

APPENDIX 8

INDECON REVIEW OF  
POTENTIAL OPTIONS TO ENCOURAGE  
INCREASED PENSION COVERAGE

MARCH 2005

# APPENDIX 8 – INDECON REVIEW OF POTENTIAL OPTIONS TO ENCOURAGE INCREASED PENSION COVERAGE

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Indecon International Economic Consultants

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## Executive Summary

This report presents an independent review of potential cost-effective policy options to improve pension coverage in Ireland which could be introduced within a short time horizon. It was prepared by Indecon International Economic Consultants for the Pension Board.

Our analysis is based on a rigorous review of the factors which are hindering pension coverage. Some factors such as affordability may not be amenable to fiscal incentives. We believe, however, that there is a case for targeted additional incentives. It is however essential that any new incentives take account of the need to address equality, efficiency and deadweight concerns.

Our research indicates that (for the first quarter of 2004) 52.4% of persons in employment aged between 20-69 have a pension. This is a marginal increase on 2002, but markedly below the targets for pension coverage set by the Pensions Board. Market research data suggest that those less likely to save and make a pensions provision are younger and from a lower socio-economic class. There has recently been an increase in take-up of PRSA pensions but average employee contributions are modest.

Our analysis shows that there is considerable variation in private pension fund contributions across households with different levels of disposable income. In particular, private pension fund contributions are increasing with income. There will of course also be variation in spending within, as well as across, income deciles.

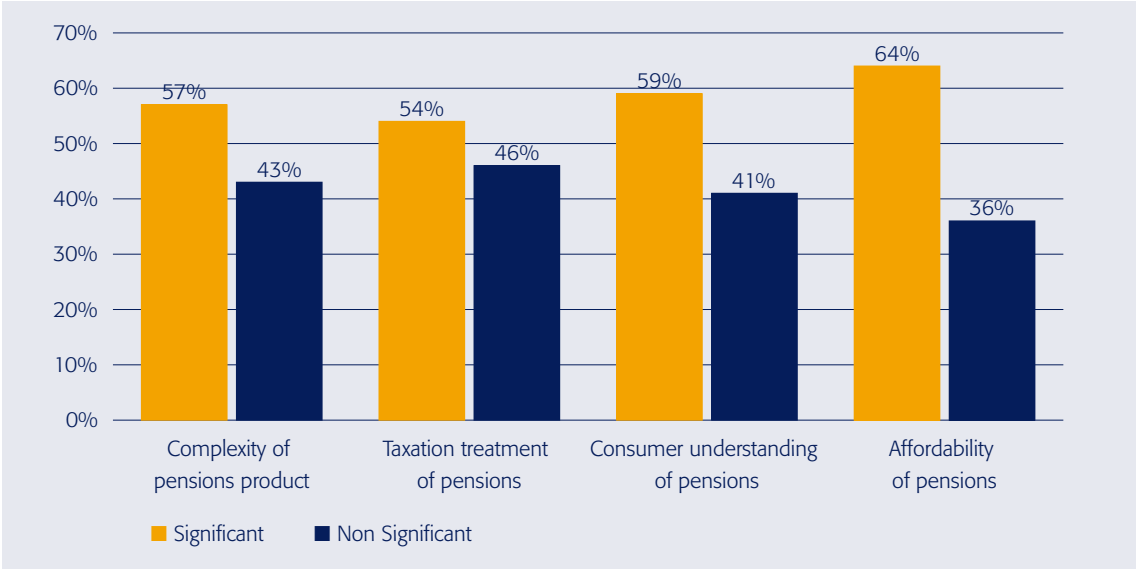
On the issue of SSIA savings these have well exceeded expectations with over 1.1 million account holders. The Exchequer costs to-date have been significant and are estimated at €1.5 billion. Annual subscriptions to SSIA average €165 per month similar to the average PRSA contribution. Percent responses suggest that holders are increasing their current contributions. 40% of SSIA account holders are saving the maximum amount. Research suggests that 38% of SSIA account holders indicated that they would save all or part of their SSIA savings, but only 9% suggested an intention to invest all or some in a pension plan or to use for retirement.

Survey data has been specially commissioned by Indecon for this study that focuses on the barriers to increasing pension coverage in Ireland, as well as the likely impact of a number of pension-related initiatives. Respondents were asked a number of questions in relation to: ownership of selected financial products including pension products and SSIA's; potential barriers to increasing pensions coverage; the likely impact of enhanced tax allowances; and the impact of allowing transfers of SSIA monies into pensions.

Overall, 45% of respondents indicated they had an occupational pension, PRSA or other pension product which is broadly similar to the results of CSO research, while it is estimated that 41% have SSIA's. The survey evidence suggests that much higher proportions of older respondents own these products compared to younger respondents.

In relation to the main potential barriers to increasing pension coverage in Ireland, the barrier identified by the highest proportion of survey respondents as a significant barrier was "affordability of pensions" - 64%. High proportions of respondents also identified "consumer understanding of pensions" and "complexity of pensions products" as significant (59% and 57% respectively). Taxation incentives were also seen as important as is evident from the chart on the potential barriers to increasing pension provision.

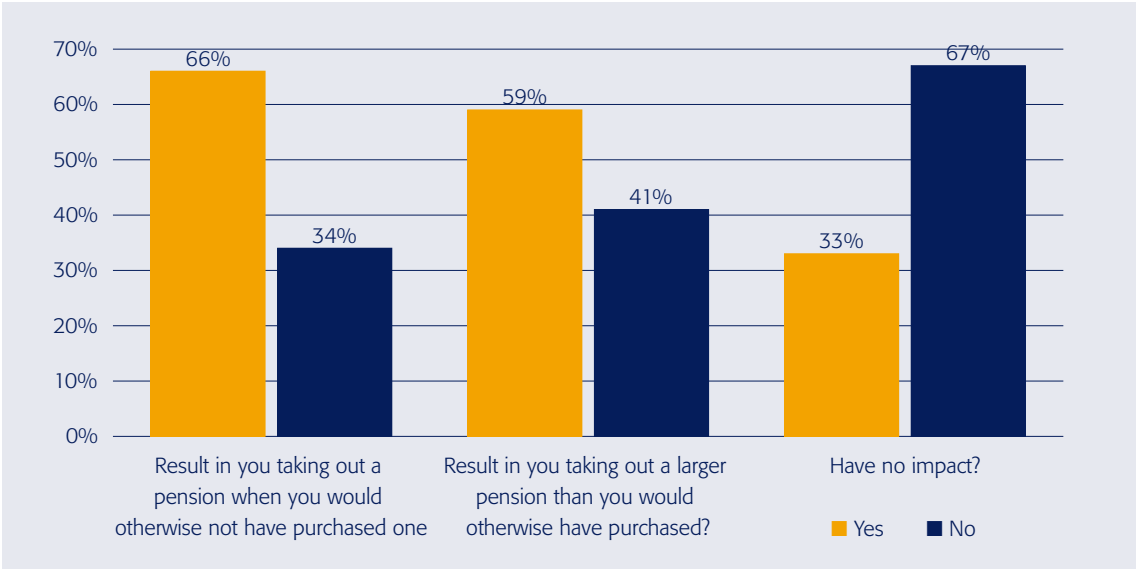
**Main Potential Barriers to Increasing Pensions Coverage**



Source: Indecon commissioned TNS mrbi survey.

One of the important issues examined in this study is the likely impact of enhanced fiscal incentives on the coverage of pension provisions. The survey evidence suggests that 66% of respondents would be more likely take out a pension if the Government introduced additional tax allowances on pension contributions. 59% indicated that the improved tax allowances would result in them taking out a larger pension, while only 33% indicated that this type of policy intervention would have no impact.

