Briefing note for clients from Copsey Murray Chartered Accountants

Auto-enrolment Retirement Savings Scheme

What is auto-enrolment?

- Auto-enrolment (AE) is a new savings and investment scheme for employees where financial returns are paid out to participants on retirement, in addition to the State Pension
- Auto-enrolment is deemed by Government and the Department of Social Protection (DSP) to be essential as not enough people have occupational or supplementary pension coverage to help maintain a standard of living in retirement more closely aligned to that enjoyed during a person's working life

Why is auto-enrolment being introduced?

- Only 1 in 3 private sector workers have supplementary pension coverage
- Individual retirement savings are too low *
- This will result in a reduction in living standards on retirement *

(These are the views of the Department of Social Protection)*

Who will be auto-enrolled?

- An estimated 800,000 workers who are:
  - Earning over €20,000 per annum
  - Are aged between 23 and 60
  - Are not already in a pension scheme

Includes employees on probation, casual, seasonal or part-time contracts

Voluntary opt-in for employees outside age and income thresholds

- Those currently excluded:
  - Self-employed
  - Non-earning
  - Existing members of occupational schemes and PRSA

When is likely to commence?

- The legislation has been enacted
- It is anticipated that enrolments will begin early in 2025
- Not definite yet as there is still some fine tuning to be done

What are the contribution rates?

How much do employee and employers pay?

The amount employees pay will be set by the DSP at a fixed percentage rate of employees' annual salary. Employers will match the employees contributions, and the Government will contribute an additional amount. You cannot pay more or less than the set rate.

Employees and employers will pay 1.5% of annual salary in the first year. This will increase to 6% by year 10. Government will contribute a third of these amounts.

The table below sets out the rates employees, employers, and the Government will pay:

Year of the auto-enrolment scheme	Employee Contribution Rate	Employer pays	Government pays
1 to 3	1.5%	1.5%	0.5%
4 to 6	3%	3%	1%
7 to 9	4.5%	4.5%	1.5%
10 and after	6%	6%	2%

Example

The table below includes an example of a worker earning €20,000 a year:

Year of the auto-enrolment scheme	Employee pays	Employer pays	Government pays	Total payments per year
1 to 3	€300	€300	€100	€700
4 to 6	€600	€600	€200	€1,400
7 to 9	€900	€900	€300	€2,100
10 and after	€1,200	€1,200	€400	€2,800

What is the maximum contribution?

For every €3 contributed to the scheme by an employee, the employer will also contribute €3, and the Government will contribute €1. This means that for every €3 employees contribute, €7 will be added to their account.

As set out above, contributions are initially based on a percentage of employee earning and there is no ability for the employees to contribute at a higher rate. Both the employer's and the Government's contributions are capped at €80,000 gross annual salary.

If an employee earns over €80,000, the employee can still contribute 1.5% of any amount above €80,000 but employers or the Government won't match these contributions.

Taxation and other issues

Employee contributions made under AE will not qualify for income tax relief. The contribution will be taken from net pay rather than from gross pay. This is unusual. It appears however, that the contribution made by the state are designed to indirectly compensate for this.

Administrative issues

The employee contributions to AE are to be deducted by employers through payroll. The employer will also be obliged to contribute the employer portion to the scheme at the same time. The Government contribution will be funded directly by the state.

There will be penalties and fines imposed on employers who do no co-operate and operate the scheme in accordance with the requirements.

The contributions are to be paid directly to the pension providers as selected by the DSP. It appears that there will be direct additional costs to employee or employers in respect of the running costs. (*It is still unclear who will bear the costs and appears likely fees will be deducted from the investment income earned*).

Additional matters – yet to be resolved

It appears that at the outset, employee contributions will be capped based on the percentage of earnings as set out above. There appears to be no mechanism or flexibility for employees to contribute more than the statutory rates by way of AVC's.

Also, where employees currently have any existing pension arrangements in place they are excluded from the scheme. This includes employee self-funded pension plans and/or PRSA's. This suggests that those employees could potentially be disadvantaged and lose out on the Employer and Government contributions as set out in the Auto enrolment scheme (as above).

More information

Additional information on AE is available on the DSP website.

Alternatively, if you wish to discuss AE and the potential impacts for your and/or your business, please contact us on 01 6610144 or at info@copseymurray.ie .