Auto-Enrolment: Why Irish Employers Must Act Now and 40% Tax Payers Even More So!

Ireland's auto-enrolment pension scheme—officially named "My Future Fund was signed into law on 9th July 2024, with a confirmed start date of January 2026.

With just months to go, many employers remain naively unprepared for this imminent reality, while their higher-rate taxpaying employees will unknowingly forfeit thousands in tax relief annually by waiting for the Government scheme rather than joining a much superior employer-sponsored alternative.

My Future Fund: The Reality of Auto-Enrolment

The National Automatic Enrolment Retirement Savings Authority (NAERSA) will oversee "My Future Fund," automatically enrolling employees aged 23-60 earning over €20,000 annually. The contribution structure reveals both the scheme's limitations and the opportunities for proactive employers:

Phased Contribution Rates (Total Earnings)

- Years 1-3: 3.5% total (1.5% employee, 1.5% employer, 0.5% government)
- Years 4-6: 7.0% total (3.0% employee, 3.0% employer, 1.0% government)
- Years 7-9: 10.5% total (4.5% employee, 4.5% employer, 1.5% government)
- Year 10+: 14.0% total (6.0% employee, 6.0% employer, 2.0% government)

While these contribution rates will eventually reach reasonable levels, the initial years offer inadequate retirement provision. More critically, the scheme's inflexible structure creates significant disadvantages compared to employer-sponsored alternatives.

Why Early Action Beats Reactive Scrambling

Once My Future Fund becomes mandatory in January 2026, every employer in Ireland without an existing pension scheme will simultaneously seek providers and advisers. Pension providers will almost certainly struggle to handle the surge while maintaining service quality with inevitable delays and needless additional administration costs.

Enhanced Recruitment and Retention

Today's employment market is intensely competitive, particularly for skilled professionals. A comprehensive pension scheme isn't just a future benefit—it's a present-day differentiator that signals genuine commitment to employee wellbeing.

Candidates increasingly evaluate total compensation packages, not just base salaries. Companies offering pension schemes today demonstrate forward-thinking leadership and authentic care for employee futures.

Financial Planning and Budget Control

Implementing a pension scheme now allows strategic financial planning rather than reactive budget adjustments. You can phase in contributions gradually, select schemes aligned with your company's financial capacity, and integrate pension costs into long-term business planning.

The Hidden Cost of Delayed Action for Higher Earners

Here's where many employers unknowingly are going to disadvantage their most valuable employees: Ireland's auto-enrolment system creates a significant tax disadvantage for higher-rate taxpayers compared to employer-sponsored schemes.

How so?

The Government's "top-up" of one-third of employee contributions equates to tax relief of just 25%, regardless of the employee's actual tax rate. This creates a massive disadvantage for 40% taxpayers compared to employer-sponsored schemes, where relief is granted at marginal tax rates and over any lengthy period of employment, this difference will compound to substantial amounts.

Superior Benefits Beyond Tax Relief

Access

My Future Fund locks in access to benefits until state pension age (currently 66) with no flexibility for early retirement except in cases of ill health. This rigid approach contrasts sharply with employer schemes, where Revenue permits access from age 50 onwards.

Recent Irish Life survey data shows the average retirement age from employer schemes is 59.7 years, highlighting how My Future Fund's inflexibility conflicts with real-world retirement patterns.

Severely Limited Death Benefits

The death benefit structures reveal another critical disadvantage:

My Future Fund: Upon death before Auto Enrolment Retirement age 66, only the account value **after tax deduction** passes to the estate.

This pales in comparison to Employer schemes, where:

- PRSA: Full fund value passes tax-free to the estate
- Occupational schemes: Up to four times annual salary plus personal contributions paid tax-free, potentially with additional pension benefits

No Additional Voluntary Contributions (AVC's)

Disappointingly, My Future Fund prohibits additional voluntary contributions (AVC's). Employees cannot supplement their retirement savings within the scheme, regardless of their financial capacity or retirement aspirations.

Restrictive Investment Options

My Future Fund offers extremely limited investment choice: a default strategy plus low, medium, and high-risk options.

Employer schemes typically offer comprehensive investment platforms with dozens of fund choices, allowing employees to construct portfolios aligned with their risk tolerance, time horizon, and financial objectives.

The Compliance Issue

My Future Fund will bring complex compliance obligations including automatic enrolment procedures, contribution calculations, and ongoing regulatory reporting, including the scheme's opt-out provisions adding administrative complexity.

The Critical Choice for Existing Schemes

Employers with existing pension schemes now face a crucial decision. Current scheme members are exempt from My Future Fund, but employees not enrolled create administrative headaches. An Irish Life survey found 80% of employers prefer extending existing schemes to all eligible employees rather than managing dual pension systems.

To maintain exemption status, employer schemes must offer immediate membership to all employees between the ages of 23 – 60 earning €20,000+, making membership compulsory rather than voluntary. This requires updating employment contracts and ensuring universal participation.

Addressing Non-Participating Employees

Employers have three options for existing employees not in their current scheme:

1. **Include everyone in the existing scheme** - avoids dual administration
2. **Allow some employees into My Future Fund** - creates administrative complexity with gross pay and net pay deductions plus inevitable benefit comparisons
3. **Wait and see** – read this article again

The Cost of Inaction

Waiting for My Future Fund means accepting a Government-designed system rather than choosing what works best for your business and employees. It means your higher-rate taxpayers will be substantially disadvantaged.

Your Next Steps

If your company doesn't currently offer a pension scheme, the time for action is now. If you have a scheme but haven't enrolled all eligible employees, auto-enrolment legislation will likely require universal participation anyway—why not capture the benefits early?

The process begins with understanding your options, evaluating your employee demographics, and selecting appropriate schemes. Professional guidance ensures you navigate the complexity while maximising benefits for both your business and your employees.

Get in touch now - <u>because when it comes to pensions, timing isn't everything—it's the only thing.</u>

If you would like to discuss how we can help you in this matter, then please get in touch. Email info@lifestylefinancialplanners.ie or call 096-75951 to reserve your complimentary **Discovery Meeting**.