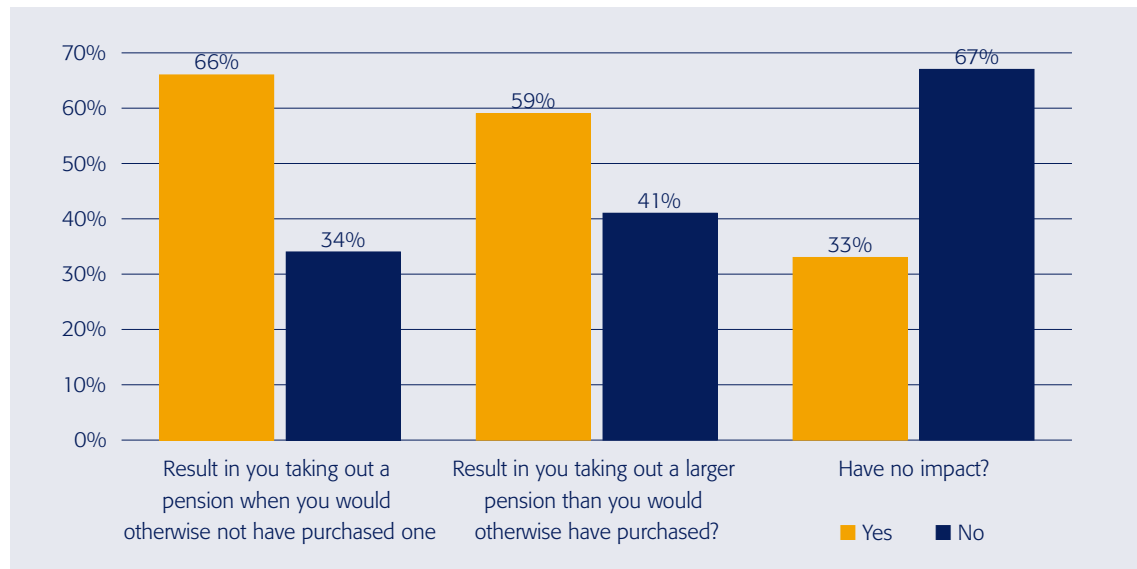
**Likely Impact of Enhanced Tax Allowances**



Source: Indecon commissioned TNS mrbi survey.

In relation to the impact of any new tax relief on SSIA funds transferred to pensions, 54% of respondents suggested they would be more likely take out a pension, while 40% indicated that this tax relief would result in them taking out a larger pension. 34% indicated that this option would have no impact.

### Impact of Allowing Transfers of SSIA Monies Into Pensions



Source: Indecon commissioned TNS mrbi survey.

### Key Policy Considerations

Our analysis shows that a large percentage of the population have no or very limited pensions coverage although some progress has been made since the Report of the National Pensions Policy Initiative<sup>1</sup> in extending pensions coverage. However, coverage is well below the interim targets recommended in the NPPI Report and accepted by Government.

Accordingly, the background to this policy discussion is an assumption that there is inadequate coverage and that there is a significant gap between current coverage levels and the interim targets recommended in the NPPI Report.

In addition, it needs to be stressed that Government pension's policy has been evolving. In recent years the basic State Pension has been increased in excess of growth in earnings and the Government is committed to achieving the target of having the State Pension equal to 34% of the average manufacturing wage as recommended by the NPPI. PRSAs have been introduced as a new pensions product supported by Government initiatives. Also of significance is the fact that the Exchequer provides tax relief at a taxpayers' marginal tax rate for contributions into private pensions schemes. For standard rate taxpayers, relief is available at 20% while relief is available at 42% for higher rate taxpayers.

In May 2001 the Government introduced an additional savings scheme (SSIA) that provided an Exchequer funded top-up payment of €1 for every €4 saved. This, not surprisingly, attracted significant funds and has encouraged savings including amongst sections of the population where pensions coverage may be inadequate.

The total Exchequer cost of supports for private savings and pensions indicate that very significant government incentives are provided for the pension sector. It should be stressed that this is in part deferred tax payments, as pension income is taxable. Our analysis shows that over 670,000 employees secured tax relief on pensions and a further 109,000 benefit from tax relief on retirement annuity pensions. For comparison, it is interesting to note that the numbers employed in the economy, on a seasonally adjusted basis were 1,865,000 in Jun-Aug 2004.

<sup>1</sup> Securing Retirement Income, National Pensions Policy Initiative Report of the Pensions Board.

**Discussion of Various Options**

In our report we discuss the various options for encouraging a greater take-up of pensions. The main options which have been suggested to Indecon are outlined in the table below as well as a number of additional options which have been developed by the consultancy team. Each of these are discussed below.

Option for Fiscal and Other Financial Supports Considered by Indecon	
(1)	Continue with the Status Quo
(2)	Increase in pension contribution limits
(3)	Exempt 23% exit tax on capital gains on SSIA accounts
(4)	Pension related tax credit
(5)	Family income support tax credit uplift for pension contributions
(6)	Tax incentive for child pension accounts
(7)	Employers' PRSI savings due to employee contributions to be transferred in employees' pension fund
(8)	Further Support for PRSAs
(9)	Detailed review of regulatory framework for PRSAs
(10)	Industry action to increase consumer understanding and improved marketing
(11)	Incentives for Employers

***Continue with the Status Quo***

The first policy option which Indecon believes must be the benchmark for any other option is to continue with the status quo. This has the advantage that it would not involve additional Exchequer costs. In addition, it would not add further uncertainty into the market given the rapid change in recent years.

The disadvantage of the current position is that it would not take account of the benefits of measures which would direct part of SSIA monies into pensions and thereby reduce the inflationary impact on the economy. Also the status quo would not address the need to increase the level of pension take-up.

***Increase in Pension Contributions Limits***

A number of proposals have been made to increase pension contribution limits. These have ranged from very generalised proposed incentives to increases in pension contribution levels for SSIA accounts. In our review we focused on two specific proposals, namely an increase in pension contribution levels for SSIA accounts and a more targeted incentive to increase pension contributions on a once-off basis for individuals who had underutilised contributions.

The SSIA's accounts will mature over the period May 2006 to May 2007. Several proposals have been suggested to encourage the transfer of some of this SSIA money into pensions. These include the proposal to have a once-off increase in pension contributions limits for all SSIA account holders. Market research suggests that in the absence of new initiatives only a very small percentage of these funds will be directed to pensions.

Under existing policy, individuals can make pension contributions up to a certain percentage of their income and avail of the tax relief at either the standard or marginal rate depending on the individual's tax position. It has been suggested to Indecon that these limits should be increased for all SSIA account holders on a once-off basis to encourage the transfer of SSIA funds into pension accounts. This would benefit individuals who have sufficient SSIA funds which are in excess of their current allowable limit for pension contributions.

It has been suggested to Indecon that the benefits of this proposal include the following:

- It would minimise the negative macroeconomic effects of SSIA funds flowing into inflationary expenditures;
- It could encourage an increase in pensions take-up;
- It could encourage existing pension holders to increase their contributions.

Indecon accepts that the benefits are valid but believe that despite these benefits there are a number of downsides to this proposal as follows:

- This is not targeted at those who do not at present have a pension or have inadequate pension provisions;
- There are no benefits from this proposal to those without a tax liability and it provides only a modest benefit to those on low incomes;
- SSIA account holders have already secured very substantial Exchequer subsidies and an increase in the current limits for all SSIA account holders could provide additional benefits regardless of whether the individuals currently had adequate pension provision.

We believe however that a modified version of the proposal on pension limits discussed above and targeted at selected groups would merit consideration. In particular we believe there would be merit in refining the proposed increase in pensions contributions limits to allow for the transfer of SSIA monies for individuals who have not used their total allowable contribution in recent years. For example, an individual earning €50,000 and aged 30-39 could have made a maximum contribution of €10,000 in each of the previous three years. Let's assume that a person has been contributing €7,500 each year; this equates to an unused contribution of €7,500 over the three-year period. One option is to permit individuals to add this amount to the individual's contribution limit in either of the two years in which the SSIA will be encashed.

