Aviva Ireland Response to Consultation Process for an Automatic Enrolment Retirement Savings System for Ireland

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Set out below is the view of Aviva Ireland in relation to the above consultation paper. We are available to meet to further discuss our views detailed in this response. This response has been structured to include our views on the future of retirement savings in Ireland having reviewed Auto Enrolment structures introduced in other jurisdictions including the UK, where Aviva have operated for a number of years.

Whilst in general we recognise the requirement for enhanced participation in supplementary retirement savings, we believe it is important that any auto enrolment structures complement the current pensions options available and that incentives to save and on drawdown are consistent with the current range of pension products.

We also believe that existing system and process efficiencies combined with the existing scale has led to a reduction of costs. The current competitive open market will continue to ensure price to the consumer is maintained at competitive levels for those who wish to operate in it. In this regard and in line with our belief of consistency across the existing and new AE pensions, we do not see a benefit in restricting the number of providers or imposing a cap on fees.

1. Is the rationale for use of a CPA sound?

Our understanding is that the CPA as it is proposed will have 3 main functions;

- Issuer and primary source of on-going oversight to the providers
- Provider of education and on-going information
- Clearing house for the provision of data and funds to the selected providers

We agree that a CPA style hub could be of benefit to the introduction and on-going operations of the AE pension and in this regard do see the merits in certain activities being maintained by the CPA. We do however also see that the hub as it appears to be outlined would have responsibility for too broad a range of activities, which gives cause for concern on 2 grounds;

1. Lack of independent oversight and governance

2. Lack of resources to maintain the full range of proposed services on an on-going basis

We would also think it prudent for the Department to consider existing functionality, systems and processes which are currently used by a range of pension providers in the current Irish pensions system and understand where and how these can be reused and recycled. Identifying opportunities to leverage off existing structures will ultimately help to reduce costs and ensure consistency of offering to the current system.

To finish, whilst some detail in relation to the proposed structure for the CPA has been provided, we would require a more detailed understanding of the CPA and proposed costs of the various initial and on-going costs before we can provide a final and formal response to this question.

2. What are the potential strengths and weaknesses of a CPA structure? Do you believe that the CPA model proposed can be improved? If so, how?

Strengths

As it is presented there are several strengths and weaknesses in the CPA.

1. Ability to act as a central hub for the overall AE structure.

2. Offers the ability to provide on-line education & document repository/ point of reference for members.

3. Can facilitate "pot" follows member, record contributions and ensure that contribution matching is maintained.

4. Can be used as link to oversight on providers.

5. On-going product development functionality.

6. CPA portal can provide for IT developments over time.

Weaknesses

- Current proposal does not include employer in the structure, puts responsibility on member.

- Appears to remove independent oversight provided by Trustee.

- No clear indication of how on-going independent financial advice can be provided to members.

- Conflicts which may arise due to CPA performing multiple roles in an AE environment.
- Costs and ability to deliver in timelines required.
- Lack of use of existing IT infrastructure in the market.
- Current expertise gap within state and requirement to outsource large elements of development & on-going maintenance.

3. If you don't agree with the CPA model, can you suggest alternatives?

As discussed above, we are broadly in favour of the CPA model, combined with elements of the existing systems which are in place and work very successfully for the 35% of the private sector who are currently saving for retirement.

4. Have you suggestions for how the operating costs of the CPA could be covered?

It would be beneficial to fully understand the final role of the CPA and the proposed on-going costs as part of this response. Whilst it is acknowledged there is a requirement for the CPA to be self funding, our view is that some level of on-going state support should be considered to ensure the cost to the consumer is not deemed excessive.

As part of a review into covering operating costs, consideration needs to be given to the implementation of a cap on fees and charges. A schedule outlining all costs and to whom these are paid would be useful as part of this exercise.

5. Is the use of commercial providers for the provision of retirement savings options the right approach?

Yes, commercial providers should be used for the provision of retirement savings options. They are well positioned to utilise existing systems, personnel and experience to deliver AE pensions on a scaled basis in a cost-effective manner. They are also best placed to ensure that the products brought to market offer the consistency required to the current range of pension structures.

