COUNTRY SPOTLIGHT IRELAND

All that glitters

With many appealing reforms on the horizon for Irish pensions, Theo Andrew **takes a look at the proposal that shines brighter than the rest. As the country prepares itself for the implementation of automatic enrolment, what else lies at the end of the rainbow?**

WRITTEN BY THEO ANDREWW

Irish pensions is on the cusp. The cusp of a number of reforms which will move it to the next level of pensions for millions of people.

From the growing trend of defined contribution, ever increasing European reforms and with Brexit on the horizon, it is certainly an interesting, if not busy, time to be overseeing pensions in Ireland.

The glittering piece of policy that stands out from the rest is the implementation of automatic enrolment, in what would be a huge step towards increasing the coverage levels of Irish savers, a general consensus that has been reached across the industry.

The trend throughout the country fairly similar to its close neighbour the UK, as many defined benefit schemes find themselves wither closed or closed to future accrual, the industry faces the same challenges when it comes to creating adequate savings mechanisms for a new generation without provision.

Despite the current absence of automatic enrolment in Ireland, the Global Retirement Reality Report 2018 from State Street Global Advisors delivered some interesting findings.

The report noted that 15 per cent of those surveyed felt optimistic about their financial situation in retirement, obviously far too low, but above the 11 per cent who were optimistic in the UK.

According to a survey by the Irish Association of Pension Funds (IAPF), the split between DC and DB was 38 per cent to 62 per cent, respectively, at the end of 2016. As the country takes its journey into auto-enrolment, it is only likely to increase.

Road to auto-enrolment

Much like the UK, the road to auto-enrolment in Ireland has been long and not without bumps along the way.

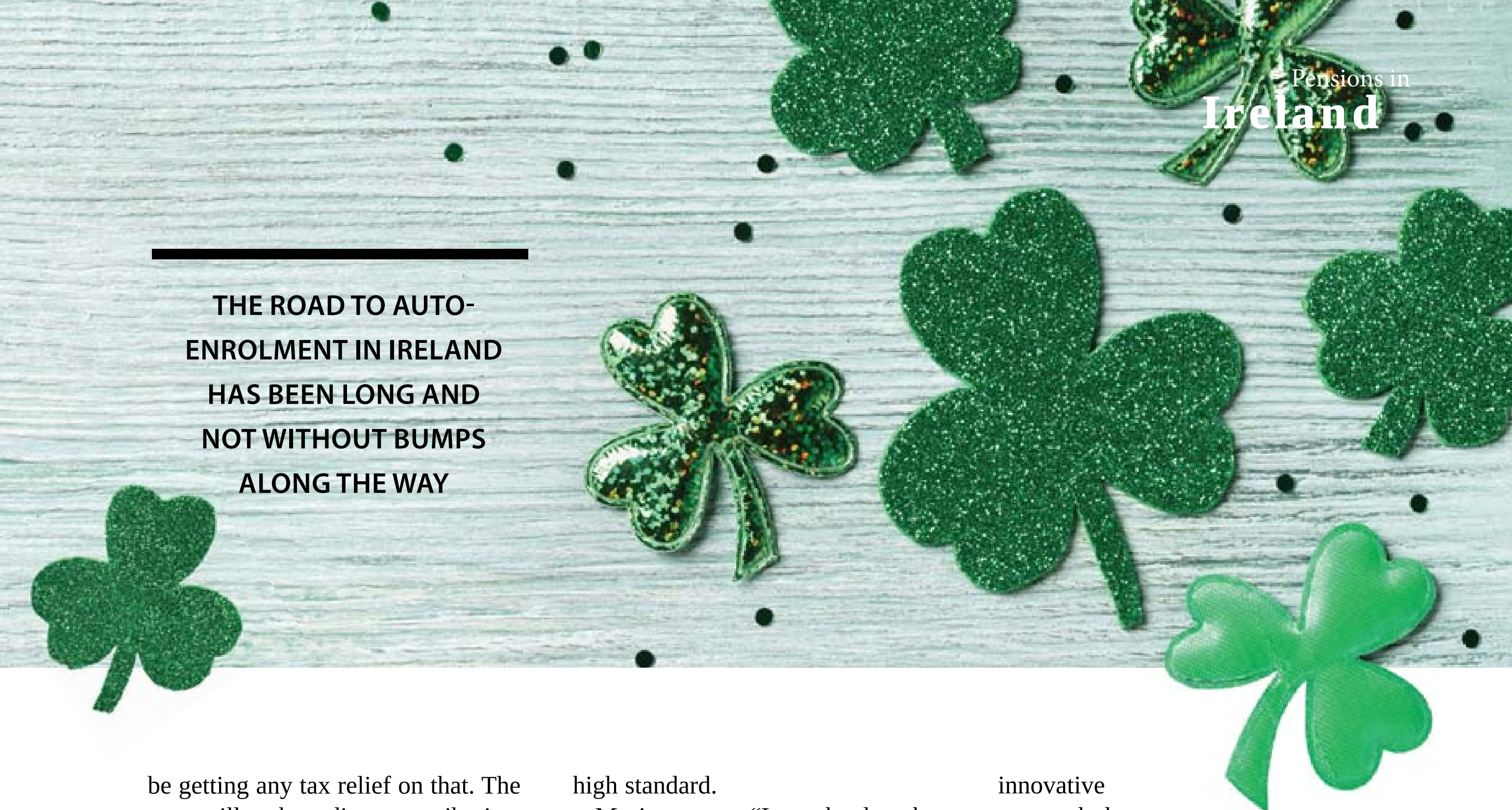
The Irish government has come under some criticism for delaying the implementation of auto-enrolment, and was recently accused of using complexity "as a defence for paralysis" by the Association of Pension Trustees in Ireland, who believe that the current personal retirement savings accounts can accommodate an auto-enrolment regime.

