Submission on Automatic Enrolment Retirement Savings System

'Strawman Consultation'
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Early Childhood Ireland is the largest representative of early childhood education and care settings in Ireland. We have an interest in the new auto-enrolment pension scheme on several levels specific to the early years sector: the impact on early years providers as employers, early years educators as members of this scheme and self-employed childminders and providers currently not eligible for the proposed auto-enrolment pension scheme.

In principle, we support the introduction of an auto enrolment scheme, to form a part of a system to ensure income adequacy in retirement and sustainability of the pension system. Further we understand that Ireland is one of only two OECD countries that does not operate any form of mandatory retirement saving plan.

However, we are concerned that the scheme could worsen the staffing crisis in the sector and impede the professionalisation of the sector under the Affordable Childcare Scheme. Due to historic government under investment in the sector, providers are struggling to hire and retain staff. At the same time, early years staff face low paid, precarious employment. Ultimately, this will have negative impacts on the care and education of young children, costing Ireland more in the long run.

We understand this proposed system is based on producing a supplementary pension at a reasonable income replacement rate for the individual's own needs in retirement, combined with the state pension. However, it is essential that all individuals have an adequate standard of living in retirement. We are concerned that a large cohort of employees will be excluded from the pension scheme based on the proposed income, employment status and age limits. The auto-enrolment scheme needs to be equitable, support low-income employees and low-income employers.

Below we have outlined these concerns under the sections outlined in the Strawman Proposal and answered the suggested questions where appropriate.

1. Administrative Arrangements and Organisational Approach

Early Childhood Ireland can understand the rationale for using the Central Processing Authority (CPA) as a means of keeping costs for employees and employers down and providing pension expertise support to both. However, we question the use of private pension providers and whether this will generate the best rate of return for employees paying into the scheme. It is essential that the cost of running the CPA does not take away from the returns that employees paying into the scheme will receive in their retirement income, especially given the mandatory nature of the scheme.

The establishment of a CPA and the use of private providers needs to be costed and compared to the use of a state agency to provide the pension schemes. It is difficult to see how private providers will not be motivated to make a profit, which should not overrule the financial benefits for employees paying into the schemes.

If it is required to limit the number of approved AE Registered Providers to provide economies of scale and drive unit costs down, then this should be implemented in order to produce the best value for money.

It is important that employees can select their own provider and not those required by employers, as employees may be forced into the most beneficial option for the employer. However, they will need guidance and information during the selection period which must come from the CPA and not burden employers. For employees who do not select a provider, it should be ensured that the scheme chosen for them should give them the best possible rate of return.

Likewise, employers must be aided financially with the administration of the scheme to ensure that employees can access the scheme. It is vital that the CPA is effective in running the schemes and in the provision of administration support as early years providers are already burdened with administration of several government early years schemes and assisting parents to access these schemes and would not currently have the capacity to take on this additional burden.

2. Target Membership

We have concerns about the targeted membership of the auto-enrolment scheme, based on the suggested financial, age and employment status limits to membership.

Financial conditions of the scheme

We have two main concerns about the financial conditions of membership of the scheme; those who will be excluded from the scheme because they do not earn enough to meet the income threshold and those who are eligible but earn low wages and will struggle to pay the 6% contribution.

Firstly, the minimum earnings entry level to the scheme of €20,000 will result in many people being excluded from the scheme and left to rely solely on the state pension in retirement. We understand those earning below the minimum threshold will be able to opt into the scheme, but we believe they should not be excluded from the mandatory scheme. Many women are more likely to be in low paid and part-time employment and will miss out on state and employer contributions to their pension. We acknowledge the point made in the Strawman proposal that more may need to be done for those in part-time work earning below the threshold and will hold the government to this.

