

A Strawman Public Consultation Process for an Automatic Enrolment Retirement Savings System for Ireland

Citizens Information Board (November 2018)

The Citizens Information Board welcomes the opportunity to respond to the Department of Employment Affairs and Social Protection consultation on the introduction of an Automatic Enrolment (AE) Retirement Savings System for Ireland. AE was a policy recommendation in the 2010 *National Pensions Framework* and it is welcome to see the momentum now building behind pension reform with the publication of the *Roadmap for Pension Reform 2018-2023*. The aim is to have AE in place in 2022. How reasonable and achievable the 2022 target is depends very much on the level of response generated from the submissions to the Strawman Document and international experience where pension reform of this scale has been implemented. Therefore, we are unable to comment on the feasibility of the timeframe.

Citizens Information Board funded services assist thousands of people on a daily basis to access a wide range of social, public, and financial services through the provision of information, advocacy, and money advice. On average, these services receive over 1,000 queries per week in relation to state pension provision¹. The nature of the queries we received in 2017 confirm our observations from earlier years that when it comes to pensions, there is a lack of knowledge and a good degree of confusion, especially among those approaching retirement. This level of engagement on the subject of pensions leaves Citizens Information Services well placed to have a clear understanding of the problems experienced by people trying to understand their pension entitlements. It is this insight, combined with our support for the Money Advice and Budgeting Service (MABS) that informs our response to the Strawman Public Consultation for an Automatic Enrolment Retirement Savings System for Ireland² (hereafter the Strawman Document).

It is clear that people require clarity from their pension system so that they can understand how to access the system and can forecast in advance what level of income they can expect in their retirement and old age. To this we add that the pension system needs to be fair so that those for whom full time employment, spanning their adult working life, is unrealistic or unobtainable (e.g. those living with disabilities, those in precarious work situations, migrants, and those with unpaid caring responsibilities) are not discriminated against.

¹ In 2017 services addressed some 54,000 queries, specifically relating to the state contributory and non-contributory pensions, EU pension contributions and UK pensions. In the past year 664,197 page views of total citizensinformation.ie website traffic related to state pension entitlements for older and retired people with a further 145,825 page views directed to the occupational and private pensions section of the website. http://www.citizensinformation.ie/en/social_welfare/social_welfare_payments/older_and_retired_people/ http://www.citizensinformation.ie/en/money_and_tax/personal_finance/pensions/

² Department of Employment Affairs and Social Protection, 2018.

This response is organised to follow the seven sections set out in chapter four of the Strawman Document.

Administrative Arrangements and Organisational Approach

(1) Central Processing Agency (CPA)

The CPA, if correctly resourced, has a genuine capacity to alleviate much of the confusion around pensions that our services observe on a daily basis. We believe that any innovation that makes information readily available is positive. The CPA's strength lies in how it can act as a 'front desk' for queries in relation to automatic enrolment (AE) via the CPA Portal. To recognise varying levels of IT literacy we recommend that alternatives such as a phone service be considered. The weakness we see in the CPA proposal is that it adds a further institution to the already fractured nature of pension information sources. As it stands, the CPA will be added to a list of institutions that CIB services direct pension queries to. These include the Department of Employment and Social Protection, the Pensions Authority, trustees and administrators (occupational pensions), providers (PRSAs and RACs), and the Financial Service and Pensions Ombudsman's Bureau of Ireland. Because CPA will not produce annual benefit statements or deal with the decumulation phase, we also add AE registered providers to that list.

Given that the rationale for the CPA is simplicity and ease of administration, the proposal that providers will populate the CPA portal and the existing function of MyGovID.ie in ascertaining social insurance records, we believe that there is an opportunity to consider consolidation. We recommend that in scoping and costing the CPA, consideration be given to consolidating pension information sources by designing it as a one-stop shop for most if not all state and private pension queries. Information on the CPA front-end portal should be provided in a clear and concise manner. Information presented through a 'life stages' format may assist members to make decisions on the fund option they wish to select, as age, individual and family circumstances/stage of life may have a bearing on the level of contribution made and their capacity for risk. Tools, such as slider scales or other visual graphics may assist to demonstrate the amount of income to be deducted from an employee and also to be contributed by the employer and State.

