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Retirement Policy and Research Centre

An independent Commentary[1] on the Final Design of the Auto-enrolment AE savings scheme for Ireland based on the New Zealand experience

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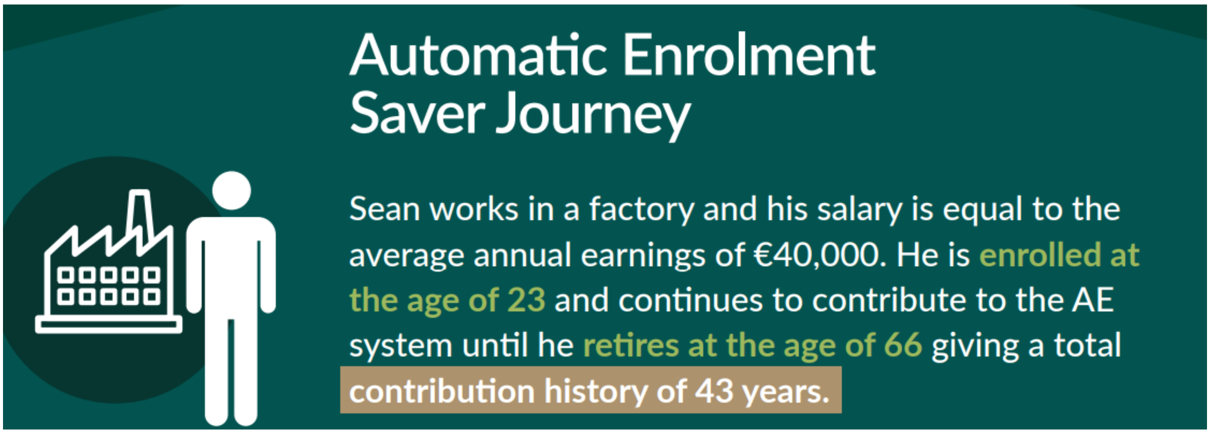
[1] The Irish Life and TOR Financial sponsorship of this critique is acknowledged but the views expressed are the author's own.

Introduction

From an independent vantage point in New Zealand, the RPRC has been a keen observer of the development of the Irish Auto-enrolment (AE) scheme.[2] The recently released 'Final Design' from the Department of Social Protection, even after many years of consultation, appears to have some design features of real concern.[3] We hope that the New Zealand experience might inform some essential modifications of the AE proposal, especially if the goal of wider coverage and inclusion is to be realised.

The first slide of the document that accompanies the final design "*The Design Principles for Ireland's Automatic Enrolment Retirement Savings System*" embodies in both the icon and example, the apparent underlying premise that pension savings schemes are designed for men in traditional full-time work. Women will struggle to see themselves in this scheme.



The image and the language matters; the use of the term 'people' through-out the 'Final Design' may appear to be gender-neutral and hence even-handed, but only serves to disguise the gender problem. The icon, half male and half female, as used in the Final Design also serves to obscure male and female differences and the reasons for them.

Countries like New Zealand are constantly revising retirement policies to make them a better fit for the changed conditions of the 21st century and reflect the zeitgeist that reflects wide acceptance of women's rights as equals and values their unpaid care contributions.

Even though the New Zealand AE scheme, KiwiSaver, has many design features that are good for women, it is clear that much more is needed to avert future gendered-poverty and to meet the rising tide of female voices demanding recognition of their role in society and a closing of the pensions gender gap. This is an ongoing task especially in light of the job scarring effects

[2] See for example: St John, S (2021) Submission on the Irish State Pension; Dale, MC and St John, S (202O) Women and Retirement in a post COVID-19 world; St John, S (2018) Feedback on the 'strawman' proposal for Irish pension reform from New Zealand experience; St John, S (2016) Time for Ireland to bite the bullet, Irish Times 1 November, and St John, S (2016) St John, S (2016) New Zealand's Kiwi Saver Lessons for Ireland. presented to Insurance Ireland summit, A universal pension for Ireland, 13 September, Dublin, Ireland,

[3] See appendix for the main features of the Irish AE scheme.

of the Covid pandemic, rising housing stress and rising inflation that have impacted disproportionately on women.[4]

If the Irish AE scheme can be modified to suit the majority of women better, many men will also benefit as they are seeing their traditional patterns of work changing dramatically in the 21st century, especially post Covid. Importantly, Ireland will not be judged internationally and in the eyes of women to be backward and out of step with inevitable social change.