This proposal would particularly focus resources on those persons without any pension or who have underinvested in pension provision in recent years. This minimises deadweight effects, in as much as persons making the maximum contribution would not benefit, and it would tend to focus resources on those individuals not making adequate contributions at present.

We believe also that the once-off timetable could be effectively used by the pension industry in their marketing effects to encourage pension take-up and could also assist in minimising the inflationary impact of SSIA related expenditures. We propose that this once-off use of underutilised allowances should be linked with the years of the ending of SSIA but should be available to individuals regardless of whether they hold an SSIA account or not. This would therefore not restrict this additional incentive only to those who were in a position to afford SSIA investments.

### ***Exemption of Exit Tax on Capital Gains on SSIA Accounts on Transfer to a Pension***

A proposal suggested to Indecon relates to the exemption of the 23% exit tax on the total gains of all SSIA accounts on maturity. For convenience, we assume that the capital gain on the funds invested equals €2 billion. At a tax rate of 23%, this equates to a tax liability of €460 million. A proposal from the Irish Insurance Federation, in their 2005 pre-budget submission, suggests that this tax should be waived if the monies are transferred into a pension fund. If we assume that even 50% of the capital gain is transferred, the cost to the Exchequer is €230 million.

The arguments for and against this proposal are similar to the points raised earlier in relation of the increase in the contribution limit. There are a number of potential benefits for this initiative, but issues may arise in relation to equity, targeting and deadweight.

We believe however that a modified version of this proposal has significant merits. Specifically we believe there is a strong case to exempt the exit tax for individuals who invest the capital gains in pensions provided the exempt amount does not also result in an additional income tax relief on these specific pension fund contributions. This could be exempt at source providing an ease of administration for pension contributions.

For those employees who are not in the tax net this additional incentive would be a significant benefit and would also be of some limited benefit to those who are paying tax at the standard rate. This provision would also assist the sector in their marketing to secure wider pension coverage by highlighting to SSIA investors the potential ability to secure an exemption from the SSIA capital gain exit tax.

We would also be supportive of an exemption from any SSIA penalties for early withdrawal of SSIA funds provided these are invested in pensions and this provision should be available to owners of SMEs who have SSIA accounts who invest in employee pension funds as well as to individuals.

**Pension Related Tax Credit**

The proposed exemption of SSIA capital gains exit tax for selected pensioners is a specific example of a credit or payment by the state to certain individuals who invest in pensions. This is of particular value to those who are not in the tax net. In this context it is useful to consider the wider issue of the introduction of tax credits to increase pensions coverage. Data on the distribution of income earners by tax category is presented below.

Distribution of Income Earners on the Income Tax File for 2005					
	Exempt	Marginal Relief	Standard Rate	Higher Rate	Total
On a Pre-Budget Basis	590,457	13,735	620,239	685,848	1,910,279
Percentage of Taxpayers	30.9%	0.7%	32.5%	35.9%	
On a Post-Budget Basis	656,517	11,947	608,075	633,740	1,910,279
Percentage of Taxpayers	34.4%	0.6%	31.8%	33.2%	

Source: Department of Finance

The pre-Budget distribution forecasts the numbers of income earners, (assuming income growth for 2005), which would be in each tax band in 2005 if no Budget were introduced.

A jointly assessed married couple is treated as one tax case.

For some individuals with no or very low tax liability, the introduction of tax credits could encourage pensions take-up. There are various ways that pension tax credit could operate. It has been suggested that the tax credit could be organised as a transfer with a pensions provider as is already the case with SSIA as we believe this has distinct merits.

There are a number of different ways in which this could operate, including one or both of the following:

- For the Government to transfer a credit of a fixed sum to the pension provider;
- And/or for individuals to claim a tax credit equivalent to a percentage of the amount invested in a pension.

A tax credit for pensions would ensure the integration with the existing system and allow a taxpayer to claim the tax credit or relief under the existing, whichever option is in their financial interest.

We believe that there are very strong arguments in favour of introducing a system of tax credits for pensions as it would provide significant benefits to individuals who do not benefit under the existing tax relief arrangements.

It is proposed that the pension tax credit would be available to those not currently claiming income tax relief on pensions. This would represent an effective targeted measure with significant equity advantages. It would also focus the incentive on those groups which are less likely to have adequate pension provision. If such a pension

tax credit was provided in the form of 20% of pension contribution it would benefit those employees who have incomes below the taxable levels. However if this was given direct to pension providers as a matching contribution it may also increase the understanding and attractiveness of pension incentives to those on medium incomes.

### ***Family Income Support Tax Credit Uplift for Pension Contributions***

A more limited version of this tax credit scheme would be to provide pension tax credits through modifications of the family income supplement system. This could be provided as an uplift on the FIS amount, for contributions to private pensions. The advantage of this would be that it would provide an incentive for pension take up for low income working families and there is an existing administrative mechanism by which this could be undertaken. It could also be introduced quickly at low exchequer costs. In the current calculation of the FIS payment we understand that relief is given for pension contributions which are a deduction from gross earnings. We would, however, favour a more widespread introduction of a tax credit system as FIS would not provide any incentive to single individuals or those falling outside the FIS criteria, but this would be a potentially welcome first step.

### ***Tax Incentive for Child Pension Accounts***

There are various proposals to establish special pension accounts for children in order to encourage the savings and pensions habit. There are a number of specific proposals suggested to Indecon that we discuss briefly in this section.

SIPTU has for some time been proposing the establishment of special pensions accounts for all children. Prior to Budget 2005 they put forward a detailed proposal suggesting that the basic rate of Child Benefit be increased to €150 per month (a target already set under national agreements) and that an extra 10%, (which would be €15 per month), should then be added and earmarked for pensions. This 'from birth' arrangement would apply to all children born after January 1, 2005. For children born prior to that date, they suggested that the Child Pension Accounts (CPAs) could be set up at the point when the child comes off Child Benefit (i.e. usually at age 17 or 18). This could be done by paying a lump sum, or "pensions start-up bonus" – equivalent to, say, six months Child Benefit – which would be used to set up their special pension account. SIPTU have suggested that this particular mechanism would spread the cost to the Exchequer over 17-18 years (as only 2 age cohorts would be covered each year, i.e. 0-1 and 17-18) and would mean that after that period virtually every young person below the age of 36 would have a personal pension account. This account could be added to, or used to supplement, pensions provided through social insurance, occupational pensions or other supplementary arrangements.

SIPTU also proposed that tax relief would be available for additional contributions to these child pension accounts (e.g. from parents, grandparents, etc.) with appropriate ceilings on any contributions for which tax relief could be claimed. SIPTU also believes that while the purpose of these CPAs would have to be the provision of a mechanism for ensuring very long-term savings, primarily for pension purposes, some early encashment of these funds would be desirable (e.g. a once-off chance to take 25% of the fund at around age 25 probably for housing purposes) and this would also add to their attractiveness.

Indecon would be supportive of considering utilising part of any future uplift in Child Benefit for this purpose.

The Irish Insurance Federation (IIF) have proposed a scheme with the establishment of a personal pension for every child in the State. The main elements, which are drawn directly from the IIF statement, are as follows:

- A personal pension account should be opened for every child in the country and the Government should deposit €10 a month into each child's account until he/she turns eighteen. (Cost: €130 million per annum);
- A Sponsor(s) (e.g. a parent or guardian of the child) may make additional contributions to the child's account of between €5-€50 per month over the same time period;
- For every €5 contributed by sponsors it is proposed that the government would contribute an additional €1;

On the account-holder's 25th birthday he/she may withdraw 25% of the current gross value of the fund tax-free *if and only if* he/she has been contributing a minimum of 5% of earnings when working. The remainder cannot be accessed until retirement.

