Director's Corner

I am Con Daly, Managing Director of Moneytree Finance Limited, based in Rosscarbery in the heart of West Cork. Over the coming months, I will be offering specialist advice to company directors, under the title 'Director's Corner'.

I am confident that this will be of huge benefit to business leaders, both professionally and financially.

Con Daly
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Auto Enrolment - what is it?

Auto enrolment is a new pension scheme designed to encourage most of the population to put some sort of pension coverage in place. The new rules mean that people have to opt out of this pension instead of opting in, as is currently the case. There are almost 70% of people in the private sector who have no pension coverage whatsoever, and Ireland has less than 36% of GDP in pensions, whereas our next-door neighbour the UK has 126%, so this is something that has to be rectified over the medium term. Auto enrolment will force most employers to add pension into salary discussions, and will lead to more and more people having some sort of pension provision for their retirement. I personally think that this is a time for all of us, employers and employees alike, to change the process of wage negotiations. The wage received is only one part of the equation; pensions also deserve to play a part. This is not only an issue for employers. Employees also need to take a different approach to their take home pay/take home pay and pension package. This is particularly true for 2025, and employees looking to get a pay rise of say 3/4% for the year need to allocate most of that for the pension, so 3% into pension and 1% pay rise. After the pain of this year is done, we will settle down to a new normal where all pay discussions contain a pension element. This is what Auto enrolment is designed to do - to force more people into making a decision about funding for their own retirement.

New Pension rules from 2025

Auto enrolment is due to start on 1st Jan 2025, and while this might be delayed for a few months it will be part of the framework going forward. There will be employees who refuse to go on a pension journey but they will be forced into the auto enrolment. They can withdraw after 6 months and get their contributions back, but the employer or government do not receive a refund and their contributions remain in the employees fund. The employee will need to re-opt-out every 2 years. Auto enrolment starts at 1.5% employer, 1.5% employee and 0.5% government in years 1 to 3. This will increase to 3% and 3% and 1% from year 4, and again from year 7 to 4.5%, 4.5% and 1.5%, and from year 10 to 6%, 6% and 2%. This means that from 2035, 14% of everyone's salary will be going into a pension, either an employer-based company pension scheme, employer-based PRSA Scheme, or auto enrolment. The entry requirement is from payroll. If no scheme exists on the payroll, then auto enrolment must be applied. This will also affect personal pension plans and personal PRSAs not paid through payroll. The system is being managed by four insurance companies, yet to be identified, and the charges are 0.5% per year. There will be a form of life-styling (reduction of risk as you get older) and the four insurance companies will receive 25% of the monies going into the fund. The employee will have discretion regarding the risk profile but not on the fund investment.

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As an employer, what do I need to do?

What is the best way to deal with this for my Company?

That depends on a few issues:

1. Do you have long-term staff who will be with you long into the future? These staff are worth investing in, and the company should view putting in place a company pension scheme/company PRSA scheme.
2. Higher rate tax payers will lose out in auto enrolment as relief is 25% whereas relief can be 50% in a company scheme.
3. Lower tax payers (under €42,000 per year) might be better off in auto enrolment, however this removes the discretion of who pays what. Auto enrolment tax relief is 25% which is higher than 20% tax relief. However if the pension is done as part of a pay rise, the employer can pay, and then the effective tax relief is 26%.
4. Employees earning less than €20,000 per year are not affected and no pension is needed. This amount includes all pay, basic, overtime, commission, etc. When the salary exceeds €20,000 the full 3% is required by auto enrolment, not just 3% of the amount over €20,000.
5. Minimum wage €12.70 for full and part-time staff (earning over €20,000 and working more than 30 hours per week) and short-term staff will need to be setup on the auto enrolment as there is no discretion for wages to be reduced to enable the employer to pay the employee's share.

The important issues here are:

a. What are the charging differences?

b. Where is there discretion to make changes?

So if all, or most, of your employees are in the higher tax band then auto enrolment is **NOT** for you. You will need to set up either a company pension scheme (Master Trust) or company PRSA Scheme. And if most of your employees are in the lower tax band, you have a decision to make. Do you and your employees go down the auto enrolment path, or keep the control in-house and set up a company scheme? The good news is that a company with a broad mix of categories can use all three systems, ie auto enrolment, PRSA and company pension scheme.

Employee - What do I need to do? What is best for me?

Again, that depends on a few issues.

1. What age are you?
2. If you are in your 40s or 50s and have no pension, then a company scheme will allow you to take one-and-a-half times your salary as a tax-free lump sum when you retire. The older you are when you start your pension, the more attractive this option becomes as you should be able to take most or all of your fund tax-free.
3. If you are young, just starting off with a career path ahead of you, or maybe become self-employed or move employment in later years, then the flexibility of a PRSA might be the best path for you as this is a personal product you can transfer from employment to employment.
4. If you are in the high tax band then auto enrolment is **NOT** for you. Auto enrolment has 25% effective tax relief, whereas you can have 50% effective tax relief on a company sponsored scheme, ie either a company pension scheme or company PRSA.
5. If you are in the lower tax band, this is where it gets a little complicated. The auto enrolment has an effective tax relief of 25%, whereas you only get 20% tax relief on your contributions. However, if you agree with your employer, as part of your pay rise, that they make the contributions for you, then the effective tax rate is 26%, so I would advise you to look at it differently. If you are young and have a long career ahead of you then auto enrolment is, as you rise up the pay scales, probably not your best option. The lower tax band does ask questions of what is best, and it is hard to know. The only certainty is that you will definitely benefit from having some pension when you retire.
6. If you are a part time employee on the minimum wage earning over €20,000 then auto enrolment is the answer, and you are the very person the scheme was designed for, to ensure that you have some personal funding for your retirement.

Existing company pension schemes

It is most definitely time to review the current pension structures within your company. Pensions have become fundamentally cheaper over the last few years, so it is worth taking a new look at where you are and what you are doing. When you add the changes in Pension Rules then the old default of company pension scheme is no longer the only show in town. Also, for company directors, it is well worth looking at the new PRSA model, which has very exciting advantages that are worth knowing about. Auto enrolment will affect all of us and we can either look at it as a problem we wish to get around, or we can use it for the good of our staff and to create more staff loyalty to our companies.

At Moneytree Finance we are a fully independent broker offering every option that is available on the market. Why not get in touch and we can do a review of where you are, where you need to be for January 2025, and show you how to get there. Alternately, give me a call on my mobile and we can see if I can be of service to you, your company and your employees.