              | Decided by the trustees, choice of funds and or investment manager can be changed by the trustees.                         | Decided by the trustees, choice of funds and or investment manager can be changed by the trustees.                         | Individual, with<br>advice, can select<br>the investment<br>manager and funds,<br>Wider choice of<br>funds generally<br>available | Individual with advice, can select the PRSA Provider. Range of funds decided by PRSA Provider Wider choice of funds generally available — Non-Standard PRSA allows direct property investment. |
| IORPII<br>Regulations   | Apply  | Apply  | Don't apply   | Don't apply  |
| Retirement<br>Lump Sum  | Choice of salary<br>and service<br>or 25% of<br>accumulated fund   | Choice of salary<br>and service<br>or 25% of<br>accumulated fund   | Choice of salary and<br>service or 25% of<br>accumulated fund   | 25% of accumulated fund  |
| Death before retirement | Value of fund paid<br>to the estate  | 4 times salary rule<br>Benefit paid<br>at trustees'<br>discretion  | Value of fund paid to the estate  | Value of fund paid to the estate   |
| Information             | Annual Pension<br>Benefit Statement  | Annual Pension<br>Benefit Statement  | Annual Statement  | Half Yearly Statement of<br>Account and Investment<br>Report., Annual SORP   |

In many cases an individual might simply want to sever all connections with their previous employer.

#### **Defined Benefit Scheme**

Advising an individual who has a deferred benefit under a Defined Benefit Scheme is complex and extreme care needs to be exercised by the Financial Broker. The following notes are intended to give a high-level broad overview of the issues that need to be taken into account but each case needs to be carefully analysed based on the particular circumstances.

#### **Deferred Pension**

At face value a deferred pension under a DB Scheme is attractive as it provides a specific level of pension when the member reaches their Normal Retirement Date. The deferred pension must also be increased each year in line with inflation to a maximum of 4% per annum.

However, some of the key questions to be considered are

- a) What is the funding position of the Scheme
- b) What is the employer's financial commitment to continue / maintain required contributions to the scheme.

The main risk to leaving a deferred pension in a DB Scheme is that the financial position of the Scheme may worsen, benefits may be reduced if the trustees have to apply to the Pensions Authority for what is known as a Section 50 funding proposal. In an extreme case the pension scheme may need to be wound up and in this scenario pension regulations set out the priority order that the trustees must follow in securing members benefits with pensioners receiving priority over both active and deferred members, if there aren't sufficient assets to secure all members benefits.

#### Transfer Value

Taking a transfer value form a DB Scheme may or may not be a good decision. A transfer value means forgoing the "promised/ defined" pension that the DB Scheme is offering for a cash sum which is then subject to the investment risk being taken on by the member.

The transfer value is the only "certain" figure available from a DB Scheme as the deferred pension may change in the future as outlined above.

However, bear in mind that the transfer value is generally calculated on conservative assumptions by the actuary and if the Scheme is in financial difficulties the transfer value will be reduced to reflect this. It is also possible that by taking a transfer value at a later date, the finances of the scheme may have improved, and a higher TV may be offered.

#### Access to Benefits / Retirement Options

Revenue rules allow an employee who has left service to start receiving benefits from age 50. In many cases a request for an early retirement pension will be refused by the trustees of a DB Scheme and the only way for a deferred member to access benefits from age 50 is to request a transfer value to a PRB or a PRSA.

Another reason to request a transfer value is to enable the member to access the ARF option, which is not available to DB Scheme members unless they are a 5% director.

In both scenarios the caveats outlined above should be carefully considered before making a final decision.



## ACTIVE SCHEME MEMBERS

There is also scope for Financial Brokers to advise individuals who are active scheme members, whether they are the advisor to the group scheme or not.

#### **Investment Diversification**

Investment performance in a DC Scheme will have a key impact on the eventual retirement fund that a member will receive.

The norm in a DC Scheme is for members to be allowed to pay AVCs into the scheme in addition to the normal employer/ employee contributions and typically the member has a choice of funds to select from.

