

Auto Enrolment: Into what, for whom and how much?

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This presentation

1. Introduction & Research Questions
2. Why Pensions?
3. Automatic enrolment: into what?
4. Automatic enrolment for whom: *methods and results*
5. Automatic enrolment: how much will it cost?
6. Next steps





1. Introduction & Research Questions

- National Pensions Framework (Department of Social & Family Affairs 2010)

“...the government will...develop an auto-enrolment system for employees, with a matching state contribution equal to 33 per cent tax relief, to facilitate increased coverage and adequacy...”

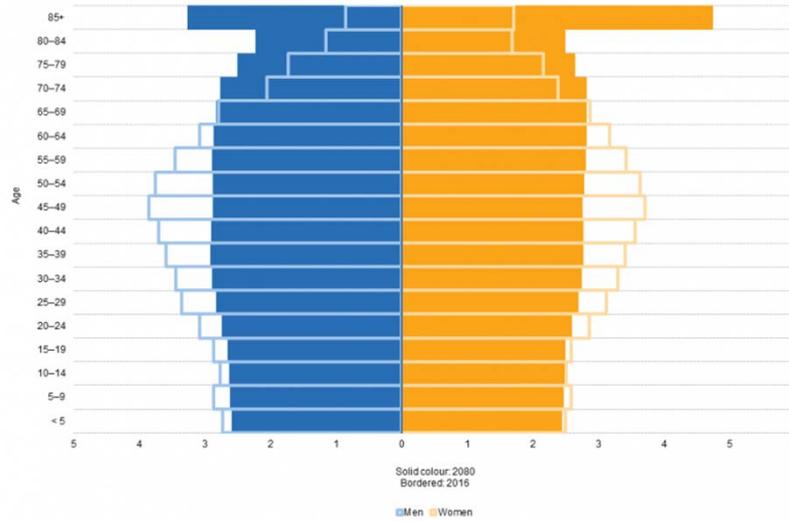
- Why automatic enrolment?
- What might it look like?
- Who is it for?
- How much will it cost?



2. Why Pensions?



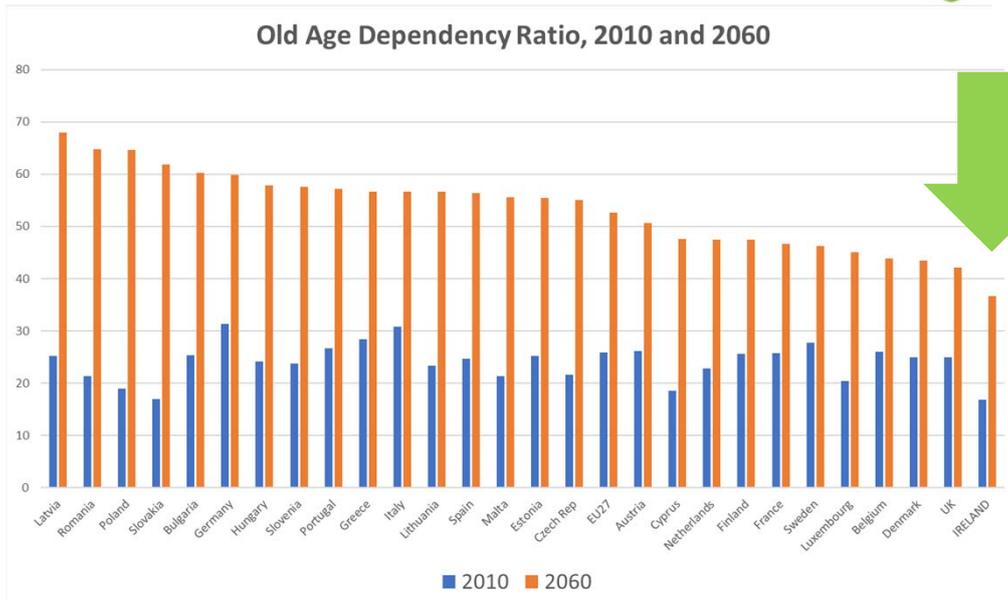
EU-28 Population Pyramid, 2016 and 2080



Note: 2016: estimate, provisional. 2080: projections (EUROPOP2015).
Source: Eurostat (online data codes: demo_gjangroup and pro_15nms)



