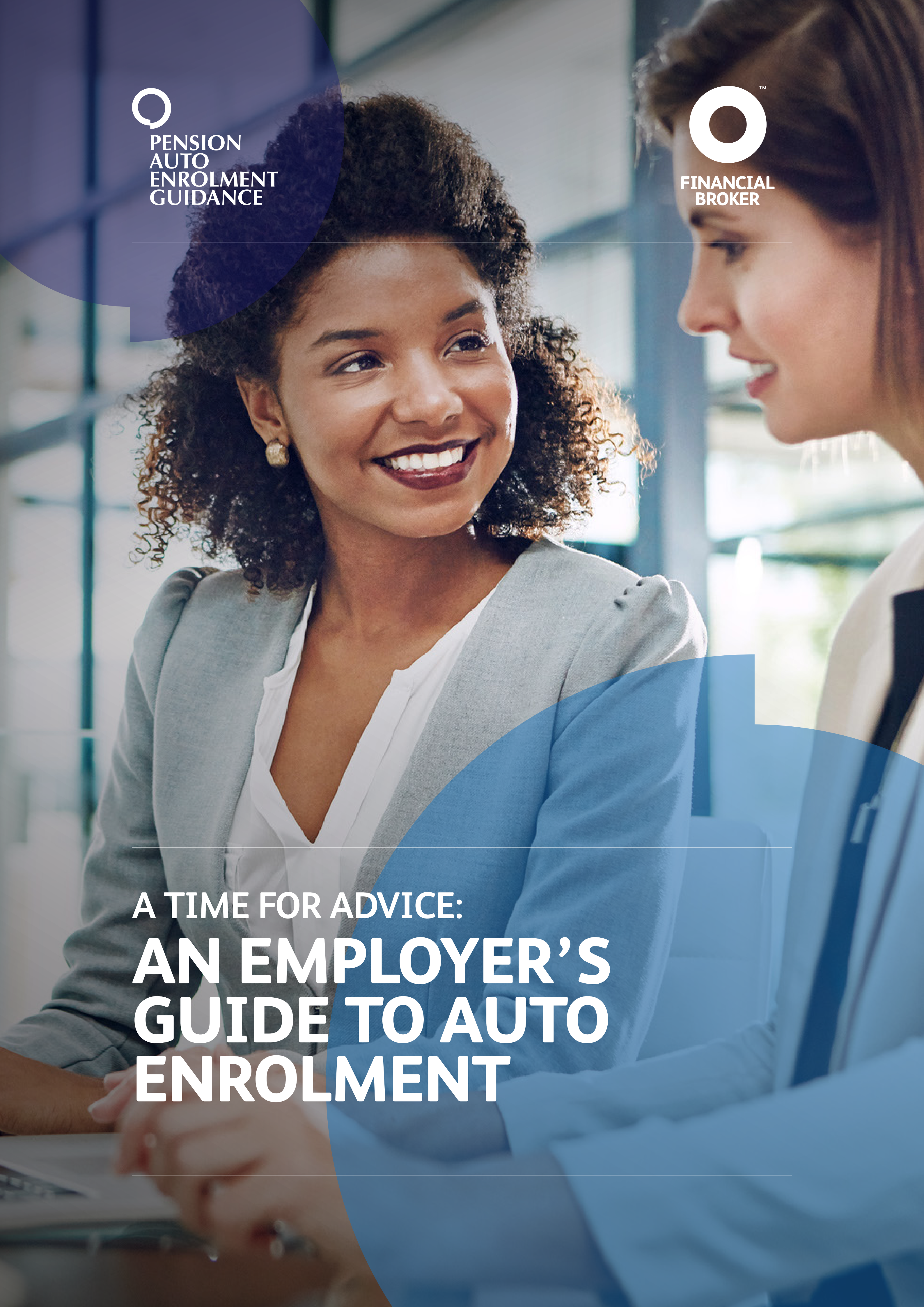

PENSION AUTO ENROLMENT GUIDANCE

FINANCIAL BROKER

A TIME FOR ADVICE:

AN EMPLOYER'S GUIDE TO AUTO ENROLMENT

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INTRODUCTION

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".***

While the commencement date was expected to be from the end of September 2025, the government have now confirmed a start date of January 2026.