The choice of funds will have been selected by the trustees and the investment manager and choice of funds will have been one of the reasons for selecting a particular provider. Other issues such as administration capabilities and online facilities may have also had a bearing on the selection process.

The choice of investment manager and choice of funds can also be changed by the trustees on an ongoing basis and to comply with the Pensions Authority, trustees are required to undertake a Critical Review of the investment manager every three/ five years. This Critical Review may lead to a change in investment manager and while members will be offered a choice of funds, that range of funds will have been selected by the trustees.

#### **AVCPRSA**

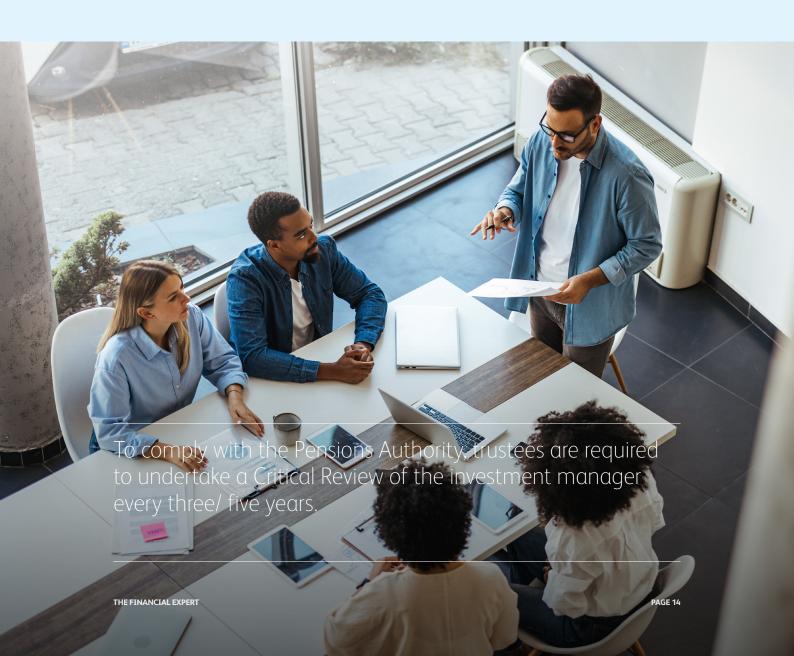
An AVCPRSA allows the scheme member- with advice from their Financial Broker to achieve investment diversification and this is particularly important where the funds being invested are substantial.

#### **Public Sector Employees**

Another cohort of employees who need advice are Public Sector Workers, where in many cases their main scheme benefits will be less than those allowed by the revenue including –

- a) The main pension scheme may not pension all an employee's earnings.
- b) For employees recruited after April 1995, their benefits are integrated with the State Pension.
- c) For employees recruited after January 2013, their pension benefits are calculated on a career average rather than their final salary.

Public Sector employees can purchase what is known as "Added Years" or can pay AVCs through the various schemes that have been set up through payroll, but the option to pay AVCs through an AVCPRSA should also be considered.



## STANDARD PRSA FACILITY

The Pensions Amendment Act 2002 requires employers to meet certain minimum requirements in relation to a pension provision "facility" for their employees.

#### Standard PRSA

The legislation requires an employer to provide access for their employees to at least one Standard PRSA facility (that the employer selects) if:

- a. It does not operate a company pension scheme.
- b. It operates a pension scheme, but employees must be working with the employer for more than six months before they are eligible to join the scheme.
- c. The scheme only provides death in service benefits.

If a company pension scheme doesn't provide an AVC facility, then an AVC PRSA facility needs to be provided.

#### **Auto Enrolment**

The introduction of Auto Enrolment – covered in the next chapter will significantly increase pension coverage and reduce the "need" for a Standard PRSA facility as the majority of employees will be enrolled in the AE scheme.