The Strawman Document does not include an estimate of establishment and resourcing costs for a portal. Therefore, we are unable to comment on whether the CPA will represent value for money for the State, as opposed to say, expenditure on the expansion of the Scope Section of the DEASP or the revenue collection system for PRSI. Keeping with the emphasis in the CPA proposals on economies of scale, the consolidation of record keeping between the State and the AE systems may offer savings potential. If the current preservation requirements for occupational pensions apply to AE, the retention of the state contribution paid in respect of early leavers from the system may also represent an offset against operating costs.

(2) Providers

We recognise that removing the employer from making a decision on the provider and investment funds acknowledges that much of the target audience for AE work in smaller enterprises that may not have a HR function. The removal of as much administration and

associated costs as possible from the employers should reduce opposition to the imposition of AE employer contributions. The allocation of contributions to a provider on a carousel basis where no active provider choice is made is fair. Having said this, not having employer guidance on AE provider and funds creates a gap in information. This supports the recommendation made in the preceding section of consolidating the services for pension queries as far as possible into a single institution.

The primary role of the provider in AE will be to manage the money. Consequently, trust in providers is an important facet of making AE successful. Neither the State (the liquidation of the National Pensions Reserve Fund's assets, the pension fund levy), nor the pensions industry (fall in asset values during the financial crisis, closure of pension schemes with insufficient assets such as Waterford Glass) can lay claim to full public confidence in matters relating to pensions. Taking into account that no one institution enjoys full support, both the State and the pensions industry should be considered in the decision on AE providers.

We understand the economies of scale ambition of having a number of providers competing for the AE market. On one hand, given the size of the target population in Ireland which we understand to be in the region of 400,000³ from the consultation meetings held by the DEASP, limiting the number of providers seems reasonable. On the other hand, behavioural analysis tells us that choice overload can deter individuals from making decisions⁴. With a number of competing providers, and no role for the employer in selecting a provider, the choice rests with the individual. Therefore, it is reasonable to assume passive engagement in relation to provider. This suggests a single provider would meet the objectives of scale and simplicity. One provider has the advantage of simplifying the system, reducing costs for the CPA as they will only have a single provider to engage with, while also guaranteeing a uniform approach to member communication. Creating a monopoly can be avoided with robust regulation.

At the consultation fora held by the DEASP⁵, potential providers argued that AE would not be profitable for them in the short term. A too frequent re-tendering process would deter providers from competing for the AE business in case they lost the opportunity to recover their costs. The re-tendering process also raises the question of the costs involved in the transfer of assets from a 'losing' provider to a 'winning' provider. These could be substantial, and involve the sale of assets (illiquid or otherwise) at an inopportune time. Re-tendering also ignores any active decision making on the behalf of an individual for a particular provider.

Taking these observations into account, we would like to see the DEASP more fully engage with the idea of a single provider, to include deliberations on the advantages and disadvantages of making that single provider a state agency.

(3) Governance Structure

The Citizens Information Board can see merit in both types of governance structure for AE in the protection they offer to individuals. Insurance contracts comply with the body of consumer

³ It is not clear if this includes those with private pension savings, but who are saving at a rate below that required for adequate income in retirement.

⁴ Department for Work & Pensions (UK) 2017 *Automatic Enrolment Review 2017: Maintaining the Momentum*. P.75

⁵ AE consultation fora 1st October 2018, Dublin.

protection legislation. Personal Retirement Savings Account (PRSA) providers are regulated by the Pensions Authority, who approve PRSA products and monitor compliance. Trustees must comply with the 1990 Pensions Act (as amended) so that where they outsource activities such as investment and administration, they remain responsible and are obliged to monitor.

If a trustee governance structure is selected, we note that the expertise involved to monitor outsourced activities suggests that individuals have to hold a high degree of pension expertise to undertake the role of trustee with competence. This expertise is primarily located within the pensions industry, and raises the question of how independent employees of a pension provider or a subsidiary company might be in the role of trustee if their employer or parent company is tendering as a registered provider.