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.

For employers, many aspects of the proposed scheme need to be considered carefully, whether –

- they already operate some form of pension scheme for their employees or
- there is no scheme in place.

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 government incentive amounting to 1/3rd of an employee's contribution equates to tax relief of 25%. This put employees on the 40% tax bracket at a serious disadvantage compared to an employer's pension scheme where they will benefit from 40% tax relief.

Even employees paying 20% tax would be better off in an employer sponsored scheme where they will benefit from a higher "return" for their contribution – allowing for tax relief than under the Auto Enrolment top up payment. This issue is covered in more detail on **page 8.**

It is crucial that employers engage with a Financial Broker to fully understand how the proposed AE scheme will operate, what implications it has for both employers and employees and ultimately if Auto Enrolment is the right type of pension scheme for them and their employees.

With the introduction of Auto Enrolment, employers will be compelled to make a pension contribution for the vast majority of their employees.

With the proposed start of Auto Enrolment still a number of months away, employers have the time to seek professional advice which will compare and contrast the relative benefits of Auto Enrolment with an employer sponsored scheme that will give them greater control and flexibility.

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

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OVERVIEW OF THE AUTO ENROLMENT SCHEME

Set out below is an overview of the main features of the proposed Auto Enrolment Scheme

Commencement Date

The AE scheme was originally due to commence in Q1 2024, but this was then revised to the end of September 2025. The government have now confirmed January 2026 as the new start date.

"Eligible Employees"

All employees, between the ages of 23 and 60 and earning €20,000 or more will have to be included in the AE Scheme unless they are already in a pension scheme or making a pension contribution through payroll. Employees aged between 16 and 22 or over 60 can opt to be included if they wish.

Opt Out Facility

The AE Scheme will work on the principle that all eligible employees will be included but they can at certain points opt out of the scheme. Employees who are included must remain in the scheme for the first 6 months after which they can opt out in months 7 or 8 if they so wish. Employees will also be able to opt out after each contribution rate increase.

Employees will also be able to pause or suspend their contributions at any stage after the first 6 months of the scheme.

In all cases where an employee opts out or pauses/ suspends contributions they will be automatically enrolled back into the scheme after two years.

It remains to be seen what level of opt out/ suspension will take place and the potential headache this results in for employers to administer.

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

Contribution Rates

The contribution rates to the AE Scheme will include employee contributions, a matching employer contribution and a government top up equal to 1/3rd of the employee contribution. Contributions will increase every 3 years over the first 10 years of the scheme as follows –

Year	Employer Contribution	Employee Contribution	Government Top-Up	Total 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 onwards	6.0%	6.0%	2.0%	14.0%

A key element of the **AE Scheme** is that the **above contributions are to be based on an employee's total earnings.**

A disadvantage of the scheme is that employees will not be allowed to pay additional voluntary contributions into the AE Scheme.

Government Top Up

As outlined above, the government will "top up" the employee contribution by a third which equates to tax relief of 25%, considerably less than the 40% relief that a high rate taxpayer would benefit from in an employer sponsored pension scheme and arguably also not as attractive even for a 20% taxpayer.

Administration

The National Automatic Retirement Enrolment Savings Authority (The AE Authority) will be responsible for the administration of the scheme and will-

- Collect employer and employee contributions.
- Invest the contributions in line with the decisions taken by employees.
- Pay out benefits at retirement.

Lower Income Limit

All employees aged between 23 and 60 earning €20,000 or more must be included in the AE Scheme. Where an employee has two or more employments and in some or all of them, the employee is earning less than €20,000, the AE Authority will, based on Revenue payroll data advise each of the employers of the need to include the particular employee in the AE scheme.

Retirement Date

Participating employees will only be able to access their AE retirement fund at age 66, the date that the State pension becomes payable. Early retirement, other than cases of ill health is not allowed under the scheme nor can an employee retire later than 66. This rigid approach to when an individual can access their benefits is out of line with:

- employer sponsored schemes where the revenue permit early retirement from age 50

- the state pension, which can now be drawn down at any age between 66 and 70.