It is likely that the above conditions will be replaced by

- 1. It does not operate a company pension scheme
- 2. Employees are not included in the Auto Enrolment Scheme

## AUTO ENROLMENT

#### Overview

After a number of false starts, Auto Enrolment is scheduled to commence from January 2026. The Auto Enrolment Retirement Savings System Act 2024 was signed into law by the President on the 9th of July 2024. The Act provides for the setting up of the National Automatic Enrolment Retirement Savings Authority (NAERSA) which is tasked with launching the Auto Enrolment Scheme, to be known as

#### "My Future Fund"

The introduction of Auto Enrolment is generally to be welcomed – Ireland will be the last OECD country to implement an Auto Enrolment type pension scheme and when it starts it will go a long way to deal with one of the main pension problems in Ireland, that of pension coverage.

While Auto Enrolment will tackle the problem of pension coverage, the contributions in the early years will be very low and pension adequacy will continue to be a problem.

#### The AE Scheme

#### Membership

All employees who are between the ages of 23 and 60 and who are earning €20,000 or more will be automatically included in the AE scheme unless-

- a) They are included in an in an employer Occupational Pension Scheme or PRSA
- b) They are making a personal contribution to a pension arrangement via payroll.

Employees aged between 18 and 22 and over 60 can opt to be included in the scheme.

The €20,000 lower earnings limit is across all employments and is based on a person's total earnings.

#### **Opting** out

Employees will be able to opt out after month six and six months after each time the contributions are increased. Employees will be able to get a refund of their contributions in either month seven or eight.

Employees can also suspend their contributions at any time once they have been in the scheme for six months, without getting a refund.

In all cases, the employer and state contributions will remain in the employee's account.

In all cases of opting out or suspension, the employee will be enrolled again after two years. The experience in other countries would suggest that there will be very little opting out.

#### **Contributions**

Contributions from employees with a matching employer contribution will build up gradually over a ten-year period, with the government paying a top up equal to one third of the employee contribution. Contributions will be based on an employee's total earnings subject to a maximum salary of €80,000. There is no facility for AVCs to be paid into the AE scheme

| Year | Employee<br>Contribution | Employer<br>Contribution | Government<br>Top Up | Total<br>Contribution |
|------|--------------------------|--------------------------|----------------------|-----------------------|
| 1-3  | 1.5 %                    | 1.5 %                    | .5 %                 | 3.5 %                 |
| 4-6  | 3.0 %                    | 3.0 %                    | 1.0 %                | 7.0 %                 |
| 7-9  | 4.5 %                    | 4.5 %                    | 1.5 %                | 10.5 %                |
| 10-  | 6.0 %                    | 6.0 %                    | 2.0 %                | 14.0 %                |

#### Investment

Three preferred investment managers, Amundi, Blackrock and Irish Life Investment Managers, have been selected and each manager will offer a choice of four funds to be managed on a passive basis:

- a. A low-risk fund.
- b. A medium-risk fund.
- c. A high-risk fund.
- d. A default fund, where an employee doesn't select one of the three fund options.

In practice the employee will benefit from the average return achieved by all the managers for the risk level that they select.

When an employee is first enrolled in AE, they will be invested in the Default Fund but will then have the option to invest in one of the other funds if they wish.

Under the Default Strategy their contributions will be invested as follows –

| Government<br>Top Up | Total Contribution |
|----------------------|--------------------|
| Up to 51             | High Risk Fund     |
| 51–60                | Medium Risk Fund   |
| 61-66                | Low Risk Fund      |

#### **Retirement Date**

Employees will only be able to access their retirement fund at age 66, i.e. the date from which the state pension is payable. Late retirement isn't allowed, and early retirement is only allowed in cases of serious ill health.

#### **Payment of Benefits**

At retirement 25% of the fund can be taken as a tax-free lump sum and the balance is paid out as a taxable lump sum. In the future, options such as the purchase of an annuity or investment in an ARF may be allowed.

On death before retirement the fund value will be paid to the deceased's estate after deduction of tax.

