IAPF Summer Conference 2024

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Irish Life

Does a rising tide lift **all boats?**

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AE – Where are we now?

- Auto Enrolment now ***the big show in town***
- What have we learnt recently from the Bill? Very little new to be honest…
- A **new "Authority" name**: …CPA name is now gone….
- No new, real further detail…
- **Lots of detail** on technocratic items:
    - Term and make up of the of the Board and Chairperson…
    - The approval of the seal of the Authority….
    - The rules for an Authority meeting quorum…..
    - The terms of office of members (3 to 4 years)……
    - Can a TD be a member of the Board? (no)......

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AE – Where are we now?

- Most parameters as before (ages, salary etc.)
- **Section 66**: “further powers to make regulations” is the most interesting, this Bill promises a long list of further detail (9 parts) is “in the post”
- Some minor details:
  - Long timeline on DC qualifying criteria: years 7 to 9
  - 15 and 5 years as investment phasing terms and ESG factors to be considered (very vague)
  - Electronic service “by default”
  - Name and shame for non-compliant employers and €50k fine/3 years prison on conviction
  - Interest rate on overdue employer contributions same as Revenue rate
  - Interesting, no further clarity on maximum pricing

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Areas of concern/weaknesses…

- Exact definition of employees is very wide and unexpected inclusions possible?
- Technical areas that normally apply to pensions, unclear if they apply here:
    - Application of Revenue Maximum?
    - Pension Adjustment Orders?
    - Standard Fund Thresholds?
- Sadly,
    - No ability to make AVCs to address pensions gender gap at all
    - No default opt-in employers can use into good DC schemes (as in the UK)

Tax Relief Example- lower tax rate DC v AE

- Simplistic narrative of "***33% bonus v 20% standard rate***" should be challenged. This is far from the full story
- The ***bonus is <u>not</u> tax relief*** and does not account for the additional relief enjoyed in respect of employer contributions

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Tax Relief Example- lower tax rate DC v AE

DC Tax Relief					
Employee	Net Cost	Employer	State	Fund	Return
€1	€0.80	€1	n/a	€2	x2.5

AE Example					
Employee	Net Cost	Employer	State	Fund	Return
€1	€1.00	€1	.3333	€2.3333	x 2.33

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Further benefits of immediate relief

- AE has ***exaggerated impact*** on *take home* pay as no tax relief
- Example, €30k at AE rate of 6% equals €1,800
- But €30k gross might be €24k net earnings into the bank account at 20% tax rate
- The €1,800 hits this and is 7.5% “wind chill effect” on net pay
- AE no tax relief model is likely to **hit the lower paid most**
- DC model (at same contribution rates) is less painful today

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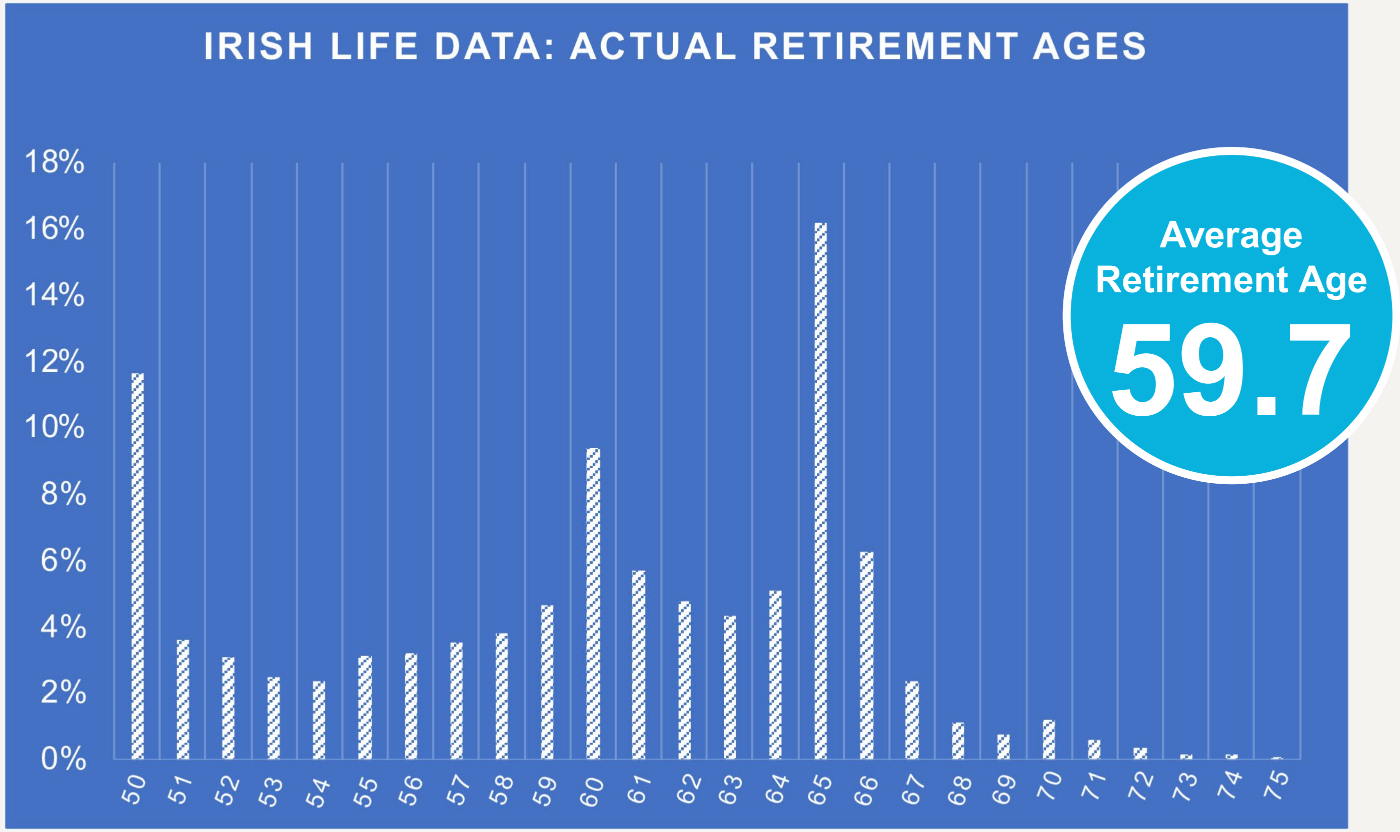
Need for Flexibility Early Retirement Trends