Retirement Benefit

When an employee reaches age 66, 25% of their account will be paid out tax free with the balance being subject to tax. In the future traditional retirement products such as annuities and Approved Retirement Funds - which are currently available from employer sponsored schemes may be allowed.

Death Benefit

If an employee dies before age 66 then the value of their account – after tax has been deducted will be paid to their estate. This differs from a PRSA where the full value of the account is paid to the employees' estate or an Occupational Pension Scheme where up to 4 times a members salary and the value of any personal contributions could be paid tax free to the employees spouse.

Investment

Three investment managers will be appointed, and they will each offer a low, medium, and high risk fund.

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

Initially, an employee will have their contributions invested in a default investment fund.

An employee can then decide to remain in the default fund or can select a risk level that they are comfortable with. Based on this their contribution will be invested across all 3 investment managers and as a result will achieve an "average" return from all the 3 managers performance.

Issues for Employers

There are a range of issues facing employers and these will vary depending on whether the employer is currently operating a pension scheme or not.
These issues are examined in the following pages.

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EMPLOYERS WITH EXISTING PENSION SCHEMES

At the commencement of Auto Enrolment, employees who are included in a pension scheme operated by their employer – either an Occupational Pension Scheme (Defined Contribution or Defined Benefit) or a PRSA are exempt from inclusion in the Auto Enrolment Scheme.

However, for a number of reasons some employees may not be included in their employer's scheme and this issue needs to be considered. In trying to resolve the issue of these employees, a recent survey found that 80% of employers favoured continuing with their existing scheme for all employees rather than the hassle of having to administer two pension schemes. (Irish Life survey of 100 medium/large schemes)

There are a number of aspects to an existing scheme that need to be reviewed and, in some cases, altered.

Inclusion Date

Many pension schemes offer membership to employees once they have met particular eligibility conditions such as a waiting period of x months and or an age limit of over y years. To continue being able to include future hires in the employer's scheme, employees will need to be included in the pension scheme from the date they join the company provided they are over age 23 and earning €20,000 or more.

Voluntary Membership

Many pension schemes operate on a voluntary basis whereby an employee, once they meet the eligibility conditions are offered membership of the scheme. The employee can then decide whether they want to join or not.

To meet the AE conditions, membership of the pension scheme will need to change and become compulsory. This in turn means that membership will need to become a condition of employment for new hires and employment contracts and employee handbooks will need to be altered to reflect the new rule.

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Existing Employees

The next issue that needs to be addressed is employees who have in the past opted not to join the scheme or who are waiting to meet the eligibility conditions.

There are three possible ways of dealing with this cohort.

1. The simplest solution is to include them in the existing scheme and avoid any involvement with the AE Scheme. The problem here is to convince employees, who previously decided not to join the scheme, to join at this stage, and having to pay contributions most likely to be higher than the AE contribution rates.

2. Enrol employees who won't join the employer's scheme into Auto Enrolment. This presents a number of difficulties for an employer, including the need to administer two different sets of pension deductions from salaries/wages, one set from gross pay and one set from net pay. Another issue to consider is that an employer will have two separate cohorts of employees in terms of pension provision with inevitable comparisons between the two schemes being made.

3. The third option would be to explore, in conjunction with a Financial Broker the establishment of a separate category within the existing pension scheme for those employees who only want to pay the AE contribution rates. Although an employer would have two sets of benefits for their employees, at least they would be dealing with just one pension scheme and administration system.

Other Issues

There are a number of other issues to consider that have been dealt with in the next section of this guide.

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Tax Relief

Under AE the government will pay a "top-up" equal to 1/3rd of the contribution being paid by the employee. This equates to tax relief of 25%.

Under a separate employer scheme, tax relief would be given at an individual's marginal tax rate so for employees paying tax at 40% a separate scheme would be considerably more attractive.

