

# What You Should Know About Auto-Enrolment Pensions in Ireland



**What is auto-enrolment?** Auto-enrolment is expected to be introduced in late 2024. Auto-enrolment is a pension savings plan rolled out by the government. It aims to improve Irish workers' retirement outcomes. Currently, there are over 750,000 workers in Ireland without pension savings. This means they may only have the State Pension, (currently €277.30 per week effective Jan 2024), to retire on – meaning a huge drop in their living standards when they retire.

**What does it mean for employers?** Most large employers in Ireland have existing pension plans in place so may feel they will not be impacted by these changes. But often membership of these plans is voluntary, meaning that not all employees have become members of the plan. Therefore, employers will need to decide whether to open their existing plans up to all employees to auto-enrol all non-members to their existing plan or to instead allow for the auto-enrolment of non-members to the new State auto-enrolment system.

Smaller employers will also need to decide if they should enter the State auto-enrolment system or obtain a flexible traditional occupational scheme which affords generous tax relief.

## How does it work?

Through auto-enrolment, employers must contribute to a workers' pension plan. Employees will have access to a workplace pension plan which is co-funded by their employer and the State.

Workers who are not currently part of a pension plan, aged 23 years and older and earn €20,000 or more per year will be automatically enrolled into the new workplace pension plan.

## Example of savings through auto-enrolment:

For every €3 saved, the Government will put in €1, up to a limit. So, if a worker were to save €100 a month, the Government will add another €33. On top of this, an employer will also have to gradually match any contributions made by up to 6% of salary. This will start off at just 1.5% but gradually increase to 6% by year 10.

Source: Department of Social Protection (2022).

A key feature of the system is that although participation is voluntary, it operates on an 'opt-out' rather than an 'opt-in' basis. If after six months a worker wanted to opt-out, they can but they will be re-enrolled again after two years. The aim is to encourage workers to recognise the importance of saving for retirement through a pension plan.

## Some disadvantages of auto-enrolment:

- Rigid and fixed criteria
- No option for AVCs (additional voluntary contributions)
- One off contributions not allowed
- Benefits lower rate tax payers, higher rate tax payers worse off
- Limited investment choice
- Retirement age In line with State Pension age 66 to increase to 68
- No early access allowed eg: Ill health?

If you are an employer who wants to learn more about getting auto-enrolment ready, get in touch today.

## CONTACT CLEAR FINANCIAL

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