We note that the Pensions Authority has recently conducted a consultation process on the question of trustees and master trusts⁶ and we presumably the Authority's deliberations and expertise in this area will be taken into account on the question of governance.

(4) Investment Options

A major concern is with the design of the default fund. At the DEASP consultation fora, a statistic was offered that international experience with AE sees 90% of savers in the default fund. We do not have the expertise to offer investment fund design observations. However, we do have the experience of dealing with individuals who are unable to understand the information offered to them. Therefore, our recommendation on this point is that clarity of communication, and how questions can be accommodated, is prioritised.

(5) Fees

We appreciate that AE cannot be free of administration and management charges, and that providers will seek to pass on administrative and risk costs to AE savers. The DEASP have previously considered pension provider fees in detail⁷ so have a framework in place to anticipate how costs may deviate from those envisaged. A study of PRSAs may provide insightful to understand how an original idea for a simple low-cost standard PRSA evolved to include non-standard PRSAs with their higher charging structures.

We question whether a limit can realistically be put on fees because of the unknown magnitude of non-disclosed costs such as allocation rates, bid-offer differentials, custodian fees and trading costs. We recommend the quantification of all fees be part of the tendering process, and the question asked as to how these will be communicated to savers in a way that is easy to understand and which direct comparisons. Again, we flag clarity of communication as a priority.

Target Membership

The innovation of 'pot follows member' is a straightforward and welcome concept. It is easy to understand and saving progress will be visible to the individual. The potential exists for a sense of personal ownership to develop which can be harnessed to foster active engagement and interest

⁶ Pensions Authority 2018 Regulation of Defined Contribution Master Trusts.

⁷ We refer to the *Securing Retirement Income* report in 1998, which discussed fees in relation to the introduction of PRSAs, and the 2012 Report on Pension Charges in Ireland, which sought to understand the impact of charges.

in pension savings as the system evolves. A single pension pot eliminates much of the potential for confusion at retirement, where there has been multiple employers over a career. We note that defined contribution pension accrual is easier to understand than the notional defined contribution accrual that is a feature of some European pension systems, for example Sweden.

(1) Earnings trigger

Where the earnings trigger is set dictates who is enrolled and benefits from both a state and an employer contribution to their pension pot. We appreciate that setting the trigger at €20,000 takes into account that lower income individuals will receive the bulk of their gross replacement rate from the state pension, *but only if they qualify for the full amount*. The figure for the state pension used in table 1 of the Strawman Document (p.28) is the maximum rate, payable to those with sufficient PRSI contributions to qualify for same. The DEASP statistics tell us that there are almost 400,000 recipients of the State Pension (Contributory) and 95,000 for the State pension (Non-contributory)⁸. Further analysis of the recipients to confirm the distribution of pensioners into the various bands of state pension payment would help to substantiate the replacement rate calculations which support the €20,000 earnings trigger.

The earnings trigger as proposed is problematic for two cohorts in particular. The first are those in concurrent employments, none of which pay a wage that triggers AE, but when amalgamated do satisfy the earnings requirement. We recommend that concurrent employments be amalgamated for AE purposes.

The second are those in low paid, precarious, and/or part-time work. These employees are among those least likely to have private pension coverage⁹. The current minimum wage equates to an annual salary just below the earnings trigger¹⁰, as does a 50 per cent part-time worker on the CSO 2018 seasonally adjusted weekly earnings¹¹. The fractured nature of the precariously employed and part-time employees' labour market engagement means they may not have a full PRSI/credits record, nor be afforded the opportunity to build up private pensions. In other words, they may find themselves excluded from accruing pension rights in either part of the pension system. It is arguable that these individuals should be the core target for AE, not the focus of those excluded from it.