Arguably, employees on the 20% tax rate would also be better off than under the AE top-up system as illustrated in the table below.

Investment Options

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.

	Employee Contribution	Net Cost	Employer Contribution	Govt. Top-Up	% Invested
AE	€100	€100	€100	€33.3	2.33 times net cost
DC/ PRSA	€100	€80	€100	n/a	2.5 times net cost

EMPLOYERS WITH NO EXISTING PENSION SCHEME

Auto Enrolment, will, for the first time mean that the vast majority of employees will need to be included in some form of pension scheme.

While it may suit some employers to simply include their employees in the AE Scheme, employers, bearing in mind that they will have to make a contribution should consider whether it would be preferable to establish their own scheme instead.

Auto Enrolment has been on the horizon for many years at this stage and some employers put off setting up pension schemes for their employees until the detail of the AE Scheme was available.

Establishing their own scheme would enable an employer – subject to meeting AE parameters, to design a scheme to meet their own circumstances, giving them a much greater degree of control and flexibility.

Eligibility Conditions

To meet AE parameters, employees between age 23 and 60 and earning €20,000 or more would have to be included on joining the company but it might suit an employer to adopt a lower entry age such as 21.

Retirement Date

The Retirement Date under AE is fixed as the date that the State pension is payable – currently age 66 which means that employees will be unable to access their AE pension benefits until that date. As a result, most individuals will need to continue working until age 66. Under a separate employer scheme, a Normal Retirement Date as early as 60 can be adopted.

Early Retirement

Apart from retirement due to ill health, there is no facility under AE for benefits to be drawn before age 66 whereas under a separate employer pension scheme, early retirement from age 50 is allowed. The recent survey by Irish Life found that the average retiring age from their schemes was 59.7 illustrating the problems that can arise with a set rigid retirement date.

Having an early retirement facility with access to benefits can be a significant advantage where it suits both the employer and the employee for the employee to retire before age 66 as it allows an employee access to funds on early retirement rather than having to wait until age 66.

Contribution Rates

Under AE, the contribution rates in the early years are low, set at 1.5 % of earnings from both employee and employer. A separate scheme would give employers the opportunity to set their own contribution rates either for all or for some of their employees.

Additional Voluntary Contributions

The AE contribution rates are fixed and there is no facility for an individual to pay in any additional contributions to provide themselves with a higher pension fund.

A separate employer sponsored scheme could facilitate this for employees – at no cost to an employer and would allow employees – with assistance from a Financial Broker to plan properly for their retirement. Research carried out by Brokers Ireland found that where employees had access to professional advice they were twice as likely to make additional voluntary contributions compared to individuals who had no advisor available to them.

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ADVICE & FINAL THOUGHTS

Advice

A major element missing from Auto Enrolment is the availability of advice, particularly to 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 -

a, Overall pension adequacy, combining a full understanding of what level of state pension they will receive with the pension benefits that the employer scheme will provide.

b, Paying additional contributions to increase their overall pension fund at retirement.

c, The different investment choices available to them together with an individual risk profile assessment to identify the level of risk they are prepared to take on in selecting an investment fund.

d, The different options available to them when they retire, in terms of lump sum, annuity and Approved Retirement Fund.

Final Thoughts

When the AE Act was signed into law in July 2024 the proposed commencement date was 1/1/2025. This was pushed back until the end of September 2025 and there has been a further delay until January 2026.

Even if there is some delay, it is clear that we will have pension auto enrolment in Ireland in the not too distant future.

> Employers need to consider the impact of Auto Enrolment, and this will vary depending on whether they already operate a pension scheme for their employees or not.

As outlined in this guide there are a range of issues to consider, and it is crucial that employers engage with a Financial Broker to review their particular circumstances and to see what type of pension scheme – employer sponsored or Auto Enrolment best suits both them and their employees.

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FINANCIAL BROKER™

Financial Broker a Brokers Ireland initiative for all Financial Brokers

Brokers Ireland
87 Merrion Square
Dublin 2

T: 01 6613067
E: info@financialbroker.ie
Web: www.financialbroker.ie

www.financialbroker.ie

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