This brief contribution hopes to ring some warning bells before the Irish scheme cements in some undesirable outcomes that will only become evident over time. By then, it will be too late for generations of women, and elder female poverty in Ireland can be expected to become a major social blight. Ireland runs the danger of being an outlier internationally in not paying attention to the gender pensions gap.

AE purpose and design

The appendix summaries the Irish AE scheme features. Those aged 23 years and over in employment without an existing scheme are automatically enrolled in the AE scheme with opt-out provisions. There are matching subsidies from the employer and government and 'workers' outside the age range of 23-60 and/or the minimum income can choose to opt-in.

Poor coverage of occupational pensions, especially in the non-public sector, is clearly the underlying driver of AE reform in Ireland

> *Not enough people have occupational or supplementary pension coverage to help maintain a reasonable standard of living in retirement above the level of the State Pension* [5]

Likewise, the poor coverage of occupational pensions in New Zealand to supplement the basic state pension drove the introduction of the AE programme KiwiSaver in 2007.

AE schemes in both countries assume the existence of a stable state pension as the first tier of retirement provision. But New Zealand women have access to the universal flat rate NZ superannuation at age 65 that has no contributory element and forms a secure basis on which to build supplementary income. This top-up income may be from the AE KiwiSaver, other saving or continuing to work after state pension age.

In contrast, women in the Irish retirement system are often not well served by the Irish state pension.[6] Already at a disadvantage due to the contributory nature of the state pension and the rise in age to 66, many women will be exposed to yet more disadvantage in the AE scheme proposed.

There are several elements in the design of KiwiSaver that are much more women friendly than the new Irish AE scheme. The reason the Irish scheme designers should pay attention, is that even though KiwiSaver has the positive features discussed below, there is still a big disparity

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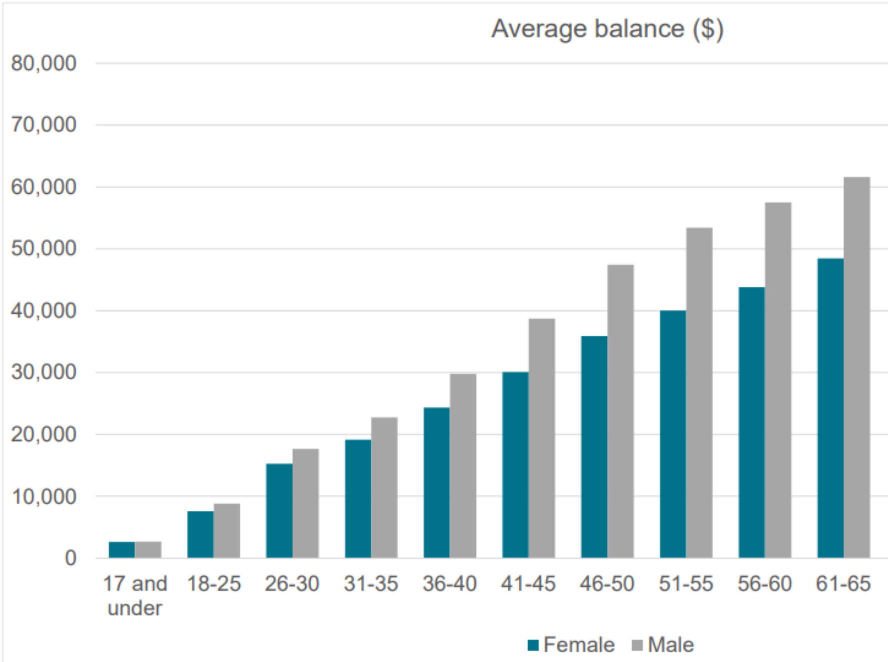
[4] See discussion in Dale, C and St John, S (202O) Women and Retirement in a post COVID-19 world
[5] Final Design of the Auto-enrolment AE savings scheme for Ireland
[6] see for example: St John, S (2021) Submission on the Irish State Pension;

emerging in average KiwiSaver balances between the sexes as new research summarised in Figure 1 shows.[7]

Figure 1. The Average KiwiSaver balance by age cohort, a snapshot as at 31 December 2021.



These gaps reflect only 15 years of KiwiSaver. They are likely to grow bigger over time as KiwiSaver matures. Moreover, if the data were available for median balances, the gap would be larger again. The data reflect the position of only those in KiwiSaver, if all women including those who are not in KiwiSaver, the disparity in preparedness for retirement would be even more stark.

The warning for Ireland is that without deliberately gender-friendly policies, the gender pension gap in the AE scheme will grow far wider.