The exclusion of low paid employees from the mandatory scheme is of particular concern to us as the early years workforce is predominantly low paid and female. The average wage is €11.93[1] per hour and many employees work on sessional or part-time contracts in the sector, 50% according to Pobal (2017). This means their gross annual earnings (excluding non-contact time payments) are below the minimum income threshold of €20,000. On the employers' side, in a survey we conducted in 2014, 90% of respondents had no exit strategy in place for retiring from their business (ECI, 2014).

[1] Weighted average of Pobal figures (Pobal, 2017).

Staff in the early years sector are limited in their capacity to earn higher wages due to historically low government investment in the early years sector. Many are on short term contracts and in receipt of social welfare during the summer. As an organisation we are campaigning for better conditions for early years workers, but until more money is invested by the government in the sector, these vulnerable workers need to be considered when designing sustainable pension schemes.

Early Childhood Ireland understands this proposed system is based on producing a supplementary pension at a reasonable income replacement rate for the individual in retirement appropriate to their own needs, combined with the state pension. However, it is essential that all individuals have an adequate standard of living in retirement. Therefore, we are proposing membership of the scheme is extended to all workers with special provisions made for low-income workers, explained below in the contributions section of this submission.

We are also concerned that those earning €20,000 gross salary or just above this, will have reduced living standards if they are forced to pay the full 6% contribution of their salary to pension schemes. We note that this annual earnings figure of €20,000 is below the living wage for 2018 and struggle to comprehend how an individual earning this salary could afford these pension contributions. In addition, this figure is based on minimum wage earnings at 40 hours per week and a full-time week can range from 35 hours, which would result in an income below the threshold.

Therefore, we suggest additional measures are introduced with the auto-enrolment scheme to ensure that low income employees can participate in the scheme and have income adequacy in retirement, and their employers are included in the scheme. As a starting point the income entry level to the scheme should be reconsidered. Firstly, perhaps the income threshold is not the limit for entry to the scheme, but the cut-off point for receiving additional financial support with pension contributions. There needs to be an evidence-based cost of living approach to determining the threshold that ensures employees will still be able to meet their minimum needs while paying pension contributions.

If there is to be an earnings threshold in the scheme, it should be reviewed on a defined rather than arbitrary basis. This could include increases to the Living Wage or the cost of living, using inflation or budget standards such as the Vincentian Partnership for Social Justice's (VPSJ) Minimum Essential Standard of Living.

Alongside introducing the auto-enrolment scheme, the State needs to address the inadequacies in the state pension for those who may rely solely on this pension in retirement. In 2018, a lone pensioner in receipt of either the contributory or non-contributory pension does not have an adequate income to meet their basic needs according to the Minimum Essential Standard of Living data (VPSJ, 2018).

Age conditions of the scheme

The age threshold for the scheme should be reconsidered as it will lead to the exclusion of more employees from the scheme and discriminates against younger employees. Not all 23-year olds are in education as stated in the Strawman proposal and if working they are liable for PRSI payments, depending on their income level. In the early years sector 12% of staff (Pobal, 2017) are aged 15 to 24 years old and we believe they should have equal access to the scheme.

In our submission on the Total Contributions Approach to pensions we highlighted the difficulty with increasing the pension age to 68 for those in a physically demanding job such as early years workers. However, as this is beyond our control, we believe this scheme should not have a contribution limit of 60 years old but fall in line with the retirement age to give people the opportunity to save as much as possible for retirement. Perhaps there should be an opt-out option for those who wish to stop making payments at 60 years given the higher dropout rates of those closer to retirement reported in the UK scheme as mentioned in the Strawman proposal. This will need to be trialled in an Irish context.

Employment status conditions of the scheme

If the self-employed are not automatically enrolled in the scheme, there is a danger of employers creating bogus self-employment to avoid paying contributions. Equally, we find it alarming that only 30% of self-employed people have supplementary pension coverage as highlighted in the Strawman proposal. Moreover, the self-employed are liable to pay PRSI contributions which entitle them to the state contributory pension, so the same principle should apply to be part of the auto-enrolment scheme.