Conversely, MABS have raised concerns that €20,000 as the appropriate level at which to trigger automatic enrolment is too *low* for affordability reasons. A significant cohort of MABS clients are in low income paid employment and many struggle with an inadequate income in the face of rising rents, high mortgages, and day-to day living costs. There is little opportunity to save when cash resources are low and where there is, the focus is primarily on saving for an unexpected emergency or planned life/family event. Equally, low income workers should be given an opportunity to save for retirement and benefit from the incentives offered in this scheme and so it is suggested that consideration be given to an income 'disregard' on a portion of participant's income - similar to the UK provisions applied on earnings between 0 -£6032 *or* on a sliding scale on incremental income - in the assessment of earnings and contribution levels , to provide some flexibility in meeting day to

⁸ DEASP Statistical Information Report 2017

⁹ CSO QNHS Pension Provision 2015

¹⁰ Increases to just above the threshold from Jan '19

¹¹ CSO Earnings and Labour Costs Q1 2018 (final), Q2 2018 (preliminary findings)

day living costs and unexpected events. A similar disregard would apply to those below the income threshold who will be able to opt-in to the scheme.

Further analysis of the impact of the threshold trigger on those included and those excluded is required to capture the points made above. In addition, we would welcome analysis to confirm that women, people with disabilities, migrants, and other minorities are not over-represented in numbers excluded by the €20,000 earnings trigger. A key benefit of AE is its ability to close gaps in pensions where they currently exist, for example the well documented gender gap in pensions. In this regard, we draw your attention to analysis completed by the Trade Union Congress (TUC) in the UK in relation to the earnings trigger there. When the UK earnings trigger was increased from £8,105 to £9,205 over half a million low-paid workers, predominantly part time employees, were excluded. 80 percent were women¹². Commentators warn of an emerging automatic enrolment underclass in the UK because of the predominance of women in low paid and part-time employment, making them more sensitive to changes in the earnings trigger than men. The gendered nature of outcomes when the earnings trigger changes was acknowledged by the Department of Work and Pensions in the UK as a driver of its decision to freeze the earnings trigger at £10,000 since 2015. They argue that freezing the trigger results in a decrease in real terms and on their analysis in 2017/2018 an additional 70,000 individuals will qualify for automatic enrolment, 75 per cent of whom will be women¹³.

(2) Age thresholds

The lower age threshold of 23 excludes a group for whom pension coverage is currently low¹⁴. It delivers a message to those entering work as school leavers that pension savings is not a priority, while simultaneously leaving them with a 6% drop in salary once they reach their 23rd birthday. We appreciate the rationale being that those in employment aged under 23 will change employment more frequently than other age groups. However, it seems to us that this is exactly what the 'pot follows member' innovation is designed to capture.

One government policy undertaken in recognition of the impact of longevity on the public financing of pensions has been to extend working lives. Limiting AE membership to those aged 60 is a direct contradiction of this policy and removes the opportunity for a further 8 years of pension savings for older workers. We believe that the upper age threshold should be aligned to the state pension age.

(3) Opting in and opting out

We strongly recommend that regardless of the eventual design of the membership criteria that once an employee outside the eligibility conditions opts into AE, this should trigger the payment of employer and state contributions to their pension pot.

The detail of the interaction of AE with existing occupational pensions is naturally absent from the Strawman Document, given its nature as a consultation framework. We take this opportunity

¹² Trade Union Congress 2012, *Over Half a Million Workers Could Miss out on Auto Enrol Next Year*. Available at <http://www.tuc.org.uk/economy/tuc-21515-f0.cfm>.

¹³ Department of Work and Pensions 2017. *Review of the Earnings Trigger and Qualifying Earnings Bands for 2018/2018: Supporting Analysis*.

¹⁴ CSO QNHS Pension Provision 2015

to flag that anecdotally we understand that some low-paid workers voluntarily opt out of their employer's occupational pension plan. As currently envisaged, those that have opted-out of their employer's scheme and are unpensioned are not captured in the reform proposals. This is because the fact that their employer has a scheme (meeting certain criteria) excludes them from joining AE. Analysis is required to ascertain the size and make-up of this cohort who will remain unpensioned as things stand. If significant in numbers, they both undermine the efforts of AE and also place mandatory membership of employer schemes on the agenda.