Better official data in New Zealand is needed, including gender-based median balances. The current data gaps suggest this should be built into compulsory reporting requirements and not be left to one-off privately commissioned data gathering. The lesson is that gender-based data collection should receive focussed attention in the AE Final Design.

Design elements of AE

The paid work nexus

The paid work nexus of the Irish AE scheme has an obvious cost to women doing the vitally important social productive unpaid work. The example of Emily, p34 who works from age 50 years illustrates and contrasts with the example of Sean, who has traditional full time employment. Her final pot is no more than €148,121.

[7] The data behind Figure 1 come from a private survey of the largest providers- about 93% of the total KiwiSaver membership by the actuarial firm Melville Jessup Weaver. KiwiSaver-Demographic-Study-MJW-2022.pdf..Privacy concerns precluded reporting of medians.

Projected Fund Breakdown at Retirement	
Emily's contributions	€53,797
Emily's employer's contributions	€53,797
State top-up	€17,932
Emily's total savings	€125,526
Projected net investment returns	€22,595
Emily's total projected fund	€148,121

Sean's outcome below, shows he benefits hugely more than Emily, due to more years of his and his employers' contributions, the longer period of compounding period, and the higher state contribution.

Breakdown of projected fund at retirement		% of Total
Employee contributions	€132,200	23%
Employer contributions	€132,200	23%
State subsidy	€44,067	8%
Net investment returns	€255,917	45%
Total projected fund	**€564,384**	**100%**

The work-nexus for AE also assumes work is of a particular type: i.e.paid work for an employer. This sidesteps the issue of a growth in self employment and short-term contracts in a world of more precarious and casual work which affects both men and women. New technology that encourages working remotely and the behavioural changes around work in the pandemic is changing the nature of work in the 21st century. While New Zealanders in non-traditional work can contribute to their own KiwiSaver and anyone can make lumpsum contributions, the employer contribution favours those in traditional work. The Final Design has little to say on future trends in non traditional work in Ireland or whether and how personal contributions can be made to the AE scheme.

Financial literacy

There is also a hidden cost of the work- nexus: the foregone opportunity to improve financial literacy of women who are not employed members. The Irish AE scheme does permit opt in, but it is an *occupational* scheme and without automatic enrolment or any encouragement for those not in sufficient paid work or under the age of 23 many women may assume it is just not for them.

Membership of KiwiSaver is open to all not just those in the formal paid workforce. The absence of a strong work nexus in KiwiSaver works in favour of women so that even those in unpaid roles can have an account. She may contribute the annual minimum of NZ $20 a week, while out of the paid workforce and still get the maximum state subsidy (NZ $521 pa).[8]

One of the original women friendly design features of KiwiSaver was a NZ$1000 kickstart for all new members. This gave women a clear signal that they should join even if not in paid work. For those with small contributions while out of the paid workforce the Kickstart helped cushion the effects of downturns in investment returns.

Women in patriarchal societies have traditionally been at a disadvantage in matters financial. The broader inclusion of women in KiwiSaver is accelerating attention to financial literacy programmes specifically for women. Associated with a three yearly review of Retirement Incomes policies, the NZ Retirement Commissioner is joining with the wide participation of private providers to promote women's (wāhine) preparedness for retirement. In May 2022 the Financial Services Council [FSC] began a three-month, pan-sector campaign to take meaningful action:

> *Over 80% of women surveyed by the FSC rated their financial wellbeing moderate, low or very low. "In response to these findings, we were delighted to partner with Te Ara Ahunga Ora Retirement Commission on this important initiative that will help change these statistics," said FSC chief executive Richard Klipin. Retirement Commissioner Jane Wrightson said the FSC's latest research further highlights why women have been identified as a priority group in the National Strategy for Financial Capability.*[9]

The entry age

The high age of 23 years for AE entry into the Irish scheme mirrors the UK Nest AE scheme age of 22. In contrast, AE for Kiwisaver starts at 18 for new employees along with the employer contributions and the state subsidy. Given the typical patterns of women's lives, working in late teens, early twenties then leaving work to raise children- often up to 20 years or more out of formal workforce and then re-entry at later ages, the Irish scheme AE entry age of 23 years seems particularly harsh. While an Irish woman may opt in, it is not in the employer's interests that she does and it is very likely she will not as the signals are strongly that the scheme is not for her. She may not therefore have the benefit of compounding of her savings in the AE programme for her early years of working and then loses access to the valuable compounding government subsidies when she is not in paid work.