Despite this, there is an overwhelming consensus that auto-enrolment needs to be introduced, while the finer details are yet to be ironed out.

The government will aim to get 410,000 people saving into a DC pension scheme for the first time by 2022, with employees between 23 and 60, and earning over €20,000, eligible for the new savings mechanism.

In August, the Irish government said it would be launching a strawman consultation in order to create an automatic enrolment system. Under current proposals employees would start with a 1 per cent contribution, rising to 6 per cent by 2028, a rate that will be matched by employers.

On the implementation, IAPF CEO Jerry Moriarty says: "In terms of contribution rates, they are going to be relatively high but they won't



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be getting any tax relief on that. The state will make a direct contribution of 2 per cent … so one of the challenges will be in terms of what the economic impact of that will be."

In September, the IAPF warned that if auto-enrolment coverage was not sufficient, it could cause a "massive hole" in public finances.

Under current proposals, two-thirds of private sector workers will not be enrolled and will therefore be reliant on state pensions. This is something Moriarty is worried about. "The concern is that you have a lot of people coming into retirement who don't have additional savings, then there is going to be more requirement for state support," he says.

"The demographic in terms of working population to pensioners is, in Ireland, not as bad as many European countries because it has quite a young population, but it does look like it will change quite substantially over the next 30 or 40 years, so we are planning for that."

Another sticking point for the proposals was the 0.5 per cent charge cap, which will create a challenge around the ability to deliver the investment management and the administration to a high standard.

Moriarty says: "It can be done but the question is, does it lead to very basic investment funds and a lack of ability to invest in things like infrastructure and more long-term investments that may be more beneficial to people, because with those sort of fees you are looking at a more passive investment strategy."

There have also been suggestions that this is to be done by the state, however, State Street Global Adviser head of Ireland, Ann Prendergast, doesn't believe it will be too much of an issue.

"The cost cap in the UK is higher at 75 basis points, but in reality they are well below that, and I think the various departments would have been aware of that … I think that most providers can do that, yes it will include passive investing, but as long as you have a well diversified investment strategy it is the most important thing," she says.