Another cohort in the unpensioned category are those not in paid employment. AE is designed as an earnings related addition to the pension system. Therefore, it is difficult to see how to incorporate everyone in private pensions regardless of employment status, despite how desirable it would be to include individuals engaged in crucial yet unpaid work.

(4) Opting Out

On the question of opting out, we understand and support the rationale for a mandatory six months membership before an opting out window opens between months 6 and 8. We also support the re-enrolment idea. We do however foresee the six months mandatory condition being open to mis-interpretation as employees being 'forced into' a system against their wishes, a discourse that has the potential to undermine AE's popularity. Allowing individuals to opt out at times other than at the 6-8 month window introduces a lifecourse perspective to the design, a point we return to below.

Based on the experience of MABS dealing with individuals managing personal debt issues, we believe that the AE system should be designed to provide an opt-out for individuals who are in formal insolvency arrangements for the period covered by that arrangement.

(5) Transfers

The roll out of AE will see three different components of the pension system operating side by side. The first is the state pension, coupled with two distinct occupational pensions regimes (the existing system of employer sponsored schemes and PRSAs; and AE). The 'pot follows member' innovation does not extend to individuals who move from employers with occupational pension schemes or who have a PRSA, to an employer who operate AE. Tracing pension rights and understanding how pensions work are key components of the confusion we encounter. Therefore, in the detail we recommend that simplicity be paramount in your deliberations so that employees understand if and how they can transfer from one private pension regime to the other.

(6) The Self Employed

The self-employed are a large and diverse cohort for whom private pension coverage is low¹⁵. We do not see any simple and straightforward way of incorporating the self-employed into AE. Nor are we aware of any international evidence where this has worked in practice. We suggest as a first step that research with the self-employed be undertaken to ascertain whether there is a demand for inclusion in AE.

¹⁵ CSO QNHS Pension Provision 2015

Employer and Employee Contribution Rates

(1) Contribution levels

The contribution levels in the Strawman document are in line with the objective for AE of facilitating individuals to maintain a standard of living in older age. However MABS have raised concerns about the sustainability and capacity of members on persistently low incomes to increase contributions from 1% to 6% over a period of 6 years. In that regard some consideration might be given to a lower incremental scale of contributions or a longer timeframe to reach higher level of contributions to address affordability issues. In the UK automatic enrolment system, earnings below a certain level are disregarded in the calculation of employer and employee contributions. To recognise the particular difficulties AE will pose for the lowest income earners who wish to save, we recommend that the option of a phased contribution based on income be examined¹⁶.

(2) Qualifying earnings

We agree with the €75,000 threshold for employer and state contributions, and that employees earning in excess of this amount can continue to make additional voluntary contributions to the pension pot, subject to the overall revenue limits on contributions.

Financial Incentives Provided by the State

(1) Matching contributions

The SSIA scheme was successful because people understood the state incentive of a matching contribution. The same cannot be said with any certainty about the existing system of tax relief for pensions. Therefore, we support the proposed matching contribution of €1 for every €3, and note that it is in line with recommendations from the Commission on Taxation¹⁷.

With a focus on clarity and simplicity, we further recommend that the existing tax relief structure be reviewed to match the AE proposals. Our reasons for this recommendation are threefold. Firstly, in terms of the two private pension components of the Irish pension system co-existing, one incentive system will allow transferability. Secondly, the existing distribution of tax relief does not conform with principles of equity¹⁸. Lastly, having two systems of tax incentives, one of which is not understood or appreciated is adding unnecessary complexity and choice. The choice element arises as those on the marginal rate of tax will do better under the existing tax incentive regime indicating an occupational scheme or PRSA is the better vehicle for their pension savings.

¹⁶ The full employee contribution of 6 per cent could apply at the minimum wage, with those earning, say €1,000 below the minimum wage paying 5 per cent, down to a 1 per cent contribution for those earning €5,000 less than the minimum wage.

¹⁷ Department of Finance 2009 *Commission on Taxation Report*.

¹⁸ M. Collins and G. Hughes 2017. *Supporting Pension Contributions Through the Tax System: Outcomes, Costs and Examining Reform*. The Economic and Social Review (vol. 48, no 4).