In the early years sector, childminders and some early years providers are self-employed. We want to ensure that those who provide high quality care and education to young children are equally valued and have access to the same income standard in retirement as other early years workers. However, there needs to be special measures taken to ensure that self-employed workers can afford the pension contributions like PAYE workers.

There should be provisions made for people outside the workforce such as carers and homemakers to opt in to the scheme to reflect the value of their work. Their employer pension contributions could be made by the State. This could also work towards addressing gender inequality in pensions as these roles are predominantly carried out by women, as they would be assessed on their own merit in the pension system. Again, this needs to be costed and evaluated and a gender impact assessment carried out.

It is important that employees should be compensated and enrolled immediately when commencing employment otherwise there will be gaps in their pension savings. However, additional financial and administrative support should be given to employers in certain sectors such as early years providers that currently deal with a high turnover rate of 28.2% in the early years sector in 2017 (Pobal, 2017).

We understand that the scheme will be based on the premise that the 'pot' follows the employee, facilitated through the CPA. Therefore, we believe that if there is more than one source of employment, the CPA should have the capacity to manage this and ensure that the employee is not penalised, and additional administration work is not placed on the employer.

If employees are already on a private pension scheme and wish to transfer to the AE scheme, then they should be able to do so without being penalised by their employer. It should be ensured that private pensions uphold the minimum standards of the state scheme. We are also wary that employers with existing schemes may reduce the standards of their schemes during the adjustment period to match government minimum standards. This should be taken into consideration when designing the scheme and the possible effects on employees' pensions.

3. Employer and Employee Contribution Rates

As the largest representative of employers in the early years sector, we are concerned that the proposed contribution rates for employers and employees will lead to a deepening of the staffing crisis in the early years sector and impede the professionalisation of the sector. Ultimately, this will impact of the care and education of Ireland's young children and their families.

We welcome the proposed lower employer and employee contributions during the introduction period. However, the jump from 1% to 6% in a short time period is considerable for both smaller employers and for employee members of the schemes. We regard this to be currently unfeasible in the early years sector due to historic under investment in the sector. Most early years providers operate on a break-even basis and staff are on low wages in precarious conditions.

However, Early Childhood Ireland wants this pension scheme to be an effective means of improving working conditions for early years staff. Staff are vital to the quality of early years education and we want them to have the best possible employment terms and conditions, including pensions. At the same time, we want to ensure that early years providers are not put under any further financial and administrative strain. To this end, we suggest additional measures are introduced with the scheme for low-income employees and employers. For low paid employees who fall under an evidence-based income threshold (outlined above) there could be income disregards and credits introduced as in the PRSI scheme currently. We note that there are income disregards for employees in the UK auto-enrolment system and these could be introduced in Irish system. Again, this would need to be costed and evidence based.

On the employer's side, smaller employers such as early years providers will need assistance with pension contributions. Pobal's Annual Sector Survey (2017) notes that the majority of early years providers are operating on a break-even basis. In addition to this, just under a third 32% of the sector are community providers. Early years settings are unique employers in the sense they are educational in function and limited in their profit-making ability by Government regulations. The requirement for early years providers to meet staff to child ratios means that they are limited in offsetting the additional labour costs the auto-enrolment scheme will impose.

We are concerned that early years providers would be forced to enrol staff on short term contracts, working part-time hours to avoid paying pensions contributions for staff so that they can keep their setting open. In addition, providers may be deterred, like other employers, from increasing wages to meet the increasing pension contributions for staff. Again, we are concerned that this will impede the proposed professionalisation of the early years workforce under the Affordable Childcare Scheme, worsen the staffing crisis facing the early years sector and hinder the quality education of young children.

Early Childhood Ireland suggests a similar evidence-based cost analysis is conducted for employers to determine if they need assistance with pension contributions, perhaps based on turnover. We know this will be the case in the early years sector as providers already receive funding from the Department of Children and Youth affairs to assist with staffing costs. We suggest collaboration with the Department and our organisation on this matter.