## AUTO ENROLMENT -EMPLOYER OPTIONS

While many employers currently operate pension schemes for their employees, the introduction of Auto Enrolment will mean changes will have to be made to how these schemes are operated.

#### Membership

The majority of employer sponsored pension schemes operate

- On a voluntary basis
- With a waiting period before an employee can join

To match AE requirements future hires will need to be included in the employer's scheme from the date they join the company and membership of the scheme will need to be made a condition of employment.

This is fairly straight forward provided contracts of employment are changed to reflect the compulsory membership – but what about existing employees who are not yet eligible to join or those who opted not to join in the past?

There are a number of options open to employers

- a) Engage with and convince these employees to join the employer's scheme
- b) Leave them to be enrolled in the AE scheme
- c) Look at the possibility of changing the scheme rules and establishing a second category of membership with contribution rates matching those in the AE scheme

Employers with existing schemes should engage with a Financial Broker to review the various options that are open to them.

#### **Government Incentive**

Employees included in an employer sponsored scheme benefit from tax relief at their marginal tax rate of either 20% or 40%.

Under Auto Enrolment, employees will not benefit from tax relief but will get a government "top-up" of 1/3rd of their contribution which equates to tax

relief of 25%, clearly less attractive for high-rate taxpayers.

It could be argued that even for 20% taxpayers the tax relief system gives them a higher return for their net contribution as set out in the table below

|         | Employee<br>Contribution | Net Cost | Employer<br>Contribution | Government<br>Top-Up | % Invested          |
|---------|--------------------------|----------|--------------------------|----------------------|---------------------|
| AE      | €100                     | €100     | €100                     | €33.33               | 2.33 times net cost |
| DC/PRSA | €100                     | €80      | €100                     | N/A                  | 2.5 times net cost  |

As a result, an employer sponsored pension scheme will allow employees to avail of a better tax incentive, particularly for higher taxpayers but also (arguably) for basic rate taxpayers.

#### **Contribution Rates**

Where an employer is operating an Occupational Pension Scheme or a PRSA, currently they can decide on the level of employer and employee contribution that is paid into the scheme. In addition, employees have the facility to pay in Additional Voluntary Contributions (AVC's) if they wish.

At some date in the future, probably when the AE total contribution rate is going to increase to 10.5%, regulations regarding existing schemes will be issued as to what they will need to do to remain exempt from Auto Enrolment.

A key test will be to ensure that the fund that is accumulated under an employer's scheme will match what the AE scheme will provide.

A typical employer scheme will be based on a total contribution of 10% of salary, with 5% paid by the employer and 5% by the employees. Under AE the total contribution from year 7 will be 10.5% of earnings and this will increase to 14% from year 10 onwards.

In addition, the contributions to the AE scheme will be based on an employee's total earnings whereas most employer sponsored schemes are based on an employee's basic salary.

#### a) New Employees

From year 7 - or earlier in some cases, contributions to an employer sponsored scheme will need to match the AE contribution rates and be based on total earnings.

#### b) Existing Employees

For existing employees who are already included in the employer scheme, the position is more complicated. Depending on when they were included in the employer scheme, their estimated fund at retirement – even if based on lower contributions than AE rates and based on basic salary may match / exceed the fund that would accumulate based on AE contribution rates. However, these employees may seek to have the benefit of the higher contribution rates that their employer will now be paying for new hires.

This problem will only be capable of analysis when details of the AE "test" are known.

#### **Vested Rights**

Pension legislation provides a member of an Occupational Pension Scheme with an entitlement to the value of the employer contributions that have been paid into the scheme, once the member has been in the scheme for two years.

If the member leaves before the end of the two-year period, then they are only entitled to the value of their own contributions.

As a result, the rules of many pension schemes simply match what is required by the legislation and only offer a benefit based on the value of a member's contributions if they leave in the first two years.

Auto Enrolment (and PRSAs) provides immediate vesting so the rules of employer Occupational Pension Schemes will have to be changed to meet this immediate vesting requirement. It is not clear when this change will have to take place but possibly when the "contribution test" is being applied.