Those on the standard rate of tax, or those outside the income tax system will benefit more from being in AE.

We raise a concern here about current contributors to PRSAs. They were introduced following the *National Pension Policy Initiative*¹⁹ to improve coverage of private pensions. The employer is not required to contribute to an employee's PRSA, but will be required to contribute under AE. Therefore, an employee who availed of the PRSA option but does not have an employer contribution will be treated differently to a colleague who enters AE. To ensure equality is a central feature of the pension system, this outcome must be avoided by allowing transfers from PRSAs into AE. We see this as a superior option than an individual's PRSAs being suspended, where in its dormant state it is vulnerable to being eroded by administration fees.

The choice facing lower paid workers on which incentive system benefits them most, and the decision for PRSA (non-employer contribution) to continue or switch to AE, again highlights the necessity for a well-resourced and pension literate information service for pension queries.

Investment Options

(1) Fund choices and switching

Our focus in regard to fund choices and switching is on information. On one hand we agree with similar offerings of fund choices across providers with standard risk/reward categorisations because they will be relatively simple to understand and will simplify cross-provider comparisons. On the other hand, similar offerings are more an illusion of choice rather than real choice. As noted above, our major concern is with the design of the default fund and our recommendation remains that clarity of communication is prioritised.

(2) Target Benefits

One driver of the confusion we encounter about pensions is the lack of any pension forecasting facility. This applies equally to the state pension as to private pensions. We understand target benefits and life-styling as two different concepts. Target benefits involves framing contributions and investment choices in such a way that a targeted defined benefit emerges. Incorporating a target benefit option as a standard fund choice has its merits, especially when coupled with a CPA interface forecasting function. However, on balance we believe that bringing target benefits into the equation is unnecessarily complex, with the added possibility of misplaced expectations about what AE can achieve. We discuss life-styling below in our comments on the pay-out phase.

(3) Management and investment charges

Please see our comments on fees under the heading of Administrative Arrangements and Organisational Approach.

Policy for Opt-out and Re-enrolment

(1) Compulsory minimum of 6 months

¹⁹ Pensions Board. 1998. *Securing Retirement Income. National Pensions Policy Initiative*. Dublin: Pensions Board.

Please see our comments on compulsory membership under the heading of Target Membership.

(2) Opt Out Windows and Savings Suspensions

We recommend that a life-course approach be taken when considering whether to build periods of non-saving into the design of AE. It is first and foremost a pension system, not a government incentivised saving scheme. Therefore, we believe that withdrawals from the system should be limited. Taking a life-course approach, we believe that discretion should be exercised by the CPA to consider periods of savings suspensions to coincide with incidences of, for example, maternity, bereavement, illness, and unpaid caring. Savings suspensions could be for a pre-determined period, after which contribution deductions would recommence. This would avoid the creation of small dormant pots within the system, which would eventually be depleted by annual administration charges.

(3) Retention of state and employer contribution

Under the occupational pension scheme system, employees for whom the preservation requirements do not apply can take a refund of the value of their contributions, less a once off tax. We see a similar rule applying to AE to avoid the proliferation of small dormant pots and to reinforce similarities between the two regimes. Another area where consideration of refunding employee contributions should be considered is where emigrants with short tenures in AE indicate that they are permanently returning to their home country.

In both these instances, and where individuals opt-out, we do not see the retention of the government's matching contributions as being problematic. The matter of retention or refund to the employee of employer contributions is less straightforward, and is best referred to employer representative organisations for comment.

Arrangements for Benefits and the Pay-out Phase

(1) Age (include ill health early drawdown)

We agree with the proposal of the state retirement age being the exit age from AE. We also agree with early retirement from AE being permitted on grounds of serious ill health and enforced retirement before state pension age. Letting AE members retain a pot post state retirement age leads to unnecessary administrative requirements.

(2) Benefits

Our experience is that the soon-to-retire population present to us in large numbers every year. Therefore, we are especially concerned that the decumulation phase gets equal attention to the accumulation phase in the design of AE. We reiterate here our recommendation that in scoping and costing the CPA, consideration be given to making it a well-resourced 'one-stop shop' for most if not all state and private pension queries.