6. Is it appropriate to limit the number of approved AE Registered Providers, as proposed, in order to provide economies of scale and drive down unit costs?

We believe that rather than restrict the number of providers, a more prudent approach would be to implement a set of criteria by which a provider would be required to act under and to ensure there is appropriate regulatory oversight similar to that currently in place for Registered Administrators. The existing providers would be able to leverage off existing competencies e.g. product, fund management, customer servicing, systems and processes and their overall scale to ensure that costs were kept competitive. There would be no requirement for all providers to offer an AE product, but they would retain the option to transact in this market. Competition is good for customers.

7. If so, is the maximum figure proposed of four providers, about right? Or should it be more or less, and if so, why?

Please see our response to question 6.

8. **Are there alternatives that can achieve the economies of scale required other than to select a limited number of providers by open tender?**

Please see our response to question 6. Existing providers have systems and processes which could be leveraged to ensure costs are competitive, where an AE product would form part of the overall economies of scale already in operation.

9. **What do you believe is the optimum governance structure for Registered Providers and why? (e.g. Master Trust or insurance-based contract providers).**

Both structures would provide the mechanism to deliver an AE pension, however as the CPA is currently proposed it appears to be acting as a quasi Trustee which would leave no requirement for a master trust. The cost and complexity of a master trust would also need to be considered if this is the preferred option.

As it is presented it appears to be a contract based approach, where registered providers are currently capable of providing a range of services, member communications, collection and investment of contributions, regulatory reporting.

In this regard as the structures for contract based are already in place, this would be our preferred position.

10. **Where a member elects not to choose a provider and fund option, is it appropriate to allocate them to the default fund of one of the AE Registered Providers on a carousel basis, or is there a better alternative you would suggest?**

Due consideration needs to be given to the lack of independent financial advice or ability to obtain advice in the current proposal and how this feeds into the discussion around default funds and the carousel. The role of independent financial advice and the ability of either an employer or employee to obtain same, should be considered before a final decision is made.

Where a default structure would be utilised for those who choose not to select a fund or provider, it is important that the member at all stages of the initial set up is provided with the opportunity to understand the options open to them (both providers and funds) in plain English. This could be through CPA education and would enable the member to make an informed decision prior to being allocated to a default fund. As part of the pre and post sign up process to a default fund, the member should receive sufficient information on the provider and the fund to ensure that they are comfortable with the selection made.

Finally, some consideration should be given to the ability to change provider post carousel allocation if required.

11. **What is an appropriate maximum limit on the level of administration/investment management fees?**

It is important when determining the appropriate level of fees to consider that applying fees and charges allow members to benefit from services and investment options which meet their needs both at the initial set up and on-going throughout their saving for retirement.

The level of fees which apply should reflect the best way to achieve the above in the most cost-efficient manner. Enhancements to IT and efficiencies of scale with current providers will help this. As previously noted in this submission an open market approach to the number of providers will also help to deliver competitive but fair and sustainable fee structures.

12. What is the appropriate timeframe between each tender round (e.g. 5, 7, 10 years) and why?

In our proposal of an open market approach to AE, with appropriate regulatory oversight we do not see a requirement for repeat tenders, new firms if they choose can enter the market provided they can meet the requirements.

Providers who wish to exit the market can do so with set notice periods put in place e.g. 1 year.

13. Do you think the proposed timeframe for the roll-out of AE is reasonable and achievable?

The introduction of an AE proposition is broadly welcomed and while it is important it is delivered in a timely manner, it is also important that it is delivered fit for purpose for all stakeholders. The proposal including roles and responsibilities of the CPA are still at a very early stage and understanding this further will assist all in providing more detail on whether the proposal is achievable.

14. Do you believe that employees should select their preferred provider, or should employers be required to select a Registered Provider on their behalf?

Under the current Defined Contribution model, the employer selects the provider, usually in conjunction and on the advice of a qualified advisor.

To ensure there is consistency with the current model, it would be prudent to look at an employer led offering which could then provide each member with an individual contract and ability to select their preferred fund or go with the provider default.