IIF suggests the potential costs to the Exchequer of their proposal would be of the order of €180 million per annum.

The IIF submission has suggested that the benefits of this proposal are that:

- Every child in the country now has a growing pension fund from birth;
- The 18-25 rule would develop in the child/young adult a positive attitude to saving and a saving habit;
- The necessity for the State to put increasing funds aside to look after senior citizens will be reduced;
- This would lead to better-funded personal pensions.

Indecon believe that there are a number of issues regarding the child pension incentives including whether they would provide incentives to high income families (including to economic consultants!) who do not need the state assistance. Also of concern is whether such initiatives would result in genuine pension habits or simply represent a form of short-term savings which would be spent subsequently. There is also the issue of equity in terms of the treatment of spouses versus children. If this incentive was capped to a maximum of existing contribution levels the issue of discrimination between children of public servants and other groups in the labour market could arise.

If it is decided despite the issues raised above to introduce an incentive for children's pensions we believe this should either be in the form of a tax credit or alternatively any new allowance should only be available at the standard rate of tax. Any relief on children's pensions could be subject to the adults current contribution limit, so that an individual currently securing maximum personal tax relief on pensions up to the current limits would not be eligible to secure additional relief for their children.

### ***Employers PRSI Savings to be Transferred to Employee Pension Funds***

In our discussions with social partners and others on extending coverage, the question of mandatory provision was raised. In a number of the confidential submissions received from pension industry sources this was recommended but we understand there is widespread employer resistance to this. This approach has been adopted in a number of other countries but requires careful evaluation.

One specific aspect of this is whether it should be required for employers to transfer any PRSI savings when making deductions for employee contribution. This latter issue was examined by Coyle Hamilton in a recent study. We understand that the current position of the Policy Committee of the Pensions Board is that after much discussion it was felt that applying the employers' PRSI savings to employees had administrative cost implications and it was felt this was not consistent with pensions simplification. Indecon believe that employers should be encouraged to contribute any PRSI savings and there is merit in considering more widespread employer incentives.

### ***Detailed Review of Regulatory Framework for PRSAs***

In terms of the regulation of pensions, and in particular PRSAs, there are concerns from pension industry sources about the limited impact of PRSAs on the market. A number of providers had stated that PRSAs had replaced personal pensions for many self-employed persons. For persons in non-pensionable employment it has been suggested that the impact so far has been limited.

A feature, which may have implications for coverage, is that we have been informed that brokers may be selling less than 20 % of PRSAs. Brokers are significant players in the overall pensions market and if these estimates are correct it may have implications on take-up of PRSAs.

It is argued by some in the industry that the sale of a PRSA is unnecessarily complex and the actual sales process is time-consuming and expensive. This may be partly due to the procedure that needs to be followed and we have been informed that an estimated 14 documents need to be completed to finalise a PRSA sell. These requirements are governed by different regulators.

A further complicating factor is there are a number of regulators involved including, the Pensions Board and the Revenue Commissioners. There are also concerns in the sector about the time taken to approve new products. It has been suggested to us that this approval and sales processes is unnecessarily slow, but a detailed investigation of whether this is the case or not is outside the scope of this assignment. It is, however, essential that there is adequate consumer protection and consumer research does not place as much attention on regulation compared to other barriers to pension take-up.

A detailed evaluation of the regulatory context for PRSAs and other pension products is outside the scope of this study but we would recommend that the Pension Board in association with other interests undertake a detailed review of regulation to ensure that there is sufficient consumer protection and that regulatory requirements are consistent with encouraging pension take-up.

### ***Industry Action to Increase Consumer Understanding and Improved Marketing***

An important barrier to take up of pensions is consumers assessment of the complexity of pension products and the difficulties in understanding the nature of the product offering.

This has important implications for the sector and enhanced industry action is needed to increase consumer understanding, simplify products and improve the marketing of pensions. Recent improvements in the performance of pension funds reflecting the improvements in equity markets should also assist in pension take-up. Indecon however accepts that there are constraints on the pension industry arising from the regulatory environment.

### ***Incentives For Employers Investment In Pensions***

We believe that ways to incentivise employers to invest in pensions should be an important element of any medium term plan to enhance pension coverage. This could include ways to ease administrative and financial costs particularly on SMEs. Within this restricted assignment it has not been feasible for Indecon to develop cost-effective targeted proposals on this area but we support a more detailed review of this issue.

## **Recommendations**

Based on the detailed analysis undertaken by the consultancy team and taking account of our assessment of the barriers to pensions take-up we have recommended a number of new initiatives as outlined in the table below. The recommendations also reflect the need to ensure that any new incentives are equitable and cost-effective.

Proposed Recommendations
1. Once-off increase in pension contribution limits for individuals with underutilised contributions over past three years
2. Exempt 23% exit tax on capital gains on SSIA accounts upon transfer to pension fund providing no income tax relief is obtained on this amount
3. Pensions related tax credit providing no income tax relief is obtained
4. Family income support tax credit uplift for pension contributions
5. Detailed review of regulatory framework for PRSAs
6. Industry action to increase consumer understanding and improved marketing
7. Review of Incentives for SME involvement in Pensions

Source: Indecon

We believe these recommendations would assist in increasing pension take-up and would address equity, effectiveness and deadweight concerns. The proposed additional incentives represent a package of new targeted initiatives which are focused on those groups with no or inadequate pension provisions. They would also assist the sector in marketing pension options to SSIA account holders and therefore reduce the inflationary impact of SSIA fund expenditures.

## 1 Introduction and Terms of Reference

### 1.1 Introduction

This report presents an independent review of potential cost-effective policy options to improve pensions coverage in Ireland. It was prepared by Indecon International Economic Consultants for the Pensions Board.

### 1.2 Terms of Reference

The Terms of Reference for this study are to:

1. Collate research carried out by various sources to date;
2. Contain policy argumentation (at both pensions and fiscal/economic levels); and,
3. Put forward concrete proposals for consideration.
  - Proposals that could be considered in the context of national decision-making, with a view to increasing pension coverage.
  - Proposals should be consistent with the objective of simplifying the regulatory and tax environment for pensions and whose benefits are readily identifiable to the general public;

### 1.3 Acknowledgements

The consultancy team would like to acknowledge the invaluable assistance given to the team by officials of the Pensions Board including Ian Woods, Anne Maher, Philip Dalton and Brendan Kennedy and other senior colleagues as well as members of the Pensions Board Policy Committee. We would also like to particularly thank the extensive inputs and information provided to the consultancy team by leading pension providers in the sector. We would also like to thank key public officials as well as representatives of the pensions industry for valuable inputs as well as inputs received from Niall Doyle, IIF, Rosheen Callender, SIPTU and Michael O'Halloran, Irish Senior Citizens Parliament and from IFSRA and the Irish Brokers Association. Thanks are also due to the Department of Finance for providing information to the consultants. Due to the tight timescale for completing this study it is not feasible to consult with all representative organisations and with all regulators or to undertake new survey work with brokers. This could be considered subsequently by the Pensions Board in its own consultation on the reports recommendations. The usual disclaimer applies however, and the independent views and analysis in this report are the sole responsibility of Indecon.

As part of this study, despite the very tight timescale for completion, we completed a consultation programme which involved inviting submission from leading pension providers and from a selected number of the Social Partners. Indecon would like to thank these organisations who provided detailed submissions to the team.

### 1.4 Structure of the Report

The structure of this report is as follows: Section two presents data on trends in savings and pensions coverage. Section three examines trends in SSIA savings, given the importance of this incentive in attracting savings and the suggestions by the industry for proposals that seek to retain some of the elements of this scheme for pensions and savings incentives. Section four examines evidence on pensions from the Household Budget Survey. Section five presents new evidence from a sample of population commenced by Indecon specifically for this study. In the following section the report examines the research on the links between extending pension coverage and incentives. In section seven a review is undertaken of a range of policy options and in this section we set out our main recommendations.