Much of the value could be saved if the government decides to build a central hub around the project, which would take care of a lot of the marketing and administration fees.

The economic impact of auto-enrolment will be interesting to follow, but there are early signs that Ireland will be taking a slightly more innovative approach than the UK.

An area where Ireland would be ahead of the curve is the adaptation of a "pot follows member approach", allowing members to have one single pot, regardless of how many employments they have.

A building pipeline

The Department of Employment Affairs and Social Protection is currently undertaking a number of consultations which could bring about significant change to the pensions industry, all at varying stages along the pipeline.

As well as automatic enrolment, the government and the pensions regulator has undertaken consultations on the state pension and master trusts, for which it hopes to have the standards in place for before auto-enrolment comes into action.

A piece of legislation that is close to being implemented, and which pension trustees will certainly have to be ready for, is IORP II.

The directive will mean pension funds will have to produce a benefit statement on a yearly basis in the hope of improving governance and accountability standards for workplace pension funds.

Ireland is expecting legislation for IORP II to be implemented in October 2018, ready for it to come into effect in January 2019, meaning it will be a short run in for pension schemes looking to fully get up to speed with the requirements.

"The European Central Bank and the European Insurance and Occupational Pensions Authority will require pension schemes to report their assets and liabilities to them, in our case through the central bank and possibly the pensions regulator as well, which is likely to take effect in the third quarter. It's going to be new for pension schemes, so they are going to have to get their processes in place relatively soon."

The proposed new reporting regime is an extension of what schemes already deliver to the pensions regulator, but the new system will be much less "staggered and delayed", with reporting starting within 10 weeks of the end of the scheme year, rather than the current six months.

Brexit

The word that's on everybody's lips is Brexit.

As the UK slides closer to exiting the European Union without a deal, there is likely to be consequences felt across the Irish sea.

Ireland finds itself at the centre of the debate more than other European countries, while its proximity and its long history with the UK means it has been a thorn in the side of the UK government throughout the negotiations.

While confusion reigns over the outcome of Brexit, whether it is a deal or no deal scenario, the impact on the market, Prendergast argues, will be minimal.

"In relation to the pensions market in Ireland, it's not really having a significant impact, so far as most pension schemes have access to global investment managers, and if you have an arrangement with somebody in the UK."

Prendergast says that as long as you have a basic understanding around what the arrangement is with your investor, and what the indemnities are, then you shouldn't have too much of a problem.

"For our own business here in Ireland, we have Irish domicile funds and European domicile funds that we offer to Irish based investors and therefore has no impact on investment for our investors," she says.

However, a recent issue raised by the Association of British Insurers (ABI) in front of the Work and Pensions Select Committee highlights the difficulty, especially in the face of no-deal.

The ABI said that it could potentially be "illegal" to pay British citizens who retire in the European Union their private pension in the face of a no-deal Brexit, a problem Moriarty feels could be felt particularly harshly throughout Ireland.

"Obviously there are a lot of Irish people who grew up in the UK and have retired back to Ireland, so that caused a bit of concern among pensioners in terms of what they should be doing and I think one large insurer wrote to pensioners saying they should consider opening bank accounts in the UK, but obviously that's not so easy when you're not living there anymore."

While the Irish pension system holds out for a number of changes in the pipeline, the jewel in the crown, auto-enrolment, is just a matter of time. The question is, will they be able to be fine tune it enough to make it a unanimous success? Only time will tell. ■

Summary

- Ireland edges closer to the implementation of automatic enrolment and hopes to have the new system implemented by 2022
- A strawman consultation was launched in August, in which the government will hope to finalise the details of how the system will be run
- Trustees are preparing for a number of reforms including the introduction of IORP II, new European Central Bank reporting requirements and an examination of the tax relief system
- Brexit conundrum has caused problems for the Irish government but some feel its impact on pensions will be minimal