COUNTRY SPOTLIGHT | IRELAND

Beginner's luck?

Legislation to introduce automatic enrolment in Ireland was recently passed by the Irish cabinet but much work still remains to be done, and the success of the initiative is yet to be seen. Sophie Smith **reports**

10 years since the OECD identified auto-enrolment (AE) as a key pensions reform that the country should implement, Ireland is edging closer and closer to finally introducing this crucial initiative, and leaving behind its title as the only OECD country that doesn't yet operate an AE or similar system as a means of promoting pension savings.

The latest milestone in this journey was seen in April, when the Irish government published the AE Retirement Savings System Bill 2024, which Department of Social Protection assistant secretary general, Tim Duggan, suggested could change the face of the Irish pensions landscape forever.

"The bill is a testimony to the fact that the government of today is still totally committed, the fact that they have approved this bill and are sponsoring it through the house, that's a huge thing for civil servants," Duggan said at the recent Irish Association of Pension Funds (IAPF) Summer Conference.

However, Duggan clarified that "publishing the bill is one thing, but more important than that is getting it debated and passed and then enacted", as both the committee stage and the fourth and final stage in the Dáil remain.

And whilst Duggan said that the Irish government is hoping to get through these final stages "relatively quickly and hopefully before the end of the month [*May*]", he admitted that may or may not be possible depending on the level of engagement there is at committee and the type of amendments that are proposed and how they can or can't be done.

The industry has welcomed this recent progress, with Irish Institute for Pensions Management (IIPM) president, Davin Spollen, suggesting there seems to be a genuine momentum and appetite to have this new mandatory system in operation in 2025, with cross-party support on this goal.

An ambitious timeline

But even if legislation remains on track, Spollen warns that the January 2025 implementation by any organisation's standards, for a completely new approach to mandatory retirement planning, requiring third-party contracts and bespoke systems, would be "highly challenging".

These concerns are shared by LCP Ireland senior pensions consultant, Kathy Keating, who says that "even the extended date of January 2025 is considered ambitious", whilst Mercer Ireland DC and private wealth leader, Caitriona MacGuinness, says that there remains a lot more work for government to complete before the system can be launched.

Building the right framework

And despite recent progress, IAPF CEO and PensionsEurope chair, Jerry Moriarty, believes the 1 January 2025 implementation date "still seems like an ambitious timeline as the administrator of the system has still to be appointed".

"They then have to build a new system that will administer 800,000 employees," he continues, pointing out that legislation is being debated at the moment, while the whole infrastructure of the National Automatic Enrolment Retirement Savings Association (NAERSA) still needs to be put in place.

Speaking at the IAPF's conference, Duggan admitted that this has been "an incredibly difficult piece of work due to the volume and complexity in the information bid".

However, he confirmed that the department is working on the final fitters, with hopes to conclude the procurement for both the administration and investment management services by the end of Q3.

Whether these deadlines will be met is yet to be seen though, as Moriarty points out that the tender for investment managers hasn't even been issued yet.

And broader operational concerns have been raised, as MacGuinness says that whilst the government emphasised "simplicity" as a key feature of its centralised approach, that does not tell the whole story.

One particular teething issue facing those employers who have their own pension plan and who wish to avoid using the central system is that they may be legally restricted from automatically enrolling their employees directly into their own plan. MacGuinness says will place even more importance on the role of employers when it comes to the employee engagement process and ensuring that employees understand the options on offer.

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Getting the message out

But this is just the tip of the communication iceberg, as MacGuinness says delivering key messages about the new regime could prove challenging, "especially because it will essentially be mandatory for employees to save for retirement (unless they actively opt out)". "For many, the concepts involved in pension saving will be very new, not to mention the financial implications of related salary deductions," she says.

Communications work is already underway though, as Duggan recently confirmed that Ireland's DSP is undertaking a three-phase communications strategy to launch the AE retirement savings system in the country.

In the meantime, however, there is still a great deal of doubt, as Keating stressed that legislation is still subject to change and there is a great deal of uncertainty on how it will work and be implemented in practice.

"Pension experts are struggling to provide clear advice to employers amidst this uncertainty," she says, "and in turn employers are struggling to prepare for the imminent

launch date while ensuring adequate resources and upskilling initiatives are in place."

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Change in a shrinking market

The introduction of AE also comes at a time of existing change for the Irish pensions market, with Ireland's Pensions Regulator, Brendan Kennedy, recently revealing that around 35,000 pension schemes have wound up since the start of 2023.

Whilst consolidation is being driven primarily by the introduction of IORP II legislation and the increase in associated regulatory costs, Keating says the pace of consolidation in the Irish market is likely to continue with the introduction of AE.

Despite the significant growth in the master trust market in Ireland, a recent report from PwC stressed that this growth is "clearly finite", with auto-enrolment set to take around 770,000 participants out of scope.

Moriarty, however, says that AE is "somewhat separate" as the focus is on employers that don't currently offer pensions to their employees, arguing that "existing schemes will always be better than AE" given the relatively low contributions being phased in. The Irish government has also stressed this point, reassuring industry that it has "no intention of undermining occupational schemes".

Speaking at the IAPF conference, Duggan said he has seen no evidence that AE causes damage to occupational schemes, clarifying that, "if anything, it seems to enhance them because for that very reason, people become more aware of them and more willing to engage with them and employers can push them a bit more".

But fellow speaker, Irish Life director of corporate partnerships, Shane O'Farrell, was unconvinced and said he was "concerned".

He also argued that these dilemmas are the government's own making, saying that "it is very busy, it is very intense, but to some extent, they have chosen the most difficult and complicated way to achieve this".

This could risk exacerbating recent capacity constraints, as Spollen points out that Ireland is at full meaningful employment, leaving all businesses resource challenged. "As many of us in the private sector have been looking forward to a reduction in the volume of work, which came in as a result of IORP II, it now appears that any such reduction may be short lived, as we now begin to plan around the significant consultation work that will need to be carried out to address employer and employee needs around understanding the AE system and their strategic/benefits approach to their own pension schemes," he adds.

A window of opportunity?

Whilst much of the recent attention in Ireland has focused on DC offerings amid the launch of auto-enrolment, Irish DB pension schemes have also seen continued improvements in their funding levels, with de-risking volumes set to pass €1 billion in 2024.

LCP Ireland investment and pensions de-risking specialist, Aaron Kilboy, notes that whilst DB plans have faced their share of challenges over the past decade, more recently, higher interest rates reduced liability values, resulting in better funding levels for most plans.

"Coupled with a new era of compliance and governance, this makes it an opportune time to step back and examine what the future holds," Kilboy continues, pointing out that many DB schemes are adopting 'insurer-like' investment strategies and can therefore "run-off" liabilities with a high-degree of confidence, while retaining the flexibility of the trust structure and the benefits that brings to members.

However, Kilboy acknowledges that, how competitive dynamics evolve within the insurance market remains to be seen, which will impact capacity, product range and pricing.

For the time being at least, only the immediate annuity market in Ireland is well developed, and Kilboy clarifies that while a deferred annuity market in Ireland may emerge, it isn't readily available yet.

IIPM president, David Spollen, also acknowledges that the pace of bulk annuity transactions so far in 2024 has been slower than expected, with less than €100 million in total volume anticipated in the first half of the year. However, he notes that further activity is expected in the latter half of 2024, when trustee time frees up following the April IORP II compliance deadline.

But Kilboy admits that while progress has been made to date and all major providers have indicated their willingness and commitment to offering such solutions in the future, there has not been significant non-pensioner transaction activity and a competitive market is unlikely in the near term.