Women live longer and need more long term care on average. Helping women to prepare for their retirement is important in counties like Ireland and New Zealand where the fiscal pressures of an ageing of the population may challenge the age of entitlement for the state pension, the future generosity of the state pension, and state-funded long-term care.

Auto-enrolment is to apply up to the age of 60 in the 'Final Design', yet women's work patterns are such that many will come back into the workforce later and work through

[8] Exchange rate 9/5/22: 1 NZ $=0.62 Euro
[9] Financial Services Council rallies organisations to grow women's financial wellbeing (fsc.org.nz)

necessity well beyond the state pension age of 66. If they come back after 60 or are working part-time they may not qualify to be automatically enrolled.

The operation of subsidies payable only between fixed ages, 18-65 in New Zealand also disadvantages women. The male example (Sean) in the Irish promotion of AE, has access to employer and state subsidies for the full 43 years and presumably even longer if he works past 66. An equalising change in both countries would make people eligible for subsidies for the same number of years regardless of the age they were earned. Another equalising change would be to recognise unpaid work and pay state subsidies to women in caregiving roles.

Employer subsidies

Worryingly, as the employer pays a matching subsidy on incomes up to €80,000 those women not in the AE programme but in paid work essentially endure lower wage growth and subsidise the AE savings of others.

After 10 years, employee and employer contributions are to be 6% of gross with another matching 2% from the state. The maximum employer subsidy at earnings of €80,000 or more is €4800 with a further €1600 from the state. This maximum € 6400 top up for better-off workers is contrasted with someone earning €20,000 who is entitled to only €1600 (€1200 from the employer and €400 from the state). The design of this incentive structure will help drive increasing gender disparity over time.

New Zealand incentive structure has no cap on employer contributions, but it less generous for state subsidies reducing the effect of widening the gender pensions gap.[10] Furthermore, as KiwiSaver evolves, there is a case to be made that the employer contribution should be compulsory for all KiwiSaver members whether contributing or not. This would be a much fairer system for women while not imposing full compulsory membership.

Entry point

Auto-enrolment is for those who earn over €20,000 pa. This is likely to be highly problematic for women who may only ever be able to work part-time. While a woman might stitch together jobs with several employers to reach the threshold of €20,000, it unclear how that can work in practical terms especially when employment fluctuates. What happens when in later working life she returns part-time under the threshold? How is the €20,000 indexed? One anticipates many women missing out on the subsidies of her male counterparts. No such AE threshold exists in New Zealand, nor does it appear necessary when the individual controls their own pension pot.

Other features of the Irish AE Final Design

Design of tax relief

In Ireland, people may end up with several pension pots from several different employer-based schemes making pensions complicated to understand. Expensive tax reliefs that

[10] The 50% tax subsidy in New Zealand is limited to the first NZ $1042 of member contribution.

primarily are of benefit to high income members remain an embedded part of the system and will be hard to dislodge.

> *"Tax support for private pensions peaked at 1.9% of GNP in 2006, which was not far short of public support for state pensions at 2.1% of GNP. (Hughes & Maher, 2016). The lack of the reform to this sector, including the use of expensive tax subsidies remains a likely impediment to the design and implementation of a straight-forward AE scheme"* [11]

The (AE) scheme in Ireland is expected to complement, not replace existing schemes. In contrast, in New Zealand, it is expected that AE KiwiSaver will eventually supplant most conventional superannuation schemes, ie KiwiSaver will continue to grow while other schemes are static or falling in both membership and assets.

This suggests that AE in Ireland will signal a shift towards further complexity rather than pursuing routes to simplifying the system despite widespread acceptance that the current Irish system is overly complex and in need of simplification.

Decumulation

If AE schemes are to provide income in retirement, then careful attention to that design element is required at the outset. In New Zealand, KiwiSaver was introduced as a lump sum scheme, with little attention to how lumpsums would be decumulated. That makes it very difficult now to impose compulsory annuitisation for example. The tax regime of TTE with small state subsidies for only the member contributions does not provide the justification the Irish, with its more traditional EET approach, can use for annuitisation. It would be wise to give the decumulation phase much more thought than the current Final Design indicates has been the case.

It should be noted that New Zealanders' ability to offset longevity risk through traditional annuities found in Ireland is currently non-existent and the annuities market since the removal of all tax reliefs has disappeared from the financial services market. Traditional annuities still in payment are few and are largely from legacy schemes in the public sector. Drawdown products are becoming more talked about in New Zealand but do not fully protect the longevity risk.

