

AUTOMATIC ENROLMENT IN THE UK AND NEW ZEALAND: LESSONS FOR IRELAND

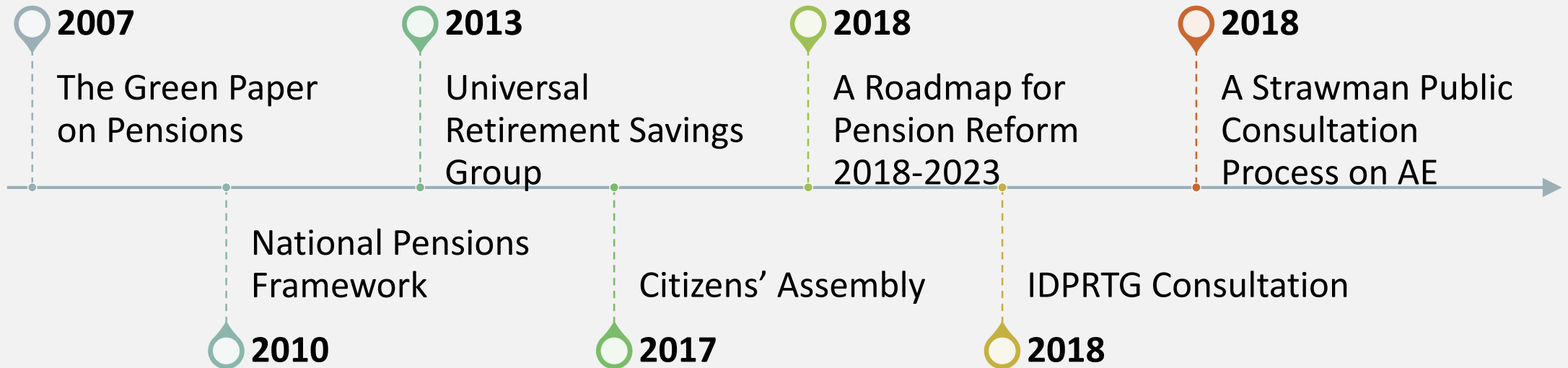
Dr Michelle Maher. Department of Sociology. Maynooth University

Pension Policy Research Group Conference
21st June, 2019. Trinity College Dublin

THIS PRESENTATION

1. How did we get here?
2. The objectives for reform of the Irish pension system
3. How might our objectives fare, based on the experience of New Zealand and the UK where automatic enrolment (AE) has been implemented

REFORM OF THE IRISH PENSION SYSTEM



2010 NATIONAL PENSIONS FRAMEWORK

OBJECTIVES

- Security, equity, choice, and clarity for individuals
- Increase pension coverage
- Ensure the State's support for pensions is equitable and sustainable

HOW TO ACHIEVE THEM

- Maintain the rate of state pension at 35% of average weekly earning
- Increase state pension age
- Tax relief at 33%
- Allow late retirement
- Automatic Enrolment
- Alter tax subsidy system



2018
ROADMAP
FOR
PENSION
REFORM
2018-2023

Objectives for the State pension

- Adequate to protect against poverty
- Financially sustainable and with equity between age cohorts

Objective for Supplementary Pensions

- Supplement the State pension to produce sufficient overall income to facilitate a reasonable standard of living and overcome barriers to saving

How to achieve them

- Total contribution approach; composite index for increases; link retirement age to increases in life expectancy (State)
- Automatic Enrolment (Supplementary)

AUTOMATIC ENROLMENT

Employer Voluntary

USA for 401k plans (1998)

Canada (2012)

Germany (2018)

Employer Compulsory

Italy (2007)

New Zealand (2007)

UK (2012)

Turkey (2017)

Poland (2019)

Ireland (2022)

SUMMARY OF OBJECTIVES FOR IRISH PENSION REFORM

Coverage

Adequacy

Equity

Clarity

Security

Choice



COVERAGE

New Zealand

- 2018 – 2,837,656 KiwiSaver members (FSA KiwiSaver Annual Report, 2018)
- Equates to approx. 80%+ of the eligible population under 65 excluding children (St John, 2018)

United Kingdom

- 2012 – 55%
- 2017– 84%
- (Figures for public and private employees. Department of Work and Pensions, 2018)

ADEQUACY

- “Ultimately the objective of the system is that the level of contribution made by members should be sufficient to yield a reasonable income replacement rate in retirement (when taken together with the State pension).” (DEASP, 2018)
- Earnings trigger of €20,000 proposed in Ireland; £10,000 in UK, none in NZ
- 38% of the UK workforce under-saving (DWP, 2017:32)
- No functioning annuity market in New Zealand (St John, 2018)
- Longevity and Inflation risks

CLARITY

- Glossary of Kiwisaver terminology developed between Financial Management Agency, Commission for Financial Capability, and the pensions industry
- Consistent explanation of technical terms
- From April 2018 providers must show fees in dollar terms (2018 Kiwisaver report)

EQUITY

- Equitable outcomes, distribution of subsidies, intergenerational fairness.
- Intergenerational fairness needs some combination of the following
 1. Reduce pensions
 2. Work longer
 3. Increases taxes
 4. Increase supplementary pension coverage and contributions

EQUITABLE
OUTCOMES BASED ON
GENDER

- Why women have lower retirement savings: the Australian Case (Feng et al, 2018)
- When does it appear, and why.
- Wage gap, and as contributions a % of wages that means a contribution gap
- Women in their late 20s and early 30s reduced work
- Substantial savings gaps occurring this early in paid working lives adversely affects future income
- A return to full time work mid 40s stabilized contribution rates
- But damage already done in terms of forgone wages and retirement savings

SECURITY AND CHOICE

- Is income security compatible with individual investment risk?
- No minimum guaranteed investments in NZ or UK
- Choice of funds and default funds
- NEST's default strategy is retirement date funds
- NEST 2018 2.7bn in assets, 6.4 million members, 99% in default funds
- NZ has 9 default providers. State prescribed asset allocation 25% max in in shares/property and fees must pass a test of reasonableness.
- Concern over missed opportunities for superior growth because of conservative asset allocations

SUMMARY

- Track who is opting out
- Who is the earnings trigger excluding, concurrent employments
- Decumulation phase needs attention, spouses death in retirement benefits
- Clarity around fees, expressed in €
- Consistency in terminology
- Gender gap in pensions
- Realistic expectation of real rate of return from defaults.

THANK YOU

Michelle Maher

Department of Sociology Maynooth University

michelle.maher@mu.ie