## 2 Savings and Pensions Coverage

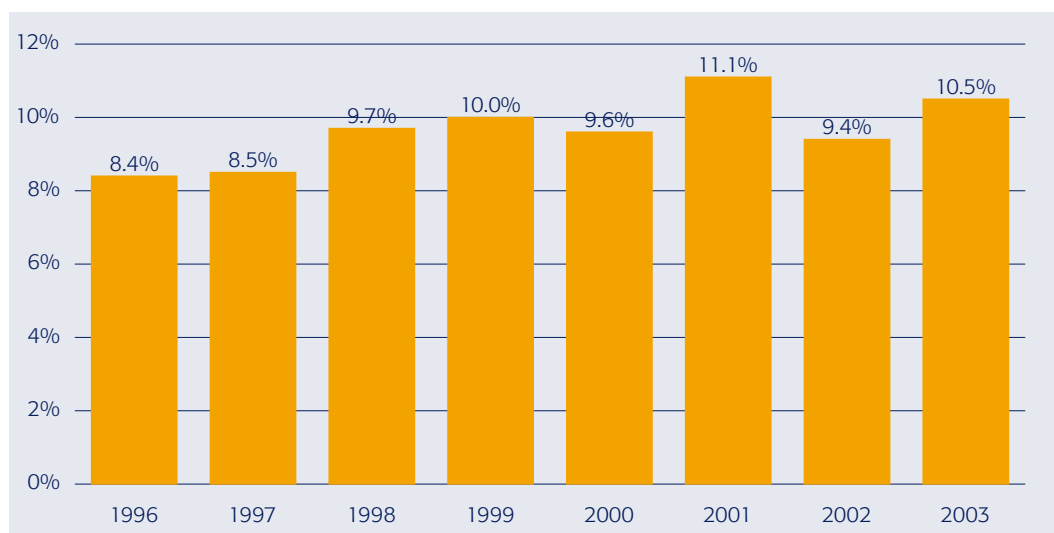
### 2.1 Introduction

In this chapter we examine the latest data on pensions and savings. Data from the CSO, government agencies and private market research companies are the main sources for this section. We would like to thank the industry and the Pensions Board and official statistical sources for facilitating access by Indecon to the available research.

### 2.2 Savings

The best measure of savings in the Irish economy is provided by national accounts measures published by the CSO. Data for the ratio of savings to disposable income (income less taxes) is shown in Figure 2.1. The data are given for the years from 1996 to 2003 and indicate little change over the period. In 2003 the ratio of savings to disposable income was 10.5%, an increase from the previous year (9.4%) but down from 11.1% in 2001.

Figure 2.1: Savings Ratio as a Percentage of Disposable Income



Source: Indecon analysis of CSO and ESRI data for 2003.

### 2.3 Pensions Coverage

Of particular relevance for this study are data on pensions coverage. Table 2.1 and Table 2.2 provide a breakdown of the type of pension coverage held by employed persons for the first quarter, 2002 and 2004. There was little overall change in the figures for pension coverage between the two years, however, there was a noticeable increase in the number of persons having both occupational and personal pension plans.

Table 2.1: Pension Coverage in the State for Persons in Employment Aged 20 to 69 years, Q1 2004 (%) – State

	Occupational Pension only	Personal Pension only	Both	Total Coverage	No Pension <sup>2</sup>	Total
State	33.1	13.0	6.3	52.4	47.6	100

Source: CSO.

2 Includes those answering "No", "Don't know" or "Not Applicable".

Overall 52.4% of respondents had a pension in 2004 compared with 51.2% in 2002. This suggests a marginal increase in total pension coverage. However, this does not take account of trends in PRSAs during 2004. The figures suggest that pension coverage has increased but is well below the targets recommended by NPPI and accepted by Government.

**Table 2.2: Pension Coverage in the State for Persons in Employment Aged 20 to 69 years, Q1 2002 (%) – State**

	Occupational Pension only	Personal Pension only	Both	Total Coverage	No Pension	Total
State	35.4	12.9	2.9	51.2	48.8	100

Source: CSO.

A regional breakdown of the type of pension coverage held by employed persons is given in Table 2.3. As one might expect, the greater Dublin area (55.7%) and the Mid-East (58.0%) show a higher than national average (52.4%) pension cover. The areas with the lowest pension coverage for employed persons were the Midlands (44.7%), the West (45.6%) and the Border area (47.9%). In these three areas, more than half of those employed aged 20 to 69 years have no pension coverage.

**Table 2.3: Pension Coverage in the State for Persons in Employment Aged 20 to 69 years, Q1 2004 (%) – By Region**

	Occupational Pension only	Personal Pension only	Both	Total Coverage	No Pension	Total
Border	31.0	12.4	4.5	47.9	52.1	100
Midlands	29.9	11.0	3.8	44.7	55.3	100
West	26.4	13.1	6.1	45.6	54.4	100
Dublin	38.1	10.1	7.6	55.7	44.3	100
Mid-East	31.9	17.3	8.9	58.0	42.0	100
Mid-West	31.7	14.7	6.3	52.7	47.3	100
South-East	30.5	17.3	5.8	53.5	46.6	100
South-West	33.3	13.0	4.6	50.8	49.2	100
State	33.1	13.0	6.3	52.4	47.6	100

Source: CSO.

It is interesting to look at the breakdown of pension coverage by gender in Table 2.4. Pension coverage for females in the work force in 2004 was 10% less than for their male counterparts. Furthermore, 17.4% of males had personal pension cover only, compared to only 6.7% of females. Also, 7.4% of males indicated that they had both personal and occupational cover but only 4.8% of females had both forms of pensions.

**Table 2.4: Pension Coverage in the State for Persons in Employment Aged 20 to 69 years, Q1 2004 (%) – By Gender**

	Occupational Pension only	Personal Pension only	Both	Total Coverage	No Pension	Total
Male	31.4	17.4	7.4	56.3	43.7	100
Female	35.4	6.7	4.8	46.8	53.2	100

Source: CSO.

Not surprisingly, age is a key factor which influences the pattern of pension coverage and, as one would expect, pension coverage is lowest among the lower age groups. Table 2.5 gives a breakdown of pension coverage by age group. 76.8% of persons employed in 2004 in the age group 20-24 years had no pension cover whatsoever, and only 2.2% of this group had personal pensions as well as occupational pensions. Taking those under 35 years old in employment in 2004, 63% had no pension cover. However, 59.1% of all those employed, in the over 30 years category, had either occupational pension or personal pension coverage. This group has been the focus of recent pension targets.

**Table 2.5: Pension Coverage in the State for Persons in Employment Aged 20 to 69 years, Q1 2004 (%) – By Age Group**

Age	Occupational Pension only	Personal Pension only	Both	Total Coverage	No Pension	Total
20-24	19.1	1.9	2.2	23.2	76.8	100
25-34	35.4	9.4	5.7	50.5	49.5	100
35-44	37.6	16.6	8.0	62.2	37.8	100
45-54	35.0	17.1	7.7	59.8	40.2	100
55-69	28.9	19.6	6.4	54.8	45.2	100
30+ <sup>3</sup>	35.4	16.3	7.4	59.1	40.9	100

Source: CSO.

It is interesting, when looking at a marital status breakdown of pension coverage as in Table 2.6, to note the higher percentage of pension cover amongst the 'married' group than the 'single', 'separated' and 'widowed' groups. This may be partially related to the responsibility of dependent children or may be related to age, income or employment factors.

