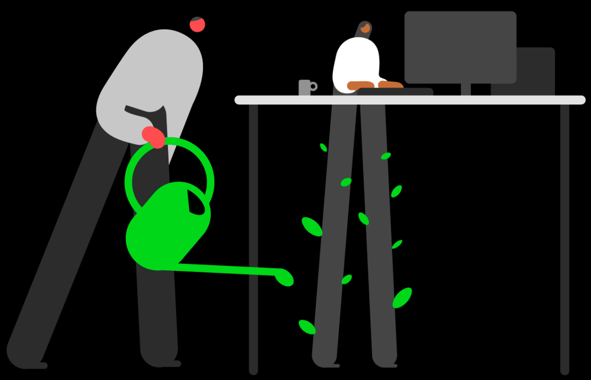
E-book

My Future Fund FAQs

Get the answers to questions you need to prepare your business and support your employees in Ireland.

Contents



Get ready for My Future Fund

My Future Fund is an auto-enrolment pension scheme designed to encourage workers to save for retirement and make it straightforward for businesses to offer a workplace pension option.

This e-book offers answers to small and medium-sized employers, and HR and payroll teams, on what auto-enrolment will mean for them and their employees, how auto-enrolment will work, and how to prepare for it.

What's My Future Fund and why is it happening?

Get an overview of the new scheme and why it's being introduced.

Auto-enrolment (short for automatic enrolment) is a pension investment scheme for employees, which involves their employer matching their contributions of a set percentage of their gross income with a top-up from State funds.

An estimated 800,000 employees (not including the self-employed) earning more than €20,000 per annum and aged between 23 and 60, and who are not already enrolled in an occupational pension scheme, will be automatically enrolled in the new scheme. The accumulated funds plus investment returns will be paid to participants upon their retirement in addition to the State pension, and drawdown will be linked to the State pension age, which is currently 66.

There are two main reasons why the government is introducing the auto-enrolment scheme. Firstly, it will supplement the state pension, which is currently about €277 a week. For a person relying solely on the state pension when they retire, this can mean a significant drop in income, and the auto-enrolment pension should help close the gap.

As it stands today, there are a significant number of workers who will only have the state pension to get by on. Figures from the Central Statistics Office say a third of workers in 2023, that are aged between 20 and 69, had no private pension.

Secondly, there is a loudly ticking pension time bomb. People are living longer and the population is ageing, which means pensioners will make up a higher proportion of the population in the coming years. This will put enormous pressure on the exchequer and the auto-enrolment pension is one way of alleviating the pressure.

Answers to frequently asked questions about My Future Fund

Get the lowdown on automatic enrolment, including roll-out timings and who will oversee it.

When does the scheme begin?
The date is 1 January 2026. That does not leave a lot of time to prepare, and only once the legislation is passed can the wheels start turning in terms of setting up the scheme. There is also very little awareness among the public and eligible employees in particular will need to be informed well ahead of time. But the scheme should start in 2026.

How does the scheme work?
Any employee between the age of 23 and 60, and who is earning over €20,000 a year, will automatically be enrolled into the pension scheme when they start a new job (existing employees that meet the criteria will also be enrolled), unless they have their own pension or access to an occupational pension. People under 23 and earning less than €20,000 can choose to opt in, if they want to. An employee will be able to opt out or suspend contributions after six months.

However, the employee will be re-enrolled again after two years. Once re-enrolled, the employee can opt out again after another six months.

Is it a legal requirement?
Yes, it is a legal requirement and as an employer, if you do not fulfil your obligations, you will be subject to penalties and possibly to prosecution.

How is the scheme funded?
It will be funded by the employee, the employer and the government, with the contributions increasing on a sliding scale over the next 10 years.

In year one, the employee and employer will each pay 1.5% of the employee's annual gross salary. This will gradually increase to 6% by year 10. The government contribution will start at 0.5% in year one and climb up to 2% by year 10. In essence, this means that after a decade, 14% of an employee's gross salary will go towards their pension.

However, both the employer's and government's contributions will be capped at €80,000 gross annual salary. If the employee earns over €80,000, they can still contribute but the employer or the government will not match contributions for any income over €80,000. As yet, there is no possibility of the employee making additional contributions. This is usually an option with private pensions, as long as the additional contributions are within Revenue's limits in terms of tax relief.

Who will oversee the scheme?
A National Automatic Enrolment Retirement Savings Authority (NAERSA) will be established to oversee the running of the scheme and it will be supervised by the Pensions Authority. Also, as with other pensions, the Financial Services and Pensions Ombudsman will handle any complaints.

In addition, there will be four commercial investment companies appointed to invest the contributions and once the legislation is passed, there will be an open tender to select these institutional investors.

Where will the contributions be invested?
The scheme will be run on the same lines as other private pensions, with the contributions being invested by institutional investors, as stated above. In terms of

contributions, an employee can either opt for a default fund or choose from a choice of funds, which will have varying risk profiles from high, to medium, to low. For the default fund, the risk will decrease as the employee gets older.

