Submission on Proposals for an Automatic Enrolment Retirement Savings System

November 2018

Dublin Chamber is pleased to make this brief submission to the Department of Employment Affairs & Social Protection in respect of the public consultation process for an Automatic Enrolment Retirement Savings System for Ireland,[1] and thanks Department officials for their ongoing regard for business concerns. As the representative body for businesses in the Greater Dublin Area, Dublin Chamber is the largest Chamber of Commerce in Ireland. The Chamber's cross-sectoral membership base comprises 1,300 firms, spanning the spectrum from micro-enterprises to multinationals, and supports 300,000 jobs nationally. This gives the Chamber a keen insight into the needs of both businesses and their employees.

Dublin Chamber recognises the economic and social importance of ensuring that there is an adequate level of pension provision to support an ageing population, with the ratio of pensioners to people of working age expected to shift from 1:4.9 presently to 1:2.3 by 2055. If sustainable patterns of provision are not established in well advance, there is a considerable risk that the economy will become severely overburdened on account of Ireland's changing demographic profile, with negative implications for the tax burden and for living standards generally. To obviate this danger, individual savings will have to account for a greater proportion of retirement provision in the coming years.

Dublin Chamber acknowledges the challenges associated with encouraging greater private retirement savings due to a public perception that pensions are confusing, and a pattern of individual inertia with respect to adopting a pension scheme in due time. The current level of individual retirement saving is too low, with approximately two thirds of private sector workers having no pension coverage. In this context, the Chamber recognises that a flexible system of auto-enrolment may be necessary. However, Dublin Chamber wishes to highlight three concerns in respect of the Strawman Proposal: the respective proportions of State/employer/employee contributions; the potential implications of the proposal for the tax treatment of pension contributions; and the position of self-employed earners.

Proportion of Contributions

The proposed increase in mandatory employer contributions to a maximum of 6% of gross salary by 2027 would represent a significant addition to labour costs. The impact will be

[1] Dept. Employment Affairs & Social Protection, *A Strawman Public Consultation Process for an Automatic Enrolment Retirement Savings System for Ireland*, http://www.welfare.ie/en/downloads/Automatic_Enrolment_Strawman_Proposal.pdf

particularly felt by SMEs and other firms operating with tight margins, an important consideration in the context of continuing underperformance in the Irish SME sector and Ireland's heavy reliance on multinationals. This 2018 OECD Economic Survey has again highlighted the existence of a two-speed economy in Ireland, confirming that the productivity gap between the indigenous and multinational sectors is widening rather than narrowing.[2] In a joint study with the Dept. Finance this year, the ESRI demonstrated that there is also a significant investment gap in the Irish SME sector, calculating that the gap amounts to just over €1 billion for 2016 alone.[3] In this context, such moves should be considered cautiously.

Dublin Chamber acknowledges that a 'partnership approach' to retirement savings as outlined in the Strawman Proposal, involving State, employee, and employer contributions, is valid. However, there is concern in the business community about the proposed proportions to be contributed. Dublin Chamber notes that whereas the ratio of employee-employer contributions under the proposed system stands at 1:1, the ratio of employee/employer-Government contributions stands at 3:1. *Dublin Chamber suggests that consideration must be given to a more equitable breakdown of contributions.*

Tax Treatment of Pension Contributions

Dublin Chamber is particularly concerned that the tax relief for employer contributions should remain in place. There must be clarity as to whether the Government intends to maintain the relief under the new system. With the proposed employer contribution rate under the auto-enrolment system rising to a maximum 6% of salary by 2027, the absence of an adequate tax relief would have a negative impact on business costs, and the tax treatment of employer contributions should be left as it currently is. *Dublin Chamber strongly supports retention of the existing tax relief for employer contributions to pensions under the new system.*

Dublin Chamber is also concerned that under the proposed Auto-Enrolment system, the tax relief afforded to individuals on their personal pension contributions could cease. While it would likely be replaced by the proposed state contribution of €1 for every €3 contributed by person concerned (an effective tax relief of 25%), this would still represent a lower benefit than that afforded by the relief currently available to employees at marginal tax rates. The Chamber also notes that the state contribution would likely be made in the context of an income cap, meaning that for salaries of over €75,000 the level of relief would be even further diluted. *Dublin Chamber believes that the tax relief for employee pension contributions should remain as it is in the context of auto-enrolment.*

Support for the Self-Employed

Dublin Chamber has long called for a more supportive environment for entrepreneurs, including more equitable tax treatment for the self-employed. In this context, Dublin Chamber recommends that the self-employed be eligible to pay into the system if they wish, and that sole traders' contributions should be deductible against their corporate/income tax.

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[2] OECD Economic Survey of Ireland 2018, https://www.oecd.org/eco/surveys/economic-survey-ireland.html

[3] "The magnitude of this "investment gap" is economically meaningful and is estimated to be just over 30% (in 2016) relative to SMEs actual investment." ESRI, Measuring the Investment Gap & its Financing Requirements for Irish SMEs, 8 March 2018, https://www.finance.gov.ie/wp-content/uploads/2018/03/180308- Measuring-the-Investment-Gap-and-its-Financing-Requirements-for-Irish-SMEs.pdf