Other measures could include delayed entry to the scheme for early years providers to enable professionalisation of the sector to occur such as in the UK scheme. This would have to coincide with the introduction of the ACS in conjunction with DCYA.

Perhaps, State and employer contributions for higher earners at a lower income threshold than the proposed €75,000 could be capped and redistributed to lower paid employees.

4. Financial Incentives Provided by The State

We acknowledge the sentiment behind the standardised benefits approach to state financial incentives outlined in the Strawman proposal that everyone paying in is to receive €1 for every €3 they contribute. We understand that this is a more favourable option than tax relief as lower earners stand to gain a higher state contribution that the current 20% tax relief. However, as with the approach of granting tax relief on pensions, those that earn higher wages will still benefit more than those that earn less under auto-enrolment. We favour an equitable approach to pension income that ensures everyone has an adequate standard of living in retirement.

It is appropriate to cap state incentives and it should be done so at the minimum rate. As stated previously, employees in the early years sector are low paid due to historic under investment in the early years sector. They would currently not be able to afford to pay higher pension contributions and avail of the proposed higher state investment into their pension. Instead, additional government funding should be used to top up the pensions of low paid employees and subsidise the contribution credits and income disregards we have called for earlier in this submission.

5. Investment Options

We are concerned that the risk is placed on the employee in defined contribution schemes. We are unsure of how income adequacy in retirement can be guaranteed using defined contribution schemes. This needs to be clarified.

6. Policy for Opt-Out and Re-Enrolment

Employees should be automatically enrolled into the scheme on commencement of employment, only on the condition that financial support is given to lower paid workers to make contributions, as we outlined earlier.

Likewise, Early Childhood Ireland agrees there should be minimum compulsory periods of saving but feel that 6 months is too long to keep employees in a scheme before they can opt out. We have concerns over the living standards of lower paid employees who may struggle to make payments for 6 months before having the option to stop making the payments and get their money back. We also question the level of management fees deducted from employee contributions and whether this is necessary given the mandatory nature of the scheme.

We also agree that employees who opt out of the scheme should be automatically re-enrolled after a defined period as their living circumstances may have changed, with the option of opting out again. However, clarification is required around the opt out process. For instance, if an employee chose to stay in the scheme past the mandatory period, will they get another option to opt out or only rely on savings suspension periods?

There should also be precautions introduced that ensure employers do not favour hiring those that have opted out of the scheme as they will have lower labour costs rather than new employees enrolled in the scheme.

We agree that members should be able to take periods of saving suspension. There may be periods in an employee's life where they wish to save more such as for a deposit for a house etc. We understand the OECD sentiment that it is critical to set clear time boundaries and to automatically 'nudge' workers and restart their contributions after the end of the Savings Suspension period. Therefore, there should be limits on the duration of the saving period and the number taken during a working-life time. Also, measures need to be put in place to ensure that employers will not force these saving periods on employees as both state and employer contributions to avail of ceased employer contributions.

Employers
As a representative body of early years providers, we want to ensure that employers are not burdened with additional administration work or financially worse off as a result of employee optout and savings suspension periods. There should be supports for employers in this regard. In the early years sector, Early Childhood Ireland highlights the growing administration burden on providers due to managing government schemes. We ask for recognition of this burden and additional support for early years sector employers.

Employer and state pension contributions should not be retained to fund the CPA in the case of employee drop-out in the case of early years providers. Many early years providers would struggle to pay this, and it will essentially be an additional tax. – like a tax Plus, the rate of employee opt-out will be hard to predict and we struggle to see this as a strong basis for funding the CPA.

However, at the same time it must be ensured that employers will not force employees to opt out of the scheme to refund their contributions. This again needs more costing and consideration.

Allowing employer pension contributions to be deductible for corporation tax purposes will favour larger employers over smaller such as early years providers. Will there be similar provisions for employers registered as charities? Early years sector includesprivate and community employers and we want to ensure that both employers face equitable contributions based on their turnover.