Old Age Dependency Ratio, 2010 and 2060



Source: Eurostat



Table 3: The Revenue Forgone Cost of Pension Tax Expenditure by Component, Selected Years (€ million)

| <i>Tax Expenditure Category</i> | <i>2005</i> | <i>2010</i> | <i>2013</i> | <i>2014</i> |
|--|----------------|----------------|----------------|-------------|
| Tax relief for employees | 423.5 | 598.5 | 552.0 | 548.8 |
| Tax relief for employers | 90.0 | 515.0 | 132.0 | 138.0 |
| Employees tax relief on employers' contributions (BIK) | 370.0 | 515.0 | 497.0 | 520.0 |
| Tax relief on voluntary pension contributions | 399.9 | 253.1 | 211.0 | 210.0 |
| Exemption of investment income and gains of funds | 1,050.0 | 835.0 | 865.0 | n/a |
| Tax relief on "tax free" lump sums | 120.0 | 136.0 | 134.0 | 134.0 |
| Total | 2,453.4 | 2,852.6 | 2,391.0 | n/a |
| % GNP | 1.7 | 2.1 | 1.6 | n/a |
| % Total taxation revenue | 4.9 | 6.4 | 4.8 | n/a |

Source: Revenue Commissioners online statistics (accessed January 2017) and authors' analysis.

Notes: Cost data for exemption of investment income are unavailable for 2014. Employees receive a benefit-in-kind (BIK) from employer pension contributions as these are classified as equivalent to additional employment income.

Source: Collins and Hughes (2017)



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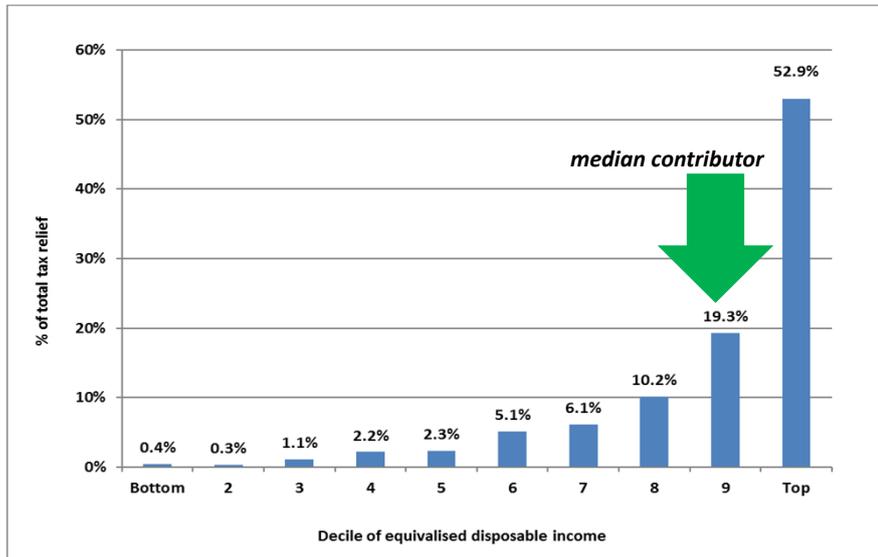
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Distribution of tax relief for pension contributions by income deciles, 2014 (employee and individual contributions)



Source: Collins and Hughes (2017)



3: Automatic Enrolment: into what?

A typology of automatic enrolment models:

1. Institutional Gate (Italy)
2. Simple (New Zealand)
3. Threshold (UK)

Institutional Gate

Italy



- Term used to describe when an institution adjacent to the pension system undergoes conversion into the pension system
- Pension system reformed into pillars 1992-1997
- Trattamento di fine rapporto (TfR)
- 2007 Silenzio Assenso
- Key issue: Trust

Simple

New Zealand



- First country to bring in automatic enrolment on a national scale in July 2007
- KiwiSaver. Individual retirement savings accounts for all workers
- Any resident aged under 65 can join.
- Proceeds paid as a lump sum
- Key issue: Fees

Threshold

United Kingdom



- Introduced for all workers on a phased basis from 2012
- NEST – a not for profit master trust created by the state to compete with commercial providers & drive down pension charges, ease administration for employers and employees new to pensions
- Earnings trigger and qualifying earnings
- Key issue: Automatic enrolment underclass?