Once Ireland was leading the world in house price inflation, now sadly that place has been taken by New Zealand.[12] Housing in New Zealand is highly tax favoured, effectively TEE, with no tax on imputed rent and no capital gains tax. Many New Zealand retirees therefore seek investment in rental properties to generate income streams and there is little to no discussion of the role of annuitisation.

In summary, New Zealand did not get the decumulation part of KiwiSaver right and its history is that the removal of tax reliefs, for whatever economic justification, destroyed the annuities market. It will require innovative thinking now to provide longeivity and long term care protection for women. Ireland has the opportunity to explore innovative solutions to its

[11] See St John, S (2018) Feedback on the 'strawman' proposal for Irish pension reform from New Zealand experience,.
[12] See St John, S & Baucher, T (2021) Fair Economic Return Restoring equity to the social fabric of New Zealand, WP-2021, RPRC.

traditional current annuity markets. Irish regulators should tread carefully so as to not disrupt the existing retirement incomes market that already supports a number of existing and planned retirees. Again, attention to this design aspect of AE is best at the outset as the New Zealand may show.

Discussion

Ireland has around the same population as New Zealand, but unlike New Zealand, Ireland has a piecemeal and complex pension system comprising a plethora of traditional workplace pension schemes and a complex, first tier state pension scheme based on contribution and a proposed AE scheme that reinforces disadvantages women with non-traditional work patterns face already.

Over time, the participation of women in existing schemes has risen but this has not translated to a closing of the pensions gap. Collins (2020)[13] shows that men contribute between 30% and 35% more than women to pension schemes. Other findings are that amongst retired people, 55% of retired men receive a private or occupational pension, compared to only 28% of women (Foster, Wijeratne, & Mulligan, 2020)[14]. The new AE will do little to address this gap and over time its present design is highlgy likely contribute to further widening.

Women in Ireland face similar issues of gender pay gaps, high-cost child-care, lower contributions to savings schemes that are found in other countries. These disadvantages are compounded in the gender pension gap for Irish women in retirement by the design of the new AE pension policy.

The AE scheme would be improved by

- More attention to the changing work dynamics
- Removal of the €20,000 threshold
- Reduction of the age for AE to 18
- Removal of the upper age for AE
- Use of KickStart lumpsum subsidy to encourage women to opt in early.
- More progressive state subsidies to recognise valued but unpaid work
- Better statistical underpinnings on gender saving in AE
- Rationalisation of tax regimes for private and AE schemes
- Attention from outset to decumulation, especially with the needs of women in mind

[13] Collins, M (2020) Private Pensions and the Gender Distribution of Fiscal Welfare
[14] Foster, L., Wijeratne, D., & Mulligan, E. (2020). Gender and proposed Auto-enrolment in the Republic of Ireland: Lessons from the UK. Producer.

Appendix

A Supplementary Pensions Retirement Savings System Commencing in 2024

What is it?

Automatic Enrolment (AE) is a new savings and investment scheme for employees where financial returns are paid out to participants on retirement, in addition to the State Pension.

Why is it being set up?

Not enough people have occupational or supplementary pension coverage to help maintain a reasonable standard of living in retirement above the level of the State Pension.

Who will be automatically enrolled?

Approximately 750,000 employees who are aged between **23 and 60**, earning **over €20,000** across employments, and who are not already enrolled in an occupational pension scheme.

How much will it cost?

Contributions will be paid by employees, and matched by their employers, as a percentage of the employee's gross income. The State will top-up the rest. The rates of contribution will be phased-in gradually over a decade as follows:

	Employee	Employer	State
Years 1 - 3	1.5%	1.5%	0.5%
Years 4 - 6	3%	3%	1%
Years 7 - 9	4.5%	4.5%	1.5%
Year 10 +	6%	6%	2%

Employer contributions and the State top-up will be capped at a maximum €80,000 of an employee's gross salary. Employees may contribute on earnings greater than €80,000 if they wish.

Will it be possible to leave the system?

Opting out or suspending participation is possible under certain circumstances.

How will it be managed?

A Central Processing Authority (CPA) will be set up to ensure the best interests of participants and will:

- administer the system on behalf of enrolled employees, their employers and the State
- collect, pool and distribute contributions to commercial investment managers
- collect, pool and distribute financial investment returns to participants
- operate an online accounts portal where participants can see their savings pot grow
- facilitate a 'pot-follows-member' system whereby participants will benefit from owning one single AE pension pot across employments and throughout their working lives
- set standards for the commercial registered providers of AE investment products

How will investment work?

There will be a well-balanced and well-diversified default investment fund, plus three other fund options for employees who want to invest their money at different levels of risk.