7. Arrangements for Benefits and The Pay-Out Phase
Members of the scheme should have a choice in what they do with their pension savings, so adequate information and assistance must be given alongside this. It is important therefore that Registered Providers (if this is the chosen path) should provide a standard range of investment/draw-down options.

At the same time, it is important that members of the scheme have a minimum adequate income in retirement. A cost benefit analysis of both ARF and annuity options in the Irish context should occur before members of the scheme are made to invest in annuity funds.

The State pension age is appropriate for draw-down but this may need to change for physically demanding jobs such as the early years sector. Early access to retirement savings should be provided on the grounds of ill health and enforced workplace retirement.

8. Other Concerns
Maternity, Paternity and Parental Leave
We note that there is no mention of the considerations in the scheme for when an employee avails of maternity leave, paternity leave or illness benefit. There is a growing consensus that it is critical that the first year of child's life is spent with their parents. Therefore, parents that have been paying into the auto enrolment scheme and wish to take maternity or paternity should not miss out on pension contributions when doing so.

We propose a form of credited contribution for those that avail of maternity (unpaid and paid), paternity and parental leave, like the credited PRSI contributions already awarded during the Maternity Benefit period. However, consideration will need to be given to early years providers that will have to hire cover for these periods of leave to meet regulation ratios, again this should be costed, and assistance provided.

Short-term and irregular contracts
We are concerned about the eligibility for the auto-enrolment scheme of those on short-term, part-time contracts or 'if and when' contracts. Our concern is three-fold: will these workers be eligible for the scheme? Will they be automatically enrolled then charged a fee to leave the scheme? And if they are eligible, will the payment be taken on a pro-rata basis.

Clarification is required on the contribution demands on employers and employees in these circumstances. It is our understanding that the payments will be taken monthly alongside payroll, yet for some workers that do not earn consistent salaries each month, work over time etc, will they be expected to pay the same amount each month? Likewise, if an employee has a contract for 9 months will these payments be made on a pro-rata basis and then refunded at the end of the contract? We note that the schemes in other countries (as outlined in the Strawman Appendices) are only aimed at full-time workers or permanent part-time employees and are unsure if this is the case in the proposed scheme in Ireland.

Specific to the early years sector, we highlight the variability of non-contact hours. On the employers' side, payment for non-contact hours is made at the end of the ECCE scheme. This means they will not have the finances to pay additional contributions for increased earnings resulting from non-contact time. We want to ensure that this does not impact on early years sector workers or employer's contributions and believe that non-contact hours should be exempt from the contributions calculations.

Non-Contributory Pension and Secondary Benefits
There should be provisions made to ensure that availing of the supplementary auto-enrolment pension does not impact on the entitlement of others in the household to the non-contributory pension. There may be employees in a household who would be ineligible to avail of auto-enrolment due to the proposed minimum income threshold and we do not want to see them penalised again. This is of concern for the early years sector as some staff would not be eligible for the state contributory pension due to irregular employment patterns.

We also want to ensure that the supplementary pension does not impact on the eligibility for secondary benefits such as fuel allowance and the Household Benefits Package for those aged under 70 years as these are vital supports for vulnerable pensioners.

Conclusion
Although Early Childhood Ireland supports increased employee savings for pensions, we believe the proposed scheme needs to be reconsidered and anchored on evidence-based proposals. We understand that experience can be taken from international lessons as referenced in the Strawman but the proposals in the scheme need to be tested in an Irish context.

Throughout the submission we have highlighted early years providers as unique employers. This is in terms of their educational function and profit-making limitations through government regulations. Early years providers are also operating in a sector suffering from historic under investment and a resulting staffing crisis. For the auto-enrolment scheme to work, special provisions must be put in place alongside the auto-enrolment scheme such as assistance with contributions for low paid staff and low-turnover providers. We want to re-emphasise that the auto-enrolment scheme must not impede on the professionalisation goals of the Affordable Childcare Scheme.

References

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