Statement to the Joint Committee on Social Protection, Community and Rural Development, and the Islands, January 25th 2023.

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Firstly, can I begin by thanking the committee for the invitation today. My name is Dr. Claire Keane and I am an economist working as part of the ESRI's Taxation, Welfare and Pensions research programme.

The auto-enrolment scheme is to be welcomed – a lack of pension coverage in the private sector has been highlighted for some time with around only one third of private sector employees having a private pension in addition to the state pension. All other OECD countries now have some form of a mandatory earnings-related component to their pension systems.

Research on a similar scheme in the UK[1] found that automatic enrolment hugely increased workplace pension membership by 37 percentage points (from a base of 49%). Increases were larger for those traditionally less likely to hold a private pension before autoenrolment e.g. younger people, lower earners and those with a lower employment tenure. Another interesting finding of this research is the knock-on effect it had on those not eligible for autoenrolment but who could voluntarily opt in (for example those below the income or age cut-off) who also increased their private pension coverage.

Over the last few years, I, along with ESRI colleagues, have carried out various research regarding pension auto-enrolment in advance of rollout of the scheme. We firstly profiled

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[1] Cribb, J., & Emmerson, C. (2016). *What happens when employers are obliged to nudge? Automatic enrolment and pension saving in the UK* (No. W16/19). IFS Working Papers.

who will be affected by auto-enrolment[2]. We found that younger people, and those on lower incomes are more likely to be autoenrolled, reflecting the higher private pension cover amongst older age groups and those on higher incomes. Over 70% of people facing auto enrolment will be under the age of 40 while half will earn under €30,000 a year. Men will be slightly more likely to be autoenrolled reflecting the fact that women are more concentrated in the public sector which has higher occupational pension coverage. Over one-third of those facing autoenrolment will be in the Manufacturing and Wholesale/Retail sectors.

Given the fact that the scheme allows people who are auto-enrolled to opt-out, but only after an initial 6-month period, there may be fears that individuals may face affordability issues. We, therefore, also examined the distributional and poverty impacts of the scheme in these initial 6 months[3]. We found that the largest negative impact will be felt in the middle-income ranges i.e. quintile 4, followed by quintile 3. The bottom two income quintiles (i.e. the 40% with the lowest incomes) will see the smallest fall in disposable income. These results are driven by two issues – firstly only 1% of families in the lowest quintile and 7% in the second quintile will actually be affected by auto-enrolment due to lower employment rates and incomes in these quintiles. Secondly, while we know that lower earners are more likely to be autoenrolled these individuals are often higher up the income distribution which is calculated based on family income – for example their spouse or partner has a higher income. We therefore see little impact on the at-risk-of-poverty rate. The addition of a suspension option on contributions will also help those unable to contribute at a certain point in time.

Finally, while it is argued that the state top-up of 33% will provide incentives to invest in a pension, particularly for lower earners, it will incur a cost to the state and does bring complexity to pensions saving as it will exist alongside the current system of tax relief at a person's marginal rate. Current levels and patterns of pension coverage do reflect existing tax reliefs, which provide greater financial incentives for those on the higher rate of income tax.

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[2] Bercholz, M., Bergin, A., Callan, T., Garcia Rodriguez, A. & Keane, C. *A micro-macro economic analysis of pension auto-enrolment options*, ESRI Working Paper No. 640.

[3] Keane, C., O'Malley, S & Tuda, D. *The Distributional Impact of Pension Auto-enrolment*, ESRI Working Paper No. 707.

However, evidence from the UK[4] and US[5] shows that pension coverage can be substantially increased simply by defaulting individuals into plans (and keeping the current tax relief system in place) with the long-run rise in pension provision largest for those who were least likely to save towards a pension before autoenrolment.

The creation of an additional pension system with differing incentives/reliefs also creates questions as to what will happen in practice if an individual in an auto-enrolment plan moves to an employer with a pre-existing scheme – for example to a private sector employer with an occupational pension or to the public sector with its own mandatory scheme. In addition, earnings tend to rise over time, particularly for individuals with a higher education level. Therefore, an auto-enrolled individual with lower earnings at a younger age who was initially paying no income tax or tax at the standard rate may find themselves disadvantaged under the autoenrolment scheme's 33% top-up if their earnings rise and they enter the higher tax bracket. This also creates equity issues – 2 individuals with the same earnings trajectory over their lifetime will receive different support from the state if one is in an autoenrolment scheme (and receives the state top-up) and another in an occupational pension (and receives tax relief).

Overall, the autoenrolment scheme is to be welcomed and it would be anticipated to significantly increase private pension coverage in the long run. This is particularly important as the population ages and pressure on the state pension rises. Future research should monitor dropout rates from the scheme and practical problems caused by the creation of an additional system with differing reliefs.

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[4] Cribb, J., & Emmerson, C. (2016). *What happens when employers are obliged to nudge? Automatic enrolment and pension saving in the UK* (No. W16/19). IFS Working Papers.

[5] Choi, J., Laibson, D., Madrian, B., and Metrick, A. (2004*). Saving for retirement on the path of least resistance*. Working paper. Cambridge, MA.;

Chetty, R., Friedman, J., Leth-Petersen, S., Heien Nielsen, T. & Olsen, T. (2014) *Active vs. Passive Decisions and Crowd-out in Retirement Savings Accounts*, The Quarterly Journal of Economics, Vol. 129, No. 3.