4. Automatic Enrolment for whom?



- Addressing these questions using **data** from 2014
 - CSO SILC
 - Modelling
 - Described in Collins and Hughes (2017)
 - Using SILC 2014 as a basis
 - Derive tax cases (individuals and couples), marginal tax rates, tax credits etc
 - Simulations based on this
 - Robustness checks indicate it is representative

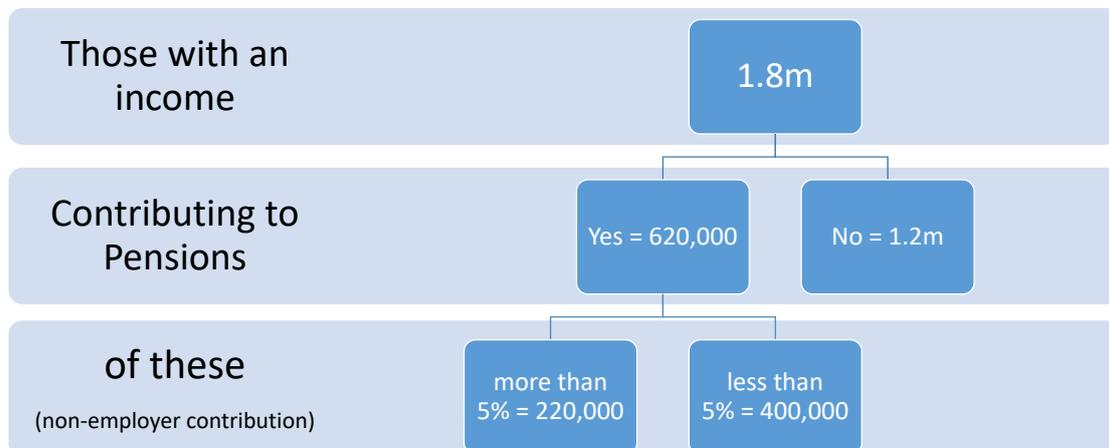


• Overall

- Pension coverage = 43% of income earners
- Active participation = 34% of income earners
 - contributions from any source
 - about 620,000 people
 - scale...



for whom?

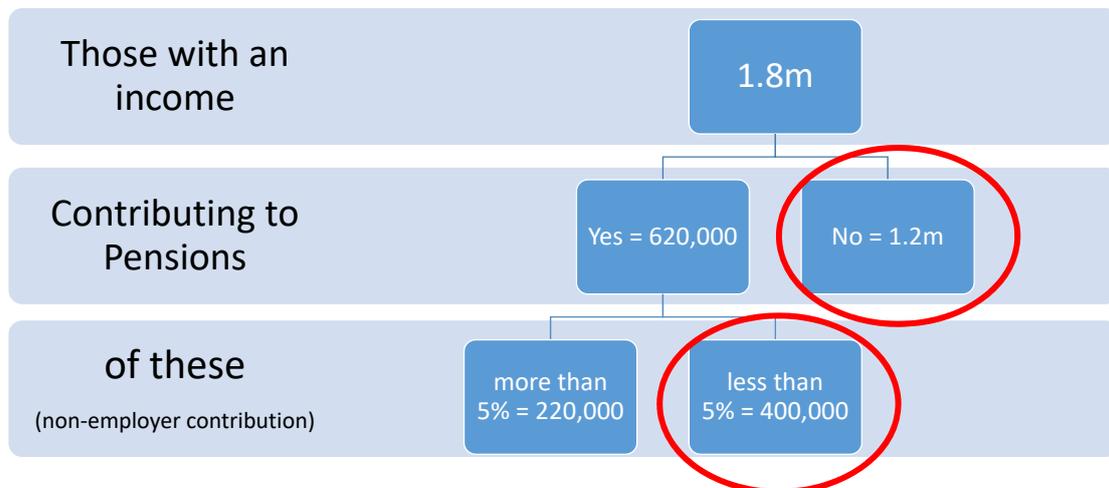




for whom?



for whom?