#### Advice

There is no provision with the AE structure for advice to be given, either to employers or to individual employees.

As already outlined, employers need to consult with a Financial Broker to fully understand the implications of Auto Enrolment and to decide what type of pension scheme they should be using going forward.

A major element missing from Auto Enrolment is the availability of advice, for participating employees. Pensions are complicated and there is clear evidence that where individual members have access to advice their retirement outcome will be considerably better than for those who didn't have access to professional advice.

An independent study in 2025 found that -

- The average pension pot for those who had access to advice was 45% higher than those who didn't have the benefit of professional advice.
- Where individuals had access to professional advice, 60% make additional voluntary contributions (AVC's) compared to 25% who didn't receive financial advice.

An employer sponsored pension scheme will enable employees to obtain advice on all aspects of their retirement planning including overall pension adequacy, paying additional contributions to increase their overall pension fund at retirement, the different investment choices available to them and the different options available to them when they retire.



# EMPLOYERS WITH NO EXISTING SCHEME

Auto Enrolment will mean that for the first time, an employer will have to make a pension contribution for the vast majority of their employees. In view of this, employers should seek advice from a Financial Broker on whether the AE scheme or an employer sponsored scheme is the better option.

While simply allowing their employees to be included in the AE scheme might appeal to some employers, arguably an employer sponsored scheme is a better option for employers, giving them a greater degree of choice and control.

#### Scheme Design

If an employer decides to set up their own scheme they will have control over some issues but for other aspects of the scheme design, they will need to match some of the features of the AE scheme.

#### Membership

All employees, over age 23 and under age 60 who are earning €20,000 or more will need to be included from the date they join the employer. Subject to these conditions an employer can decide on their own eligibility conditions, such as having a lower entry age of 21 for example.

#### **Retirement Date**

An Occupational Pension Scheme must have a Normal Retirement Date, and it would seem to make sense to fix this at age 66, which is the retirement date under AE. It is also the date that the state pension is payable from. However, a key point here is what is the retirement date from employment. With a PRSA, there is no Normal Retirement Date with retirement possible from age 60 onwards

#### Retirement Flexibility

Unlike the AE scheme, an Occupational Pension Scheme is much more flexible with early retirement possible from age 50 and late retirement up to age 70. Retirement from age 50 is also possible from a PRSA provided the employee has retired from all employments. An employee can be maintained in a PRSA until age 75, if needed at which stage the tax-free lump sum must be drawn down.

Late retirement matches the flexibility that is now available with the state pension.

Early retirement and the ability to access pension benefits from age 50 can be very useful for both employers and employees if early retirement from employment is being considered.

#### **Contribution Rates**

As mentioned in the previous section, where an employer is setting up or operating an Occupational Pension Scheme or a PRSA, currently they can decide on the level of employer and employee contribution that is paid into the scheme.

At some date in the future, probably when the AE total contribution rate is going to increase to 10.5%, regulations regarding existing schemes will be issued as to what they will need to do to remain exempt from Auto Enrolment.

#### Additional Voluntary Contributions (AVCs)

An employer scheme will have the facility whereby employees can provide themselves with additional benefits by paying AVCs. There is no AVC option under Auto Enrolment.

#### Investment

The choice of funds under the AE Scheme is quite limited with a default strategy and three other funds, low, medium, and high-risk options available. While the default strategy will suit many employees, good practice would suggest that a wider range of funds should be offered to members, and this wider choice of funds can be facilitated through a separate employer scheme.

With a separate employer sponsored scheme the employer has the ability, in conjunction with their Financial Broker to change the investment manager and / or investment funds.

#### **Employer Options**

Where an employer has decided to continue with their existing scheme or is looking to establish a new scheme they must decide – with advice from a Financial Broker which type of scheme to use –

- a) A Stand-Alone Group DC Scheme
- b) To join a Master Trust
- c) A Group PRSA Scheme

In practice, unless the existing scheme is very large, continuing with or starting a stand-alone scheme is not a realistic option. We will explore options b) and c) in the next section.