This would not impact the pot follows member approach as should an employee leave service and start with a new firm, they could simply transfer their benefits across to their new employer's provider.

15. Should there be a lower/upper earnings threshold triggering automatic enrolment?

We believe that any earnings cap, both lower and upper should be consistent with the existing structures which are in place for retirement savers. We also believe that the reliefs which are to be made available should be in line with current reliefs which are available.

In this regard, we would see an earnings cap of €115,000 to be a suitable upper cap as this is the salary cap limit that is currently in place.

At present there is no lower limit in place for salaries as tax relief is obtained at the earners relevant rate. Linked to this is there is a risk to setting a lower limit which could negatively impact savers in one of the following 2 ways;

1. An individual earning €19,990 would end up in better position through their salary than someone earning €20,000.
2. An individual earning less than €20,000 is not entitled to benefit from the employer or state support.

Because of the above we believe that there should be no lower limit in place and that those who earn below the current proposed lower limit of €20,000 should use the availability of the "opt out "to cease contributions.

As retirement savers will be presented with options, it is important to consider the requirement for the provision of advice as part of the decision-making process.

16. If so, is the proposed earnings threshold of €20,000 pa above which members will be automatically enrolled into the system appropriate? If not, what would you propose the earnings threshold and why?

Our view as outlined in question 15 is that the current proposed limit is not appropriate and that a fully inclusive system would be a better option.

Consideration could be given to a scaled contribution structure up to the 6/6/2 based on an individuals salary.

For example;

- Up to €15,000 an individual might be expected to contribute 2% of salary with ER at 4% and state at 2%.
- Up to €25,000 an individual might be expected to contribute 4% of salary an employer 6% and state at 2%.
- Above €25,000 the individual is at the 6/6/2.

This would allow for lower earners to participate at levels more appropriate to their salary whilst also still benefiting from state and employer support.

17. Do you agree with the proposal to review the earnings threshold on a five-yearly basis? If not, what adjustment process would you propose?

With no lower limit in place this would not need to be reviewed.

In relation to the upper limit which we would propose to keep consistent with the current system, a CPI linked increase in salary caps could be considered. If this was the case a review every 2-3 year would be more appropriate This review should be across the current pension landscape and the proposed auto enrolment landscape.

18. Should there be a lower / upper age threshold for automatic enrolment? & 19. If so, are the proposed age thresholds appropriate? If not, what would you propose as the age thresholds and why?

Under the current pensions system there is no lower age limit and individuals continue to benefit from tax relief on contributions up to a maximum age of 70 or 75 dependent on contract type.

To maintain a consistency across contract types with particular focus to individual's normal retirement ages increasing to age 68+ in future years, we believe that there should be an upper age limit which is aligned to current arrangements. Incentivising those who are closer to retirement to continue to save, will help with ensuring they have a more adequate fund on retirement.

Whilst we recognise that most school leavers complete third level education and then start full time employment, at c. 22-23, there are a number of individuals who enter full time employment from age 18. Incentivising some level of retirement saving upon commencing full time employment is prudent to ensuring a better outcome at retirement.

20. Should employees outside the age/earnings criteria triggering auto enrolment be able to opt-in?

As outlined above, our view is that there should not be age caps outside of the current pension structures. Likewise, salary caps in line with current structures should also be implemented.

Where these were implemented the number of individuals requiring an opt in facility would be greatly reduced.

21. How should those with one or more income be treated?

An individual's contributions should be linked to their PPS number. This would ensure all taxable income is included.

As we are proposing no lower salary limit for inclusion this would make it easier for each employer to meet their obligations to contribute to an arrangement.

The CPA could be used to collate all benefits that the member has through their different employments and provide the option to combine all with 1 provider (under current contract-based structure).

22. Do you agree with the approach for self-employed people? If not, what modifications would you propose?

Under the current proposals it is difficult to see where a self-employed individual would benefit from AE when compared to current structures which are available to them. This is particularly relevant where the self-employed individual would be required to contribute 12% (6% individual & 6% employer).