- ***Who are the unpensioned?***

- 50% males and 50% females
- 50% aged between 30-50 yrs
- 73% are standard rate income taxpayers
- 80% earn below average earnings
- 50% in the top 4 deciles of the income distribution



- ***Who are the unpensioned?***

- 50% males and 50% females
- 50% aged between 30-50 yrs
- 73% are standard rate income taxpayers
- 20% earn above average earnings
- 50% in the top 4 deciles of the income distribution

- ***Who are the low contributors?***

- more males than females
- 60% are aged 40yrs+
- 71% are higher rate taxpayers
- 66% earn above average earnings



for whom?



5. Automatic Enrolment: how much?

- First set of estimates – ongoing work
- Baseline estimates; no behavioural change ...
- Looking at:
 - individual contributions only (*not employer*)
 - Contribution rate of 5%
 - moving unpensioned to 5% contribution
 - moving up low contributors to 5% contribution
 - show overall effect and then without those below an income threshold:
 - what to choose?
 - €25,000 (as a start)...
 - marginal tax relief



| | For all earners | For those above €25,000 per annum |
|---|------------------|-----------------------------------|
| Increased Individual Contributions to Pensions | | |
| The unpensioned | + €1,729m | |
| The low contributors | + €666m | |
| Total | + €2,395m | |
| | | |
| | | |
| | | |
| | | |



| | For all earners | For those above €25,000 per annum |
|---|------------------|-----------------------------------|
| Increased Individual Contributions to Pensions | | |
| The unpensioned | + €1,729m | + €1,262m |
| The low contributors | + €666m | + €643m |
| Total | + €2,395m | + €1,905m |
| | | |
| | | |
| | | |
| | | |



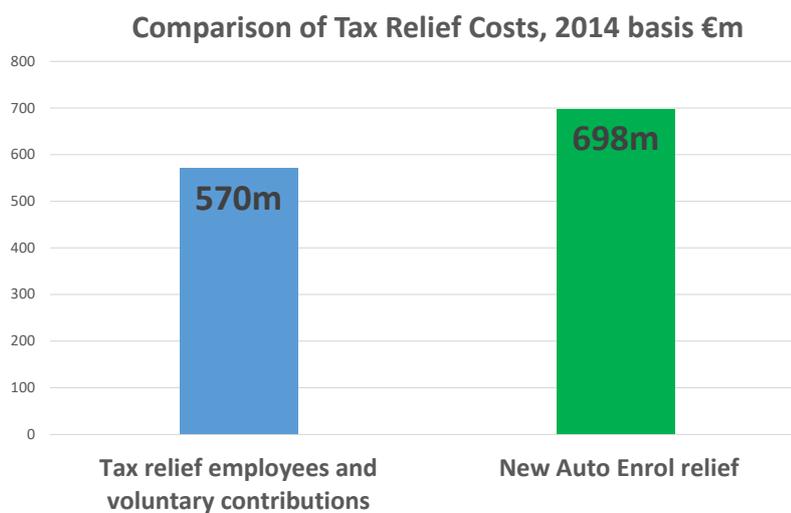
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| Total | + €2,395m | + €1,905m |
| Additional Tax Relief (revenue forgone) | | |
| The unpensioned | + €553m | |
| The low contributors | + €254m | |
| Total | + €807m | |



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| Additional Tax Relief (revenue forgone) | | |
| The unpensioned | + €553m | + €450m |
| The low contributors | + €254m | + €249m |
| Total | + €807m | + €698m |



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6. Next Steps

- ***Modelling issues:***

- rate of tax relief
- % of earning going into an AE pension (*Italy = 3%; UK 2% to 5%; NZ = 3%+...*)
- variation of the earnings threshold
- the cost of employers required contributions (*to employers & the state*)
- 2014 updating...

- ***Reform in the context of the broader pension supports system***

- could it be self-financing
- standard rating and auto enrolment?



- ***Gender perspective***

- low pay, broken work records...

- ***Costs, Charges, Fees and Value for Money***

- €1.9bn + per annum

- ***Behavioural responses***

- to explore...individuals and Government

- ***Policy alternatives***

- Auto enrolment = very expensive and leaves gaps
- other policy paths...

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