Unlike the AE scheme, an Occupational Pension Scheme is much more flexible with early retirement possible from age 50 and late retirement up to age 70.

### **IORPII**

The implementation of IORPII into Irish law in April 2021 has had a dramatic impact on the Irish pension landscape.

At the end of 2022, there was a total of 85,228 pension schemes with active members and a further 50,000+ paid up / frozen schemes. Of these over 8,000 were group schemes with active members.

Since the implementation of IORPII in April 2021 there has been a dramatic number of standalone schemes that have been wound up and transferred to either a Master Trust or replaced with a group PRSA.

Because of the onerous obligations imposed by IORPII, it is likely that the vast bulk of group schemes will be wound up with only a small number of schemes continuing on a standalone basis.

Brendan Kennedy, in an address to the IAPF summer conference in May 2025 estimated that the number of stand -alone schemes would reduce to less than 500 over the next few years, alongside between 10-15 Master Trusts.

In a report published in August 2022 the PA commented

"The Authority sees the master trust sector as being of systemic importance for the future of Irish pension provision especially considering the large number of small pension schemes that will likely transition to master trusts".

Subject to matching AE parameters an employer can decide whether a Defined Contribution Scheme or a PRSA is the most suitable pension vehicle to use. A detailed comparison of the main features of each contract is set out in the Appendix.

#### **PRSA Features**

In some cases, the particular features of a PRSA contract will be more relevant to business owners rather than employees including -

- a) The cap on employer contributions.
- b) The setting up of separate PRSA contracts to allow greater retirement flexibility.
- c) The wider choice of investment options under a Non-Standard PRSA, including direct property investment.

#### Master Trust or PRSA?

If an employer is already operating a Group PRSA for their employees, there is no need to make any changes as PRSAs are not subject to IORP regulations.

If the existing scheme operates on a DC basis, then unless the scheme is very large the scheme will need to be wound up and either a Master Trust will be joined or a Group PRSA will be set up.

Realistically, in the majority of cases the existing scheme will be wound up and new pension provision will be routed through a Master Trust. This is the simplest way to meet the IORPII regulations and to continue with the same type of pension scheme with the same features and benefits.

#### **Retirement Lump Sum**

One of the key reasons for this is the retirement lump sum that employees will receive when they retire. A Master Trust, like the existing DC scheme will offer employees a retirement lump sum based on either salary and service or 25% of the accumulated fund. The PRSA will only offer a lump sum based on 25% of the fund.

A recent life company survey found that 2/3rds of retiring members were either taking their entire fund as a lump sum or combining this with the purchase of an annuity. This highlights one of the key advantages that a trust based scheme has over a PRSA.

The Master Trust will also deal with all the governance regulations of IORPII and due to their size should be able to deliver economies of scale.

#### **Growth In Master Trusts**

The growth in Master Trusts is highlighted in a report on Master Trusts published by PWC which found that by the end of 2024, Master Trusts accounted for 50% of the total assets in DC schemes. The table below (from the PWC report) shows how the Master Trust market has grown since June 2022.

|           | June<br>2022 | October<br>2023 | November<br>2024 |
|-----------|--------------|-----------------|------------------|
| Assets    | €2.6bn       | €17.7bn         | €32.2bn          |
| Employers | 800          | 21,000          | 27,000           |
| Members   | 74,000       | 401,000         | 562,000          |

A report from LCP estimates that of the total asset figure of €32bn, €29bn relates to group schemes.

#### **New Scheme**

Where a decision has been taken to set up a new employer sponsored scheme rather than include employees in the AE scheme, a Group PRSA can be set up or the employer can join a Master Trust. Because of the better retirement lump sum options under a Master Trust, most employers are likely to follow this route.

A PRSA – and particularly a Non – Standard PRSA may appeal to a smaller employer with high paid employees for whom the wider range of investment options may be attractive.

