



Sinn Féin
submission to

AUTO ENROLMENT PROPOSALS

Introduction:

Sinn Féin welcomes any steps taken by Government which aim to ensure greater financial security for today's workers in retirement. Ireland's lack of an earnings related pension to supplement the State Pension has left the majority of older citizens relying on the State Pension as their sole source of retirement income. If a worker today does not have an occupational pension through their employment and cannot afford a private pension, then they are likely to see a dramatic reduction in their income post retirement. This reduction would see many of our older citizens living on the poverty line.

When examining proposals around Auto Enrolment, one must also consider the changing landscape for workers today compared to just 20 years ago. The increasing cost of living today impacts on the amount of money workers can afford to set aside for a pension later on. It can no longer be assumed that older people will own their own home once they retire. This means that an adequate pension is needed to cover the cost of a mortgage or rent well into retirement. For many, in the past, this was not a factor.

The findings of the OECD review of the Irish pension system should be carefully considered when designing the Auto Enrolment Retirement Savings System. In particular, the Department must ensure that already existing issues in current pension schemes (highlighted by the OECD) are avoided in the new savings system:

- Ireland and New Zealand are the only OECD countries with no mandatory earnings-related pillar to complement the State Pension leaving a gap to be filled
- Pension charges by the Irish pension industry are expensive for small occupational and personal pension schemes
- Private pension coverage, both in occupational and personal pensions is uneven and needs to be increased urgently
- The State Pension system lacks transparency in respect of the calculation of entitlements and the interplay between contributory and non-contributory pensions
- The link between contributions and benefits in the Irish State pension scheme is very weak

Concerns with Auto Enrolment:

In response to the Strawman, Sinn Féin wishes to highlight the following as our main concerns to the establishment of an Auto Enrolment Retirement Savings Scheme.

1. Contributions

Sinn Féin welcomes the prospect of contributions from the employer, something which we have seen less and less of with the shift away from defined benefit to defined contribution pension schemes. This move is something that we have been highly critical of as it places too much risk on the employee. Weak legislation around the protection of Defined Benefit schemes has also created a situation where employers have walked away from their pension obligations to employees. Employers benefit greatly from the work of their employees and they should be responsible for contributing to their pension. In recent years this responsibility has not been met.

When it comes to employee contributions, they need to be affordable and employees need to be guaranteed that their contributions are being paid into a secure fund. This is paramount if Auto Enrolment is to work. In the UK, the contributions paid by both the employer and the employee have gradually increased over time, if this is to happen here then there needs to be clarity as to any planned contribution increases for both parties.

The contributions made by the employee, employer and the State must ensure an adequate pension at retirement. The weak link between contributions and benefits in the State Pension cannot be replicated in this scheme. Citizens need to see the benefit of contributing to Auto Enrolment in their pension.

2. Fund Management

If employees and employers are to contribute to a pension fund then the fund must be managed robustly with absolute certainty of an adequate and worthwhile pension in retirement. This must be guaranteed. At the very least citizens must be assured of the secure management of their pension savings.

This is something that Ireland has failed on in the past. The recent financial crash saw members of Defined Contribution pension schemes left at the mercy of the markets. This type of approach to Auto Enrolment will put pension funds at risk and will not ensure an adequate supplementary pension in retirement.

3. Fees and charges

Sinn Féin does not want to see a situation where the private pension sector are gifted the hard-earned savings of Irish workers to increase their profits through substantial fees. We are opposed to workers' savings being used to shore up the profiteering of private providers, who will charge workers for the pleasure.

4. Transparency

It is well recognised that the State Pension system is extremely complex. People pay their PRSI throughout their working life but have little understanding as to how their entitlement will be calculated or what they will receive. Other pension schemes are reliant on the markets with no guarantees as to what the amount will be at retirement. Auto Enrolment needs to stand out in our pensions system as transparent from the start.

Employees should be able to easily view the contents of their pension pot, the amount they are contributing, the contribution from their employer and the State's contribution should be clear to them. They should be able to view their pension pot as it increases and they should have an estimate as to the amount they will receive at retirement.

This information should be available to all those enrolled in the pension scheme online with a secure log in. The Department should also examine the possibility of an online app allowing easy access to pension information from anywhere.

5. Coverage:

One of the main reasons for establishing an Auto Enrolment savings system is in recognition of the fact that less than half (47%) of all workers have an occupational or private pension to supplement their State pension. Generous tax relief on pension savings has failed as a way of encouraging low and middle income earners to save enough for their retirement, and it is important that the Government have acknowledged this.

The increase in pension coverage following the introduction of Auto Enrolment in England must be replicated here and despite the fact that an Opt Out option is available there, the coverage rate remains high with around 80% of workers enrolled in some form of pension scheme.

While increased coverage is essential in establishing Auto Enrolment here, an Opt Out option is important and Sinn Féin supports this.

Sinn Féin's Proposals:

Sinn Féin believes that the aim of Auto Enrolment should be to provide a second tier earnings related state pension to supplement the first tier universal pension that Sinn Féin advocates.

While the Government's preferred option is to tender for and select a short-list of AE Registered Providers to deliver a range of retirement savings products, this is something we oppose. This is not transparent for workers. The pension system is extremely complex already - offering individuals a range of savings products by a range of providers will lead of confusion and may see some employees selecting savings products that they simply do not understand, and indeed, may not be suitable for them. The complex nature of pensions is exactly what puts people off in the first instance, and this should be avoided in any Auto Enrolment system.

Having said this, Sinn Féin would like to see the State playing a lead role at the heart of the Auto Enrolment structure. We believe that the contributions should be collected via the PRSI system and a state agency such as the National Treasury Management Agency (NTMA) should be charged with investing the funds collected.

The only objective for the NTMA would be to ensure the financial wellbeing of citizens' contributions to ensure their comfort in their old age. While protecting the retirement savings of citizens, the NTMA could also ensure that the money in the fund is put to work for Ireland such as investing in green energy and housing projects. This would be of dual benefit to Ireland and its citizens.