

highlight the need to interpret MDD carefully as an indicator of the Irish economy when used in isolation.

Savings ratio

According to official CSO estimates, Ireland's household savings ratio remained very high in 2022 at 21% of total disposable income. As noted above, this likely to be overestimated, as official statistics appear to under-report household consumption (Timoney, 2022). The Department of Finance recognises this issue, but beginning from the official data in 2022 makes it challenging to interpret how the economy is forecast to evolve over coming years. Lower household savings reduces Ireland's CA* surplus, and the scope for catch-up consumption growth.

SPU 2023 forecasts incorporate the planned introduction of an auto-enrolment pension scheme. As shown in Box B, assuming the introduction of such a scheme would increase the savings ratio relative to a no-policy-change counterfactual. The introduction of the scheme increases measured household income, due to contributions made by employers and the Government.⁹ By contrast, consumption may fall as employees have lower take-home pay and if households increase their saving rather than switching between different savings vehicles. Both factors lead to a higher measured savings rate. Box B estimates that by 2030 this impact could be around 1.2 percentage points.

Box B: Auto-enrolment and the savings ratio

The Government plans to introduce an auto-enrolment pension scheme in 2024. A box in a previous *FAR* outlined many of the proposed details of the scheme.¹⁰ This box outlines how consumption and the savings rate could be impacted by the introduction of this scheme.

For illustrative purposes, it is assumed that there are 750,000 eligible employees and that 95% remain opted in (in line with international evidence). It is assumed that these employees have an average salary of €35,000 and that they grow at around 2% per year. From these assumptions, the following contributions to the pension scheme are implied. The rates of contribution increase in 2027 and 2030.¹¹

From a national accounting perspective, household income would increase due to the scheme. This is because the employer's contributions (likely to be classified as compensation of employees) and the state contributions (likely to be classified as social transfers) are both adding to income.^{12,13}

Those who remain in the scheme will see a reduction in take-home pay as they make contributions to their pension. As a result, consumption may decline relative to a counterfactual where the scheme is not introduced.¹⁴ By 2030, consumption could be €1.1 billion lower.¹⁵

⁹ The increase in income due to employer contributions could be offset by employers reducing wages and salaries paid to employees.

¹⁰ See [Box H, May 2022 FAR](#).

¹¹ A final increase in the rates of contribution is planned for year 10 of the scheme (2033)

¹² The employer's contributions to the scheme would likely be treated like employer's PRSI, which is classified as compensation of employees.

¹³ A final decision on the statistical classification of the state contribution would not be made until the scheme is finalised and operational.

¹⁴ This relies on the assumption that employee contributions to this pension scheme are not just displacing other forms of saving. While some saving may be redirected to the pension scheme, it is safe to assume that total saving increases as a result of the scheme.

¹⁵ The €1.3 billion reduction in take-home pay results in a €1.1 billion reduction in consumption, implying a marginal propensity to consume of 0.85.

Table B1: Assumed contributions to auto-enrolment pension scheme

€ million

	Employee contributions	Employer contributions	Government contributions
2024	374	374	125
2025	382	382	127
2026	389	389	130
2027	794	794	265
2028	810	810	270
2029	826	826	275
2030	1,264	1,264	421

Sources: Fiscal Council calculations.

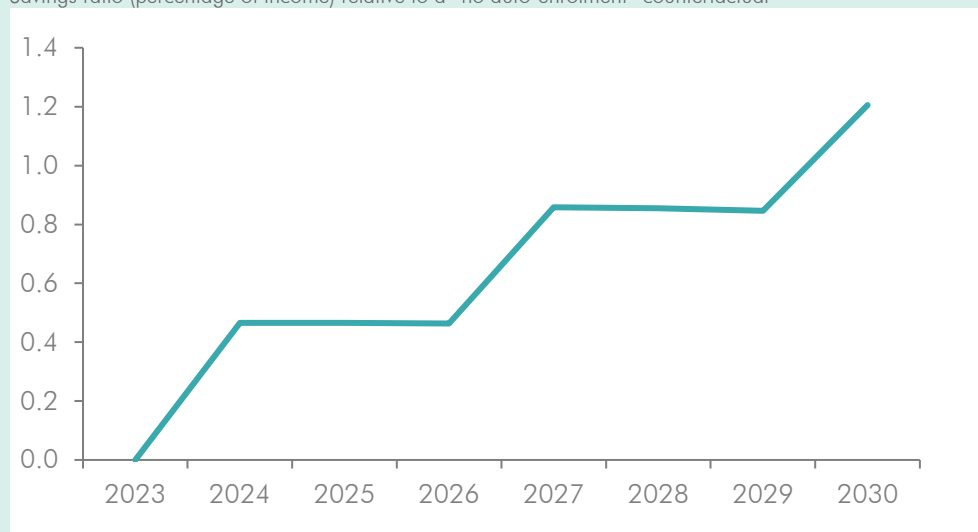
Notes: Rates of contribution assumed are 1.5% for employers and employees for 2024–2026, rising to 3% for 2027–2029 and then 4.5% in 2030. Government contributions are assumed to be 0.5% (2024–2026), 1% (2027–2029) and 1.5% (2030).

As shown in Table B1, contributions in the first three years of the scheme (2024, 2025, and 2026) are relatively modest from a macroeconomic perspective. However, as the rate of contributions increases in 2027 and again in 2030, the impacts could be much larger.

For this illustrative exercise on the savings rate, we assume that household income rises by the quantity of contributions by employers and the State. From Table B1, we can see an estimate of €1.7 billion in 2030 (contributions from employers and from the State).¹⁶ At the same time, consumption is falling. Both higher income and lower consumption are contributing to a higher savings rate.

Figure B1: Savings ratio is increased by the introduction of the auto-enrolment pension scheme

Savings ratio (percentage of income) relative to a “no auto-enrolment” counterfactual



Sources: Fiscal Council calculations.

Notes: The difference between the savings rate with auto-enrolment and without auto-enrolment is what is shown.

Figure B1 shows an illustrative example of the impact of the scheme on the savings rate. By 2030, the savings rate is more than one percentage point higher than would have been the case without the scheme. The impact on the savings rate increases each time the rate of contributions increases (2024, 2027, and 2030). This estimate of the impact may be an upper bound. This is because it assumes that household contributions to the scheme are increasing household savings, rather than just displacing other forms of saving that households made before the scheme was introduced.

¹⁶ This estimate of the impact on income can be considered as an upper bound. It is likely that employers may moderate pay growth to offset the cost of the scheme (relative to a counterfactual where the scheme is not introduced).