



**New Auto-Enrolment Pension Scheme
to be introduced from 2014**

***Major Changes in New National Pensions Framework will be
Phased in to Improve Pension Provision While Protecting
Competitiveness - Taoiseach***

A major reform of future State, private and public service pension provision was announced by the Taoiseach, Minister for Finance and Minister for Social and Family Affairs today (3rd March 2010) in Government buildings.

New Pension System

The key elements of the new National Pensions Framework are:

- The State pension will be reformed and will remain as the fundamental basis of the pension system in Ireland. Every effort will be made by the State to keep the value of this pension at 35% of average earnings;
- A new supplementary pension scheme will be introduced to provide additional retirement income for employees who are not already in a pension scheme. Employees earning above a certain income threshold will be automatically enrolled in this new scheme, and the State and employer will support this by providing matching contributions;
- There will be matching State and employer contributions. The State contribution will equal 33% tax relief – the delivery mechanism for this to be decided;
- The same matching State contribution (and delivery mechanism once decided) will apply to existing occupational and personal pension schemes and will replace the current system of tax relief at the standard and higher rates;
- A new pension scheme for new entrants to the public service will take effect from 2010;
- The age at which people qualify for the State Pension will be increased – to 66 years of age in 2014 , 67 in 2021 and 68 in 2028;
- A revised and more secure defined benefit (DB) model is proposed which schemes may wish to consider if restructuring in the future.

The new National Pensions Framework is the result of a comprehensive public consultation process that began with the publication of a Green Paper on Pensions in October 2007. Development of the Framework was also informed by the proposals in the McCarthy Report and the Report of the Commission on Taxation.



Need for Pension Reform

The Irish pension system is facing a number of urgent issues in relation to population changes, income adequacy in retirement and ensuring the sustainability of the Government finances. The task of financing increasing pension spending will fall to a diminishing share of the population as demographic projections indicate that there will be less than two people of working age to every person aged 65 or over by the middle of the century, compared to almost six people today.

The Taoiseach said that **'there are significant challenges ahead for us as a society. We are living longer, which is a wonderful achievement, but we know that the impact of population ageing is very challenging. This Framework sets out the way in which we intend to protect our pensioners, now and in the future, and to encourage and support people to provide for their retirement savings in a fair, transparent and sustainable way.'**

Minister Lenihan noted that **"good pensions are costly, whether they are provided through the State system by way of taxes and social insurance or individually through private provision. This reform is aimed at achieving a balance between the individual's own responsibility to provide for their retirement and the Government's desire to ensure that older people are protected. The revised Programme for Government commitment to have a 33% tax relief is a clear indication of our intent to achieve that balance."**

Auto-enrolment Pension Scheme

Outlining the need for the new auto-enrolment system, the Minister for Social and Family Affairs said **"it has increasingly become evident that many Irish workers are not saving enough for their retirement and will be faced with a serious drop in income when they retire. Previous efforts at encouraging people to invest in personal pensions have not been as successful as expected, especially among low to middle income earners. Having examined all options and looked at international experience, the Government has decided that a new auto-enrolment supplementary pension is the best approach to take. This will ensure that those on low to middle incomes receive supports from both the Government and the employer."**

According to Minister Hanafin, **"The principle of matching contributions is well-understood by the Irish people. It allows**



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people to see the exact value of the Government and employer contributions. It also ensures that everyone will get the same percentage matching contribution and is therefore much fairer than the current system under which higher earners get greater support through higher tax relief. Auto-enrolment of employees will increase pension coverage, while people will be able to opt-out if they so wish."

Single Pension Scheme for New Entrants to the Public Service

In relation to the new single pension scheme for all new entrants to the public service, Minister Lenihan said that **"it is vital that a new system be developed that will ensure greater consistency between different sectors, provide good benefits to pensioners and be affordable for the State into the future."**

Implementation as Economic Situation Allows

The Taoiseach concluded by highlighting that given the extent of the reforms outlined in the framework, the requirement for legislative amendments and the need to protect Ireland's competitiveness, the changes will be phased in. **"While it is intended to introduce the new auto-enrolment scheme from 2014, the implementation date will be reviewed in light of economic conditions over the coming years. We are announcing the full framework today because we strongly believe that our strategic and long-term policies must be conveyed to all, to provide a clear statement of our intent and direction for the future"** he said.

An implementation group is being set up to establish the technical, administrative and legislative infrastructure required to put these reforms into operation. It is expected that this technical work will require three to five years to complete. There will be ongoing consultation with all interested parties on the details during this time.

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Further details of measures contained in the National Pensions Framework are attached in the Appendix.

Full report available to download on www.pensionsgreenpaper.ie



Appendix: Key elements of the National Pensions Framework

Social Welfare Pensions

- Mandatory social welfare pension coverage will continue.
- The Government will seek to maintain the rate at 35% of average earnings.
- The system will be simplified with a move to a total contributions approach in 2020.
- Homemakers' disregard will be replaced by a system of credited contributions in 2012.
- Retirement age for State Pension age will increase to 66 in 2014 [(with the abolition of the State Pension (Transition)], 67 in 2021 and 68 in 2028.
- Arrangements will be put in place to allow people to postpone receipt of the State pension and to make up contribution shortfalls.

New Auto-Enrolment Scheme

- Employees (aged 22 or over) will be automatically enrolled unless they are a member of their employer's scheme (which provides higher contribution levels or is a DB scheme).
- Contributions to the new scheme will be made within a band of earnings.
- Employees will be required to make a fixed percentage contribution.
- There will be matching State and employer contributions. The State contribution will equal 33% tax relief – the delivery mechanism for this to be decided.
- A range of funds, including a low-risk default option, will be available.
- Employees can opt out but they will be re-enrolled every two years.
- Once-off bonus payment for people who remain in the scheme for more than five years continuously.
- Small DC funds may be transferred into the scheme.

Current Occupational Pension Scheme & Voluntary Provision

- The State contribution will equal 33% tax relief – the delivery mechanism for this to be decided.
- Access to Approved Retirement Funds will be provided for defined contribution scheme members.
- The range of personal pension vehicles available will be reviewed with a view to rationalising provision in this area.
- Regulations will be introduced to increase the transparency of pension charges;
- There will be stronger regulation.



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- A revised and more secure defined benefit (DB) model is proposed which schemes may wish to consider if restructuring in the future.

Public Service Pensions

- A single new pension scheme will be introduced for all new entrants, with effect from 2010.

Tracing Service and Dormant Pension Benefits

- A tracing service will be put in place to facilitate the tracing of pension rights by former employees and scheme trustees.
- Consideration will be given to the establishment of a State administered fund into which the assets of untraceable accounts would be transferred.

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