How does an auto-enrolment pension compare to a private pension?
The structure is different. An employee with a private pension receives tax relief. The rate of tax relief is set at the highest rate of income tax the employee pays. So, that means for a single person earning over €42,000, the tax relief is 40%. For a single person earning €42,000 or less, the relief is 20%.

Under the auto-enrolment scheme, there is no tax relief, but the government tops up the contribution by 33%. This means if a single person earns €42,000 or less, and thus pays only 20% tax, the auto-enrolment pension will be more beneficial.

But for the most part, a private pension will be more beneficial. For instance, in a private pension, although there are limits to the amount of pension contributions an employee can get tax relief on in any one year, it is significantly more generous than the auto-enrolment pension.

For private pensions, the maximum percentage of tax relief an employee can get on their income depends on their age, which is 15% for employees under 30 years, and climbs up to 40% for employees over 60 years. Also, the maximum amount of gross income taken into account to calculate the percentage is €115,000.

Therefore, considering factors such as tax relief and also age-related tax relief, auto-enrolment will only be more beneficial than a private pension when the employee's income is low.

What happens if an employee moves job?
The scheme is designed on a "pot follows member" basis,

meaning the retirement savings pot will follow the employee to their next job. This will happen automatically and will be managed through the new governing authority, NAERSA.

What if an employee has more than one job?
If an employee has more than one job, their gross pay from all their jobs will be considered for the eligibility assessment of the scheme. If it is over €20,000, the employee will be enrolled in respect of any jobs where they do not make pension contributions through payroll.

What do employers need to do to facilitate the scheme?
Employers will have to make considerable changes to prepare for the roll-out, in particular in terms of payroll, finance and HR. More details about how to do this will be published once the legislation is passed. Eligible employees will also need to be informed well in advance.

Will there be extra costs for employers?
As an employer, you will be obliged to sign up to the scheme if any of your employees do not have a pension and there will be costs. This will be on top of additional costs likely to come in during 2026, including increased minimum wages and the continued roll-out of statutory sick pay. Pay related social insurance (PRSI) charges may also increase, too.

In terms of the scheme, you should look at your current payroll and make an estimate of the cost. However, you will be able to claim corporation tax relief on the employer contribution.

What if there is already a workplace pension in place?
An existing pension scheme will run in parallel to auto-enrolment. Any employees that have a record via payroll of either employee contributions and/or employer contributions will not be enrolled in the scheme.

How you can prepare for the My Future Fund scheme

The workplace pension scheme is designed to minimise the admin burden on employers who will not need to set up and run an occupational pension scheme.

Instead, employers will be responsible for recording employee-related data via a simple payroll instruction. The scheme will be introduced on a phased basis, with contributions beginning at a modest level in 2026 and increased at a set rate until 2035. This gives your business time to prepare for the scheme.

You'll need to review the following areas and plan accordingly:

- Payroll
- Contracts
- Communication with employees
- Financial management.

An employer who fails to fulfil their obligations under the scheme, including implementing a payroll instruction for enrolment, and/or deduction or remittance of contributions as required, will be subject to penalties.

Payroll systems
Consultations with providers of payroll systems and software used by employers are planned to ensure smooth and accurate integration of the new scheme with existing systems. If you already use payroll software to process your payroll, your provider can advise on how the new scheme will affect your payroll system.

Employment contracts
In advance of the legislation coming into force, you'll need to review employment contracts. You should consult your solicitor well in advance of the January 2026 roll-out to ensure your employment contracts are updated to include the provision for pension contributions and any other legal details required.

Communication with employees
Under the proposals, employers will have a decent period of time to ensure employees fully understand the scheme before it begins in January 2026. This will give you time to communicate with your employees about how it will work.

You should provide details of the scheme and advise employees on the four fund options, how much they will contribute, tax implications and the benefits of the scheme, including the employer and State contribution. Employee contributions will be taken from gross income, before deductions of income tax, pay related social insurance and universal social charge.