- Irish Life data on recent **Actual Retirement Ages**
- Shows **strong demand for flexibility** and early retirements
- Average age **59.7 v 66 in AE**
- Valued by both employee and employers
- Significant advantage to DC plans
- AE highly restrictive with incapacity and exceptional ill-health required



What employers are saying

- Irish Life feedback from **over 100 large and medium sized employers**
- **98%** of plans have some form of pension gap

Various causes:

- Either voluntary or opt-out
- *Or* waiting period
- *Or* cohorts excluded or not mandatory:
  - Short term contracts
  - Age
  - Service bars
  - Category types etc.

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What employers are saying

80%

Average Participation rates across the book

Varies by sector:

10-20%
Retail Sector

50%
Manufacturing

70%
Financials

50-80%
Professional Services

80-90%
Pharma and Tech

Some variation within categories

Not as easy to get as it appears….!

Options under consideration

1. Open existing plan at **current rates** to all on **opt-in basis**
2. Open existing plan at **new AE type rates** to all on **opt-in basis**
3. Open existing plan to all on **mandatory basis** with employer-only contributions and encourage individual contributions
4. Do nothing new and **allow AE pick up non-pensioned**
5. Some **mixture of above** varying by different profile of staff

- Need to decide consistent policy for new joiners too – future contracts
- Reflect the organisation's people strategy and core values and could vary by employee profile

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What employers are saying

- Approx. 80% of employers indicate desire to control their people benefits strategy and use their own plan as primary solution; others unsure yet or leaning to State AE

Direct quotes employers on reasons

Simplicity

Control

One benefits for all staff

Ease of internal HR/payroll processes

Desire to have a single pension vehicle

Greater retirement flexibility

Those more State AE positive

Manage high turnover staff

Very seasonal or short-term people clogging up systems

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SLIDO Ask The Audience

Options for existing staff who are unpensioned:

1. Open existing plan at current rates to all on opt-in basis
2. Open existing plan at new AE type rates to all on opt-in basis
3. Open existing plan to all with employer-only contributions and encourage individual contributions
4. Do nothing new and allow AE pick up non pensioned
5. Some mixture of above varying by different profile of staff

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Recommended 5 Point Plan

Assess Gap	Decided best route	Plan for Existing Staff	Future Proof for New Staff	Do it!
01	02	03	04	05

Needs careful planning and engagement with staff and other parties (trustees, finance team etc.)

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Trustee Angles

- Focus to date has been on the Employer decisions and obligations
- There will be **indirect trustee impact**
- **Changes to scheme rules:** e.g., removal/reduction of waiting period
- New categories with new contribution rules
- Potential rapid growth and servicing aspects
- New profile of membership with **differing communication/Member Engagement** needs

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Final Thoughts

- AE is to be welcomed as **a long-awaited incoming tide**
- Existing DC Occupational trusts **very seaworthy**
- State AE works well for certain cohorts
- DC likely to be the proven vessel of choice for many of the 800,000 people
- ***Social good is achieved via right solution for the right person***

Thank You