Offering a more consistent structure to the current range of options (namely around contributions, tax relief, investment options & age/options at retirement) might encourage self employed to partake in the AE.

However as there are a significant number of self employed individuals who currently have no form of private pension provision, we would be in favour of retaining the ability for them to opt in.

23. Should people outside of the workforce (e.g. carers, homemakers) be eligible to opt-in? If so, suggest how that might work in terms of contributions, etc.

We would be in favour of facilitating those outside of the work force to be eligible for some level of opt in ability, however we would see that this should be for a fixed period of time (e.g. 2 * 12 month windows throughout working life). This would ensure that where there is a gap in employment for a range of reasons, the individual's retirement fund is not negatively impacted. An average of last 3 years salary could potentially be used as a base for contribution levels. The individual and state contribution could be made during this period and contributions could be taken from the individuals bank account.

24. Should all eligible members be enrolled immediately on commencing employment?

In principle we agree with the concept of members being enrolled on commencing employment, however consideration should be given to consistency with typical employment contracts and the current pensions structures which are in place, namely;

a. A 6-month parole period
b. 2-year vesting period

25. Should members of existing pension schemes be allowed to transfer into the AE system?

Yes, we would be in favour of members being offered the opportunity to access the most suitable pension arrangement for them at all stages throughout their working life. This may for certain members mean transferring into an AE scheme and for others the option to transfer to a more traditional DC scheme. As noted we advocate that any decisions made by new or existing members are done so on a fully informed basis, including the ability to benefit from independent financial advice on a cost-effective basis.

Whilst the current strawman indicates differences to the current systems across a range of elements, we believe that the best way to facilitate transfers into and out of AE is to ensure there is as much consistency in the offerings as possible.

Offering consistency across the various structures will help individuals, employers and financial broker or advisors to make the correct decision about which is the best structure to participate in at various stages through someone's working life.

26. Do you agree with the approach to starting with a low level of contributions increasing on a phased basis to a higher level over a period of six years? If not, what approach would you propose and why?

We would support the general concept of a phased approach to reaching the target contribution levels. We would however further reference the idea of a scaled contribution level based off an individual's salary, so our response is on the premise that the phasing will apply to all and not just the cap of 6% for members/6% employer/2% state.

Furthermore, assuming that the vast majority of those initially partaking in AE will currently have no private pension provision (i.e. little or no transfers across to begin with), a longer phasing period as adopted in other jurisdictions might be a prudent approach to take. This will give all parties with a vested interest an opportunity to become familiar with the structure, balance future savings with current living expenses and thus hopefully reduce the levels of those who decide to opt out.

One such option would be to phase contributions over a 10-year window with a clear increase of 10% per annum on all 3 components. Where an individual, crosses a salary level and would therefore move to the next level of contributions, this could be captured on an annual basis and contributions rebalanced accordingly.

27. Do you agree with the proposed contribution levels? If not, what contribution levels would you propose and why?

As noted earlier in this document, we believe that a scaled contribution level based on salary should be considered.

28. Should there be an upper threshold on qualifying earnings along the lines described in the Strawman or should qualified earnings be uncapped?

To maintain consistency with current pension legislation, we believe a salary cap currently at €115,00 would be more appropriate.

29. Should the Irish AE system incorporate a 'disregard' such as used in the UK's AE system whereby earnings between £0 and £6,032 are not subject to a contribution requirement? IF so, why do you believe a 'disregard' should apply and at what level?

No, our view is that that the AE structure should be inclusive to all as is the current pensions landscape and that when the following are considered will provide a fair means towards private retirement planning;

1. Ability to opt out after 6 months
2. Scaled contributions based on salary
3. Ability to start to save upon entering fulltime employment
4. Ability to switch between pension structures throughout your working life

30. Should employer matching contributions be required for those outside the automatic enrolment age /earnings trigger criteria, who choose to opt in/

As already referenced we believe there should be a more inclusive opt in for individuals which would greatly reduce the numbers who would be required to opt in. This includes

- Lower minimum ages & higher caps on ages
- No lower salary limits
- Upper cap on contributions in line with current €115,000

Where someone does however find themselves having to opt in, we believe they should receive the same levels of support from both the employer and the state as those who are automatically opted in.