## CONCLUSION

As outlined in this Guide the pension landscape in Ireland is witnessing significant changes for both individual and corporate clients.

For individual clients, advice is more important than ever, and the starting point is to advise them regarding their state pension entitlement, which itself is going through significant changes.

Advice is also crucial for the many individuals who have deferred pension entitlements and for whom, a change to another pension arrangement could well be in their best interests.

AVCPRSAs have a role to play for active scheme members whether they are in the Private or Public Sector.

For employers the implementation of Auto Enrolment means that for the first time a pension contribution will need to be paid for the vast majority of their employees.

Employers need advice from a Financial Broker to understand their options and to decide whether an employer sponsored scheme or Auto Enrolment is the best way forward.

Research has shown that where an employer has an existing pension scheme, the clear preference is to continue with their scheme and to encourage those employees not in the scheme at present to join.

For employers who currently don't have a pension scheme in place, establishing their own scheme will give the much greater control and flexibility than simply enrolling their employees in the AE scheme.

Independent research has highlighted the benefit of individuals obtaining professional advice when it comes to pension planning and this will be particularly important for those who are enrolled in the AE scheme where the availability of advice is not included as part of the scheme.

## **APPENDIX**

#### Comparison between a Group DC and a PRSA Scheme

|                               | Group DC  | Group PRSA  |
|-------------------------------|---|---|
| Legal Structure               | Must be established under a separate trust if a stand-alone scheme. If joining a Master Trust a Participation agreement must be executed. | Each PRSA is a separate legal<br>contract between the individual<br>and the PRSA Provider   |
| IORPII Regulations            | Apply   | Don't apply   |
| Eligibility Conditions        | Must comply with AE rules   | Must comply with AE rules   |
| Employer Contribution         | As decided by the employer.<br>Minimum contribution rates to<br>be published in 6/7 years to meet<br>AE rules                             | As decided by the employer.<br>Minimum contribution rates to<br>be published in 6/7 years to meet<br>AE rules   |
| Maximum Employer Contribution | None specified, other than providing maximum revenue benefits   | 100% of an employee's salary  |
| Employee Contributions        | As decided by the employer.<br>Minimum contribution rates to<br>be published in 6/7 years to meet<br>AE rules                             | As decided by the employer.<br>Minimum contribution rates to<br>be published in 6/7 years to meet<br>AE rules   |
| Option to pay AVCs            | Yes   | Yes   |
| Maximum Retirement Fund       | €2/€2.15m increasing from 2026 onwards  | €2/€2.15m increasing from 2026 onwards  |
| Investment of Contributions   | As decided by the Trustees but subject to IORPII investment rules   | As decided by the PRSA Provider. Not subject to IORPII Standard PRSA must be invested in pooled funds. No investment restrictions on Non-Standard PRSA allowing a wider investment choice, including direct property investment |

| Retirement Date             | A Normal Retirement Date between 60 and 70 must be selected.   | Anytime from age 60, lump sum must be taken by age 75.  |
|-----------------------------|--|---|
| Vested Rights               | Usually after 2 years membership in the scheme. Will need to change to immediate once AE "matching" regulations are introduced   | Immediate   |
| Taking Benefits             | If taking a lump sum of 25% of<br>the fund, then all benefits must be<br>taken at the same time.<br>If taking a lump sum based on<br>salary and service, then this can<br>be taken at retirement, and the<br>annuity can be deferred   | Separate PRSA contracts can be set up and "matured" at different dates, allowing considerable retirement flexibility. This flexibility is likely to be more relevant to business owners than employees. |
| Retirement Options          | 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  |
| Early Retirement            | From 50 onwards, on retirement from that employment.   | From 50 onwards, if retired from all employments  |
| Ill Health Early Retirement | 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            | 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 trustees.  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.   |

For employers who currently don't have a pension scheme in place, establishing their own scheme will give the much greater control and flexibility than simply enrolling their employees in the AE scheme.





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