At present, individuals retiring with a private pension enjoy some combination of a tax-free lump sum (TFLS), an annuity, and an approved retirement fund (ARF). While the TFLS is somewhat of an anomaly in an EET system, contributions into AE will be from net income. To enhance the attraction of AE, and emphasise similarities with the existing regime, we recommend the retention of a TFLS within the current revenue limits.

The logic behind annuity rates can be hard to grasp, and can represent poor value for money. Yet for many the certainty of monthly payments (especially with built in escalation and an attaching spouse's death in retirement pension) is attractive. For this reason, we recommend that an annuity option be retained. The registered provider at the point of retirement is best placed to provide this option and this requirement and the associated costs can be stipulated in the tendering process. Of course, many individuals will be unable or unwilling to make decisions about escalation and survivor pensions. This suggests that a standard approach be taken where a simple retirement statement lists four options²⁰, and the annual pension each will produce. In the event of a single life option being taken, a minimum guarantee period should be incorporated which can be paid as a lump sum, as is usual in occupational pensions. How best to ensure a competitive annuity market that serves those exiting AE well must be part of the design deliberations.

The ARF option is the opposite of the annuity. The logic of periodic draw-downs is appealing, but the longevity risk is unattractive. The current ARF regime which requires some level of annuitisation (incorporating the state pension) and taxed draw-downs is a relatively easy concept to understand, and explain. We have two concerns which make us reluctant to recommend the extension of the ARF option into AE, despite our desire to see harmonisation between the two private pension regimes. Firstly, the lack of regulation around ARFs, and the Pensions Authority's concerns on this point as well as the Pensions Council's research on the level of fees, indicate that ARFs are not in the best interests of consumers²¹. Secondly, the distinction between AMRF's and ARFs is hard to grasp and increases in the state pension can require AMRFs to convert to ARFs exposing the holder to an unexpected tax liability on a notional draw-down. We believe that the TFLS option gives the AE member the 'nest egg' that an ARF constitutes, forms part of the estate on death, and most importantly removes the layers of complexity that ARFs introduce to pensions.

Regardless of the eventual AE draw-down design, to make an informed choice, an individual will need to have information to hand on both their state and private pension entitlements, and a dedicated well-resourced and informed service to help them interpret the information they are given.

(3) Spouses

Although not specifically covered in the Strawman Document, we wish to draw attention to the spouses of AE members. The male breadwinner model is still a relevant family model in Ireland, meaning that many older women rely to various degrees on their husband's pension. Defined benefit occupational pensions often provide for beneficiaries by way of a spouses' death in retirement pension, and this can also be an option in defined contribution occupational schemes. For this reason we have referred to joint life options in annuities in the preceding paragraph to flag that the draw-down phase needs to account for surviving spouses. Pension adjustment orders (PAO) are another protection for spouses in cases of divorce or judicial separation. We strongly recommend that PAO orders equally apply to benefits accruing in AE.

²⁰ Single life pension, no escalation; single life pension escalation; joint life pension, no escalation; joint life pension escalation.

²¹ As set out in the Department of Finance's (2018) IDPRTG pension reform consultation paper.

(4) Interaction between AE in Ireland, and means tested benefits

We highlight the absence in the Strawman Document of attention to the interaction between AE and means-tested benefits. Our focus in making this observation is on the challenges for individuals and families on low income. There are two facets to the interaction between AE and means-testing: the contributions to AE and the benefits emanating from AE at retirement. There is understandably a concern among people about any policy change which impacts entitlements to means-tested benefits. The emphasis around AE needs to be weighted towards adequacy rather than coverage, and with a clear communication plan to assuage fears that AE will disqualify people from future state means-tested benefits. Once levels of projected benefits emerging from AE for different cohorts becomes clear, the impact on eligibility for means-tested benefits should be analysed and addressed if patterns of adverse experience are likely. This commitment could be included as a term of reference in a required periodic review of AE.