31. Do you agree with the Strawman approach to State incentives – i.e. a potential State bonus top-up based on matching member contributions with a payment of €1 for every €3 they save?

We fully support a system whereby individuals and employers are incentivised to save for retirement. This system works for over a third of all private employees who save on a regular basis for retirement.

As mentioned in several sections of this document already AE is being introduced to encourage those who do not have existing private pensions provision to save for retirement. As such there is a requirement to maintain a consistency between current options and the AE structures across all key elements, including state incentives.

We would therefore favour support which is in line with the current tax relief benefits available. This will ensure consistency and remove complexity for individuals when comparing which type of structure is better for them.

Where this is in the form of a state matching bonus, the levels should be in line with the tax reliefs available. This will allow an employer/individual as part of their decision-making process on which type of pension to select to include incentives for consideration;

1. the option of claiming relief now (current structure)
2. forgoing relief now to obtain a bonus at retirement.

32. What level of top-up or State incentive would you propose?

As above, we would like the State incentive to be consistent with current tax reliefs which are available to those who are saving for retirement.

33. If you don't agree with the 'top-up bonus' approach what type of incentive would you propose?

As we have previously mentioned we would like to see incentives in line with the current tax relief which is available. This would allow an employer/individual to decide whether to take relief now or forgo relief to attract a pension related bonus.

34. Is it appropriate to cap State incentives? If so, what should be the value of this cap?

We would suggest that any caps are consistent with the current caps in place for retirement savings, namely salary caps, age related incentives and overall maximum retirement fund.

35. Do you agree with the suggested approach to limiting the AE Registered Providers to offering three 'standard choice' DC savings options with one fund acting as the default?

We recognise that under the current pension structures, there are a majority of members who will choose the default fund which either tends to be a lifestyling fund or lower risk ESMA rated fund. In this regard we would see the rationale for limiting the fund options available.

The ability to offer a lifestyle fund should be included for investors, as this automatically de-risks an investors retirement fund as they approach their selected normal retirement age. It would be appropriate to offer the lifestyle fund as the default fund.

That being said, there are some individuals who will consider alternative funds and higher risk asset classes such as equities or property. Consideration should be given for a smaller range of additional funds or for individuals to have access to a wider range of funds through the AE structure as they would under current pension provision.

Finally, restricting the range of funds as part of regulation may impact the ability of the registered providers to incorporate new fund ideas over time. Under current pension provision this would not be an issue for consideration as new funds can be introduced. This could lead to a lack of consistency in pension provision.

Any additional range of funds which are either more concentrated in their investment strategy (e.g. Equity or Property), could be offered but with tighter controls and enhanced investor sign off.

36. If not, what retirement savings options do you consider should be provided?

As above in number 35, a lifestyle fund would be a prudent addition as would a range of controlled alternative funds.

37. An alternative to conventional DC is the target benefit approach – do you believe that a target benefit approach merits consideration as one of the 'standard choice' options for the AE Registered Providers?

Our approach would be to complement the proposed risk rated funds with the other funds referenced in point 35 to ensure consistency with the existing DC landscape. We believe this would be sufficient for those saving for retirement through the AE structure.

38. Do you agree with the approach to provide for maximum annual management and investment charges at 0.5% of assets under management?

Firstly, we would welcome further detail on how the on-going cost of the CPA is to be met, in particular as the objective is that the CPA will be self funding within a short period of time.

Secondly, we do not believe that capping the fee at 0.50% would be prudent and would be sufficient to ensure on-going support, engagement and development between the registered provider and the CPA.

Finally, we believe that there should be an open market for the providers (similar to current DC structures) and that market forces will therefore ensure pricing offers fair value to the policy holder.

39. If not, what approach to management and investment fees would you propose?

We believe that opening access to auto enrolment to a wider range of providers and creating a more consistent product to the current DC landscape will ensure pricing is competitive on an on-going basis.