**Table 2.6: Pension Coverage in the State for Persons in Employment Aged 20 to 69 years, Q1 2004 (%) – By Marital Status**

Age	Occupational Pension only	Personal Pension only	Both	Total Coverage	No Pension	Total
Single	29.0	7.4	4.8	41.2	58.9	100.0
Married	36.7	17.1	7.7	61.5	38.5	100.0
Separated	30.0	12.8	4.6	47.4	52.6	100.0
Widowed	22.8	17.9	6.4	47.1	52.9	100.0

Source: CSO.

<sup>3</sup> The National Pensions Policy Initiative set a target of 70% supplementary pension coverage for all persons in employment aged 30+.

Table 2.7 shows the pension coverage for employed persons in 2004 compared to those who were self-employed. 54.4% of those in employment had pension cover compared to 43.1% for those in self-employment. This reflects the importance of occupational pensions.

**Table 2.7: Pension Coverage in the State for Persons in Employment Aged 20 to 69 years, Q1 2004 (%) – By ILO Employment Status**

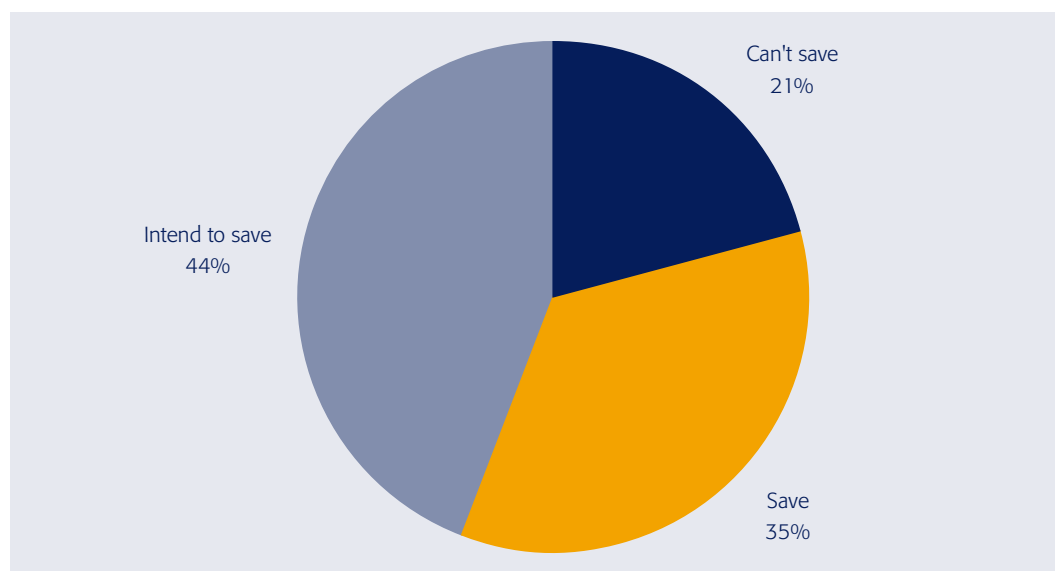
Age	Occupational Pension only	Personal Pension only	Both	Total Coverage	No Pension 1	Total
Self-Employed and Assisting relatives	Not relevant	43.1	Not relevant	43.1	56.9	100.0
Employees	40.4	6.3	7.7	54.4	45.6	100.0

Source: CSO.

## 2.4 Selected Relevant Market Research Data

To assess the policy options it is important to examine the characteristics of savings behaviour. As part of the research programme, we examined existing market research data on savings. Figure 2.2 suggests that 35% of the population save with another 44% of respondents suggesting that they “intend to save”. Reflecting the affordability and other factors, 21% of respondents stated they can’t save.

**Figure 2.2: Proportion of Adult Population Who ‘Save’, ‘Can’t Save’, and ‘Intend to Save’**



Source: Lansdowne Market Research Undertaken for the Irish Insurance Federation

Market research also indicates on the percentage of respondents who state they are saving for pensions. The figures indicate that 48% of respondents are saving through a pension plan or through other means. This is broadly similar to the 52.4% that have a pension according to the CSO data.

**Table 2.8: Percentage of Adult Population Saving for Pension**

	%
Yes – Pension Plan	37%
Yes - Other Means	11%
No	43%
Don't Know	9%

Source: Lansdowne Market Research Undertaken for the Irish Insurance Federation.

The profile of savers is also of interest. Those who are saving for a pension tend to be older and a higher percentage of white collar professionals are more likely to save for pensions as well as those who are savers as set out in Table 2.9.

**Table 2.9. Profile of Those *More Likely* to Save For Pension Through a Pension Plan**

	%
35-45 year olds	43%
55-64 year olds	46%
Married men	44%
White collar professionals	53%
Those living in Dublin	47%
Those living in urban areas	45%
Those who are "Savers"	56%

Source: Lansdowne Market Research Undertaken for the Irish Insurance Federation.

Those that are less likely to save for pensions are younger, single and from a lower socio-economic class.

**Table 2.10: Profile of Those *Less Likely* to Save For Pension**

	%
18-24 year olds	77%
Single males	59%
Single females	52%
Unskilled working class	59%
Those living in 'Rest of Leinster'	54%
Those who 'Can't Save'	79%
Those in rural areas	50%

Source: Lansdowne Market Research Undertaken for the Irish Insurance Federation.

Survey data is also available on the principal source of income which individuals would intend to access upon retirement. 9% of respondents state that a personal savings/investment plan would be their main source of income, with 18% stating long-term savings/investments. 46% state that the State pension would be their main source of income when they retire, reflecting the relatively low level of pension coverage indicated by the other data sources.

Table 2.11: What Do People Expect To Be Main Income Source When Retired?

	%
The State pension	46%
A company pension you do contribute to	32%
A personal savings/investment plan	19%
Other long-term savings/investments	18%
Selling assets	7%
A company pension you do not contribute to	5%
Income from property	5%
Other	6%
Don't know	11%

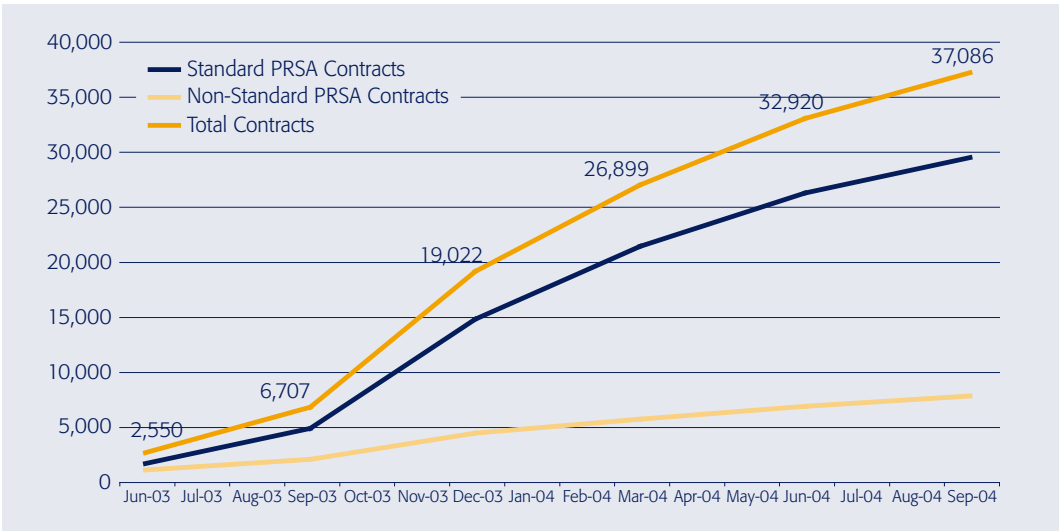
Source: Lansdowne Market Research Undertaken for the Irish Insurance Federation.

2.5 Trends in PRSA Take-Up

An issue for pensions policy and for this study is the trend in PRSAs. The first PRSAs were approved by the Pensions Board in February 2003 and we understand this new pensions product was introduced in June 2003 and offered a simple and portable pension product that was potentially attractive for consumers.