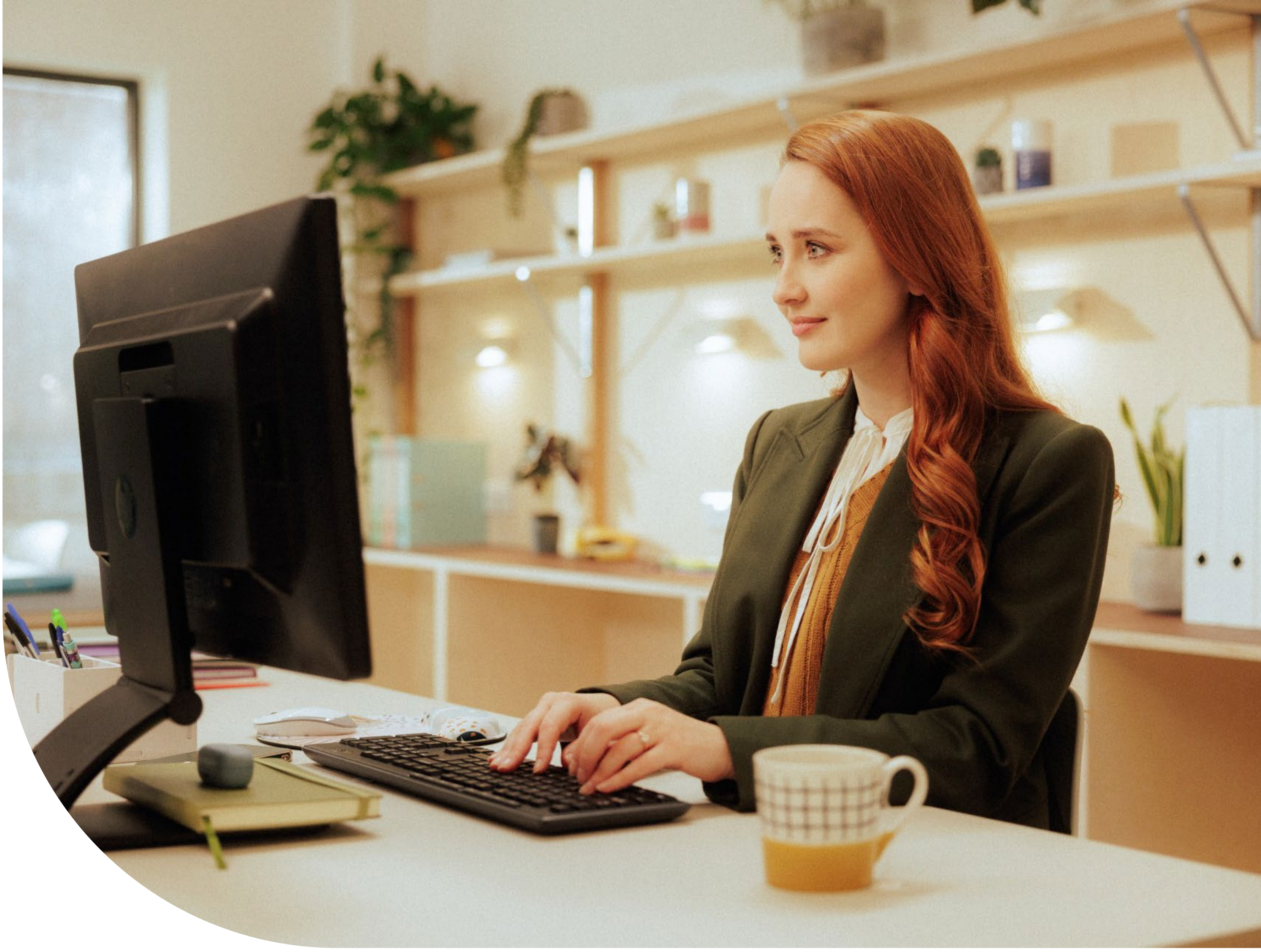
Tax relief won't apply in respect of these contributions. Instead, the State tops up the pension fund at 33% of the employee contribution. Participants in the new scheme will still be entitled to receive a 'benefit-in-kind' tax exemption in respect of their employer's contribution.

Financial management to cover the contributions
The scheme is designed to be as simple as possible for employers to set up and implement. The new National Automatic Enrolment Retirement Savings Authority (NAERSA) will oversee the scheme and minimise administrative costs to employers with a cap of 0.5% per annum of assets proposed on management charges.

The new arrangements will be phased in gradually and contributions will start at a modest level and increase over time. Employers will be required to match members' contributions starting at 1.5% of gross income up to an eventual maximum of 6% subject to an earnings threshold of €80,000.

How taxes will be affected
Under the new scheme, tax relief on pension contributions will change for employees as explained in the 'Communication with employees' section above. However, employer contributions will be deductible against corporation tax in the same way contributions to existing pension schemes can be offset.

The scheme will be overseen by the Pensions Authority, governed by a board of directors and will be held to account by the Financial Services and Pensions Ombudsman.



Start your pension scheme preparation now

My Future Fund will be here before we know it.

The new pensions savings scheme is designed to incentivise employees to start saving for retirement and through the employer and State contributions, it's envisaged that they will see the benefits of staying in the scheme.

Under the scheme, pension pots will move with the employee through their working life giving them the assurance of retirement income that will help them to maintain a reasonable standard of living. The scheme aims to simplify the pension process and reduce the admin burden on employers, while providing financial security for the future of their employees.

But don't wait to get your business ready for auto-enrolment. Take the time now to evaluate your processes, look at budgets and start informing your employees. Need support? Speak to your accountant, HR and payroll experts, your payroll software provider, and pension experts, who will be able to help you.

Find out how Sage payroll software can help you manage your auto-enrolment processes **Learn more**

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