Expert analysis of the latest pension trends

Auto-enrolment, Consumer Protection Code and more updates

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Welcome to PwC Ireland's Pensions Pulse, a monthly digest of unique commentary on and insight into the Irish pensions landscape.

Each month, employers who sponsor pension schemes and personal pension savers can find valuable updates on current topics in this Pulse.

This month, we provide an update on the progress of the Auto Enrolment Bill, the Consumer Protection Code review and how retirement age legislation may change. We also comment on recent interest rate expectations, implications for savings and investments, and consider the current tax landscape.

Auto-Enrolment Bill update

The Auto-Enrolment (AE) Bill reached another milestone, completing the fifth and final stage in Dáil Éireann on 22 May. No substantial amendments were made.

The third of five review stages is taking place in the Seanad, before the President signs the bill into law. Some of the areas currently being debated include:

- the role of the NTMA (if any)
- the eligibility age (23) and earnings (€20,000)
- the investment options that will exist.

We anticipate the Dáil will pass the bill into law before its summer break.

Pre-legislative scrutiny of Retirement Ages Bill

In May, the Joint Committee on Enterprise, Trade and Employment published a comprehensive report scrutinising the preliminary framework of the Employment (Restriction of Certain Mandatory Ages) Bill 2024. The bill is designed to tackle the legal aspects of enforcing mandatory retirement ages in the Irish workforce.

The report acknowledges the profound effect compulsory retirement can have on an individual's economic stability, particularly for those who may not be ready to retire at the predetermined age. To address these concerns, the Committee has recommended nine key changes. We consider four of them:

Ending forced retirement

The proposed bill would prohibit employers from imposing mandatory retirement prior to an employee's eligibility for the State pension. This initiative aims to grant workers greater control over their retirement choices.

The Committee advocates for a retirement system based on personal choice, suggesting at the age of 65, employees should have the option to continue working without the burden of having to demonstrate their capability.

Safeguarding State pensions

The Committee stresses the critical role of the State pension as a source of income. It highlighted any increase in working age should not be a reason to weaken or restrict access to the State pension.

Considering advance notice for retirement

The proposed legislation would require employees to provide three months' written notice before retiring. The Committee recommends a clause ensuring that once a notice period begins, it cannot be halted unless both parties agree. It suggests employers should be responsible for initiating discussions with employees about their retirement intentions.

Creating flexible retirement options

The Committee urges the Department of Enterprise, Trade and Employment to work alongside social partners and the Workplace Relations Commission (WRC) to create a more adaptable and senior-friendly departure from employment.

The aim is to move away from fixed termination dates to more personalised arrangements. The Committee also points out the need to reevaluate the current system that compels individuals to choose between claiming benefits at 65 or continuing to work, as it may not reflect their personal or financial needs.

This report marks a move towards establishing equitable retirement protocols in Ireland, prompting employers to contemplate the potential effects of this legislation on their staff. The recommendations are poised to reshape the retirement landscape, offering more autonomy and financial protection to those approaching retirement age.

Consumer Protection Code review

The Central Bank of Ireland is currently conducting a comprehensive review of the Consumer Protection Code (CPC). The CPC serves as a protective shield for consumers, guiding their interactions with financial institutions and products. It covers a wide range of financial services, including banking, insurance and investments. This review comes at a time when some brokers' current practices are under the spotlight of the Central Bank.

While occupational pension schemes (including AE) are not under the CPC's scope, products such as PRSAs and ARFs issued as insurance policies fall under its auspices. As such, the review interests pension stakeholders, including providers, employers and members.

The review aims to modernise the CPC, ensuring it remains relevant and effective in protecting consumers of financial products.

Its main objectives are to:

1. ensure firms incorporate customers' interests into their strategy and decision-making
2. provide clarity for firms regarding their consumer protection obligations
3. support consumers and firms by offering online CPC resources and guides.

The consultation closed on 7 June 2024 and a revised Consumer Protection Code is expected to be published in early 2025.

Market update

In April, the United States experienced an unexpected surge in inflation figures, triggering a shift in market sentiment. Initially, there was widespread anticipation of a 1.5 percentage point reduction in US interest rates for this year. Market participants are now factoring in the possibility of just one rate cut, expected to take place in September. The Federal Reserve's response to inflationary pressures remains a pivotal factor influencing the overall economic landscape.

European investors had anticipated a substantial 1.5 percentage point reduction in ECB rates for the current year. This projection, however, has been scaled back. The revised expectation now stands at slightly over 0.75 of a percentage point reduction. The ECB's delicate balancing act, between stimulating economic growth and managing inflation, underscores the challenges faced by central banks worldwide.

This shift in interest rate expectations has implications for pension schemes and savers. Bond portfolios should be reviewed – there may be an opportunity to secure higher yields prior to any further interest rate cuts. For defined benefit pension schemes, the financial impact of these interest rate moves should be monitored closely, particularly where a scheme is considering, or in the progress of, de-risking or settlement. Those nearing or at retirement will see the interest rate environment reflected in annuity rates.

Review of the taxation regime for investments

In 2023, Minister for Finance Michael McGrath established the scope for reviewing the taxation of investment products. He then initiated a consultation process, Funds Sector 2030: A Framework for Open, Resilient & Developing Markets.

The process has seen significant engagement, with approximately 200 submissions received to date. A common thread is the call for simplification and harmonisation of investment fund taxation. Investors currently face a labyrinth of tax rates, with life assurance exit tax at 41%, capital gains tax (CGT) at 33%, and deposit interest retention tax (DIRT) at 33%. Adding to the complexity, some investments also attract income tax, PRSI and USC.

The 2016 Finance Act's 'deemed disposal' rule, aimed at curbing tax avoidance, mandates investors to pay tax on gains after eight years, irrespective of whether they sell their investment. This rule, along with

the lack of loss relief for fund investments, has been criticised for its complexity and unfairness.

For savers, it’s crucial to consider the taxation of investments. The current tax complexities impact net returns on investments, affecting the overall savings growth. A simplified and unified tax framework could make saving and investing more attractive and accessible.

How can we help?

The regulatory and economic landscape of the pension and investments market continues to evolve. Trustees, employers and individual savers need independent, whole-of-market advice.

Our Pensions team’s holistic view on pensions, investments and tax can help you make informed decisions.