The trend in PRSAs take-up is illustrated in Figure 2.3 below. There has been a steady increase in PRSA contracts since June 2003, although the rate of increase appears to be slowing down. At end September 2004, there were an estimated 37,086 contracts. This suggests that pensions coverage has increased since the last CSO survey reported in previous sections but not markedly. It also suggests that a significant acceleration in take-up will be required if the target for pensions provision is to be met.

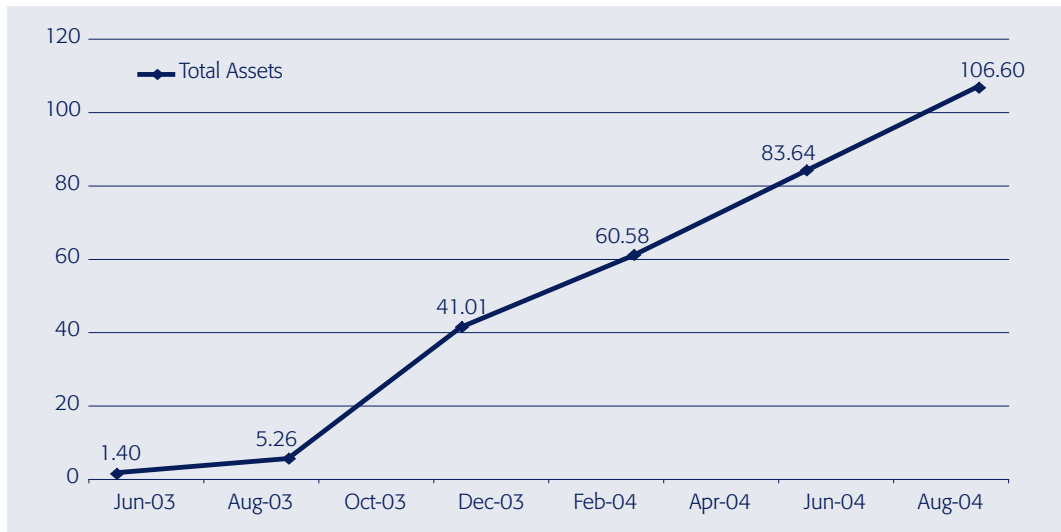
Figure 2.3: Trends in Pensions Take-Up



Source: The Pensions Board.

Data on the total amount of assets in PRSAs are also available from the Pensions Board. The data suggest that total assets amount to €106 million in August 2004.

Figure 2.4: Trends in Total Assets (€ Millions)



Source: The Pensions Board.

As previously mentioned, age is undoubtedly a significant factor which influences the take up of pension cover. The following tables look at various aspects of PRSA pensions broken down by age.

In Table 2.12 the age profile of those with standard and non-standard PRSAs is shown. Those in the 25 to 34 age bracket have the highest number of both standard and non-standard PRSAs, which to an extent is encouraging. The numbers fall significantly when you look at those aged 55 and over.

Table 2.12: Standard and Non-Standard PRSAs by Age Band

Age	Standard	Non-Standard
24 and under	1,658	393
25 – 34	5,922	1,674
35 – 44	3,866	1,193
45 – 54	2,316	667
55 and over	938	314

Source: The Pensions Board.

A similar picture emerges when we look at contributions, both individual and employer contributions, by age band (see Table 2.13 below). The majority of individual contributions come from those in the 35 to 54 age bracket, while the largest proportion of employer contributions are for those in the 25 to 44 age bracket.

Table 2.13: Individual Contributions &amp; Employer Contributions by Age Band

Age	Individual Contribution Total	Employer Contribution Total
24 and under	€520,542.41	€79,784.89
25 – 34	€6,399,703.76	€678,228.55
35 – 44	€11,173,654.42	€732,366.48
45 – 54	€12,332,539.79	€509,126.69
55 and over	€8,791,136.80	€218,754.84

Source: The Pensions Board.

The average pension contributions by age band vary and increase significantly with age, the highest individual contributions being paid by those aged 55 and over (€7,022). Average employer contribution also increases with age profile, however, average contribution by employer for those aged 45-54 (€171) is almost the same as for those aged 55 and over (€175). Considerably lower contributions occur in the age band of 24 and under and here, the average employer contribution is €39.

**Table 2.14: Average Contributions by Age Band**

Age	Average Individual Contribution	Average Employer Contribution
24 and under	€254	€39
25 – 34	€843	€89
35 – 44	€2,209	€145
45 – 54	€4,134	€171
55 and over	€7,022	€175

Source: The Pensions Board.

## 2.6 Conclusions

The main conclusions of available information on pensions coverage in Ireland are:

- The CSO data for the first quarter of 2004 suggest that 52.4% of persons in employment aged between 20-69 have a personal or occupational pension.;
- This is a marginal increase on 2002, but markedly below the target set by the NPPI and accepted by Government;
- Market research data suggest that those less likely to save and make a pensions provision are younger, single and from a lower socio-economic class;
- There has been an increase in take-up of PRSA pensions;
- Average employee contributions to PRSAs are modest and employer contributions are negligible.

### 3 Trends in SSIA Savings

We have also accessed data on trends in SSIA. SSIA represent a very significant savings initiative which is important for overall savings and pensions policy. Data below are for 2001 to 2004. These include:

- "Subscriptions" which are the total monthly amount contributed by depositors to their savings accounts;
- "Tax Credit" which is the monthly total Exchequer contribution appropriate to the "Subscriptions" in Col. 2 reduced by the tax deducted on ceased accounts and withdrawals;
- "Tax Credit Payout" is the payout pattern of the Exchequer contribution shown in Col. 3. This contribution is made on a month behind basis, for example, the contribution for January subscriptions is paid in February.

For the period 2001 to end-November 2004, total subscriptions equalled €6,281.2 million. This is well above expectations and it is plausible that this may have adversely affected take-up of PRSA pensions although the evidence on this is incomplete. The total tax credit provided by the Exchequer amounted to €1,537 million.

**Table 3.1: Monthly Revenue Cashflow Figures Relating to the Special Savings Incentive Scheme**

	Subscriptions in year - €m	Tax Credit in respect of year - €m	Tax Credit Payout in year (i.e. Exchequer Cost) - €m
2001	356.6	88.8	71.0
2002	1,859.30	459.6	433.0
2003	2187.1	532.7	532
2004 *	1878.2	455.9	501
Total	6281.2	1537	1537

Source: Department of Finance. \* Year to End-December

Table 3.2 shows that over 1.1 million people opened accounts, which is well over half the persons employed in the economy. Interestingly, there has actually been a slight decrease in the number of active SSIA accounts since the deadline for opening such accounts in April 2002. The number of active accounts fell by 5% between April 2002 and December 2003. This may reflect the economic slow down over this period and the restrictions on further sales after that date.

**Table 3.2: Number of Active Accounts**

As of:	Number
31st December 2001	398,214
30th April 2002	1,170,208
31st December 2002	1,143,418
31st December 2003	1,113,880

Source: Department of Finance.

Data are available on when accounts were opened. Almost half (49.8%) of all those holding SSIA accounts in 2003, only opened their account in April 2002 – the deadline for doing so. Only 3.8% have held their accounts since May 2001. Table 3.3 also shows the cumulative gross value of savings and associated tax credits to end of 2003.

Table 3.3: Percentage of Current SSIA Accounts in 2003 by Date of Commencement (May 2001 – April 2002)

Month of Commencement	% of account holders 2003	Cumulative gross value of subscriptions and associated tax credits to end of 2003 (€m)	% of Gross Value at end of 2003
May 2001	3.8	312.1	5.7
June 2001	7.4	600.1	10.9
July 2001	5.3	414.9	7.5
August 2001	3.7	281.3	5.1
September 2001	3.1	216.6	3.9
October 2001	3.1	208.3	3.8
November 2001	3.5	223.1	4
December 2001	3.4	230	4.2
January 2002	3.1	318.2	5.8
February 2002	4.7	273.4	5
March 2002	9.1	439.3	8
April 2002	49.8	1,997.80	36.2
Total	100	5,515.1 <sup>4</sup>	100

Source: Department of Finance.