At present employers or individuals can review the market and will ultimately settle for a provider whom they believe charges a fee which is competitive based on performance and service among other things. We would see the opportunity to replicate this for AE.

40. Do you agree with the proposal to allow members switch between funds?

Yes, we would always favour structures which offer choice, however linked to this we believe that offering investors access to advice when making this choice is important.

41. Do you agree with the concept of a minimum compulsory membership and that six months is an appropriate period?

Yes, we see the benefits in a compulsory membership period of 6 months, however consideration should be given to the following;

1. Members on parole with a new employer and how this may work if they leave at or just after 6 months.
2. The investment of contributions during this period, it is important that individuals understand that it is the value of the contributions they will receive back if they choose to invest them rather then leave them in cash until after the opt out period.
3. In a pot follows member scenario, does the individual receive 6 months compulsory with each employer or is the 6 months only at the point of initial entry into an AE scheme?

4. The difference between the current vesting structure and the proposed AE one as it may be that the current vesting would need to change for consistency.

As always, it is important individuals understand the structures they are saving into and the options open to them at the opt out window.

42. What is your view on an opt-out window of two months in months seven and eight of membership?

We would agree with this, however it is important that all individuals receive clear and easy to follow details on the impact of opting out and also of remaining within the scheme. The availability of advice for individuals would assist with this.

43. Do you agree that people who opt-out should be automatically re-enrolled after a defined period (e.g. three years)?

Yes, we would support this, however we would recognise people should be given a choice again in relation to provider, funds, whether AE or DC is the preferred option.

Where AE, the option of an opt out again after 6 months should be considered.

44. Do you agree with the concept of allowing members to take a period of Saving Suspension? If so, are there specific conditions that should attach to such suspensions?

Yes, we would agree and support the concept of a maximum lifetime savings suspension for example 2 or 3 years which could be taken in blocks of 4-6 months.

Details of the holiday periods could be recorded through the CPA.

These periods of suspension would be outside of periods where an individual might find themselves between employments.

Consideration should be given on how this can also be introduced to a DC pension with compulsory contributions.

45. Do you agree with the approach which sees employer and State contributions retained / credited to the CPA to contribute to its costs, in the case of member opt-out?

No, we would see that all contributions on an opt out are returned to the party who initially paid them in.

The state however could choose to forgo their contributions to the CPA should they wish.

46. Do you agree that Registered Providers should provide a standard range of investment/ draw-down options?

We believe that any options at the draw down phase should be in line with the draw down options available to those who are members of DC pension plans. Consistency is important, and, in this regard, any potential review should consider all those who are currently saving for retirement not AE in isolation.

47. Should members be allowed to allocate their accumulated fund across all of these post-retirement options?

In general, the options of being able to take a tax free lump sum and pension or to retain control of an accumulated fund through an ARF are sufficient, however consideration should be given to the ability to select what basis they would like to use for calculating their lump sum at retirement irrespective of whether they choose to purchase an annuity or an ARF.

48. Should members be required to invest a minimum proportion of their accumulated fund in a lifetime annuity (pension)? If so, in what circumstances?

No, similar arrangements should be in place to the current DC environment when a member reaches retirement. This will ensure consistency for all those saving for retirement

49. Do you agree that the appropriate age to grant access to the retirement draw-down products is the State pension age? If not, what age would you suggest?

No, for the following reasons;

1. For some individuals the state pension will make up a smaller part of their retirement income and as such they may choose to retire earlier and would require access to their private pension provision.
2. Some employees will have normal retirement ages before the state pension age.
3. Some employees will continue to work in some capacity post the state pension age and may choose to continue to save for private pension provision or choose to defer payment until they require same post retirement.

50. Do you agree that early access to accumulated retirement savings should be provided on the grounds of ill health and enforced workplace retirement? If so, under what conditions and from what age?

Yes, we would support this approach, which is in line with typical DC pension arrangements. We would envisage that similar options to the DC structure be considered. In line with this we would consider that this should be overseen by the CPA to ensure that accessing savings early is controlled and within set parameters.