### 3.1 Subscription Levels

The average monthly subscription to SSIA accounts between December 2001 and December 2003 was €162.50 (compared to average PRSA contribution of €172.5). Table 3.4 shows the average monthly subscription for each period and indicates a slight increase each year since April 2002.

Table 3.4: Average Monthly Subscription

Month	Amount
Dec-01	€179
Apr-02	€148
Dec-02	€158
Dec-03	€165

Source: Department of Finance.

At the end of 2003, 40% of those with SSIA accounts were paying the maximum monthly amount of €254, while only 4% were paying the minimum of €12.50 per month.

4 This gross figure is inclusive of €57m in respect of funds that have been withdrawn from accounts, funds in accounts that have been ceased and funds in accounts that have matured during the years 2001 to 2003.

Table 3.5: Monthly Subscription Levels at End-2001, End-2002 and End-2003

Monthly Subscription Level	At 31/12/2003 %	At 31/12/2002 %	At 31/12/2001 %
Minimum €12.50	4	3	2
€12.50 - €59.99	17	20	11
€60 - €149.99	26	29	28
€150 - €253	13	11	6
Max €254	40	37	53
	100	100	100

Source: Department of Finance.

It is interesting to see in Table 3.6 below, that, in each of the three years, over 80% of account holders are in the 'low' and 'medium' income categories. In 2003, 17.1% of account holders were categorised as 'high income'.

Table 3.6: Monthly Subscription Levels at End-2001, End-2002 and End-2003

Income Category	% of account holders 2003	% of account holders 2002	% of account holders 2001
Low	37.5	38.2	33.1
Medium	45.3	45	47.7
High	17.1	16.8	19.2

Source: Department of Finance.

An estimation of the percentage of taxpayers who fall into the three income categories is given in Table 3.7. Comparing these numbers with the figures in Table 3.6 suggest that while most SSIA account holders are in low to medium income categories in percentage terms a higher percentage of high income taxpayers have SSIA accounts.

Table 3.7: Estimated % of Taxpayers in Each Income Bracket 2001

	% of Taxpayers in Each Income Bracket
Taxpayers with Income less than €20,000	63.8%
Taxpayers with Income between €20,000 and €50,000	30.1%
Taxpayers with Income of more than €50,000	6.1%
Total	100.0%

Source: Revenue Commissioners.

### 3.2 Age Profile of SSIA Subscribers

SSIAs have been successful at reaching age groups that tend not to be savers. The data shows that 19.9% of account holders are aged 20-29. Moreover almost a quarter are in the 30-39 age bracket. Continuation of this saving trend for certain groups post SSIA could provide a significant boost to pension coverage if these savers could be directed towards pension take-up.

Table 3.8: Percentage of SSIA's Held by Each Current Age Group in 2003

Age Range (Years)	% of SSIA's
< 20	0
20 – 29	19.9
30 – 39	24.9
40 – 49	22.5
50 – 59	17.6
60 – 69	10.1
70 – 79	4
80 – 89	0.8
90 or over	0.2

Source: Department of Finance.

### 3.3 Market Research on SSIA's

Market research indicates that of those owning SSIA's, 47% said they would describe themselves as 'savers', but over half of them said they always *intended* to save or *cannot* save (see Table 3.9).

Table 3.9: Of Those Owning SSIA's

	% Having SSIA
'Savers'	47%
'Can't Save'	8%
'Intend to Save'	34%

Source: Lansdowne Market Research Undertaken for the Irish Insurance Federation.

When asked what they intended to do with the proceeds of their SSIA's, 8% said they would spend it immediately, and roughly the same amount (9%) said they would reinvest some or all of it in a pension or use for retirement. Looking at Table 3.10 we can see that 41% of account holders intend spending some or all of the proceeds of their SSIA's immediately, 16% said they will save or reinvest it all, and a significant 33% don't know what they will do with the money. This suggests that while there will not be any inevitable growth in pensions as a result of SSIA proceeds there is significant potential to stimulate pension take up from SSIA proceeds.

Table 3.10: Intentions with SSIA's

	%
Spend it immediately	8%
Spend some immediately and spend rest later	11%
Spend some immediately and save or reinvest the rest	22%
Save or reinvest it all	16%
Invest some or all in a pension plan/use for retirement	9%
Don't know	33%

Source: Lansdowne Market Research Undertaken for the Irish Insurance Federation.

### 3.4 Conclusions

The main conclusions from our analysis of SSIA savings are:

- SSIA savings have well exceeded expectations, with over 1.1 million account holders;
- The Exchequer costs to-date are €1.5 billion;
- Subscriptions average €165 per month similar to the average PRSA contribution;
- 40% of account holders are saving the maximum amount;
- 38% of respondents indicated that they would save all or part of their savings, but only 9% suggested an intention to invest all or some in a pension plan or to use for retirement.

## 4 Evidence on Pensions from the Household Budget Survey

### 4.1 Introduction

The section presents relevant data from the large scale Household Budget Survey (HBS) undertaken by the Central Statistics Office. The HBS is a survey of a representative random sample of all private households in the State. The main purpose of the HBS is to determine in detail the current pattern of household expenditure in order to update the weighting basis of the Consumer Price Index. The maintenance of a detailed diary of household expenditure over a two-week period by the surveyed households is thus the main distinguishing feature of the HBS. Detailed information is also collected on all sources of household income and on a range of household characteristics and contributions, such as pensions contributions.

A total of 7,644 households participated in the 1999-2000 HBS. In this section we summarise average private pension contributions in Ireland focussing on the differences in contributions made by private households across different income groups/deciles. It should be borne in mind that HBS data are collected at the *household* level and not at an *individual* level.

### 4.2 Analysis of HBS Data

Table 4.1 presents average weekly household expenditure on pension fund premiums as of 1999/2000. The data suggests that the average across all households in the State was €10.78 per week, or €562.07 per annum. The average disposable income across all households in the sample was €552, implying that the average proportion of disposable income spent on pension contributions was 1.95%. This average, of course, varies significantly across households.

Table 4.1: Average Weekly Household Expenditure on Pension Fund Premiums – 1999/00 - Euro

	State
Household Expenditure on Pension Fund Premiums	€10.78
Total Household Disposable Income	€551.57
Household Expenditure on Pension Fund Premiums as a % of Total Household Disposable Income	1.95%

Source: Central Statistics Office, Household Budget Survey.

One key determinant of the level of pension contributions is likely to be the income level of a household. Table 4.2 presents average weekly household expenditure on pension fund premiums by income decile. A decile is defined as any of nine points that divide a distribution (such as the income distribution of a sample of households) into equal intervals, where each interval contains one-tenth of the observations (or in this case one-tenth of the households in the sample). So, the first decile (Decile 1) contains the 10% of households in the HBS with the lowest incomes, while the tenth decile (Decile 10) contains the 10% of households in the HBS with the highest incomes.

The data presented in Table 4.2 shows considerable variation in private pension fund contributions across income deciles. For example, households in Decile 1 spent an average of only €0.04 per week (€2.09 per annum) on pension fund premiums, while those households in Decile 10 spent an average of €44.69 per week (€2,330.14 per annum). There will of course also be variation in spending within, as well as across, income deciles. It is interesting to note that private pension fund contributions are monotonically increasing with income i.e. as income rises so too do contributions.

Table 4.2 also presents estimates of household expenditure on pension fund premiums as a percentage of total household disposable income, across household income deciles. The estimates show a range of 0.04% to 3.13% of disposable income spent on private pensions. Households with higher incomes spend higher proportions of their income on pension contributions.

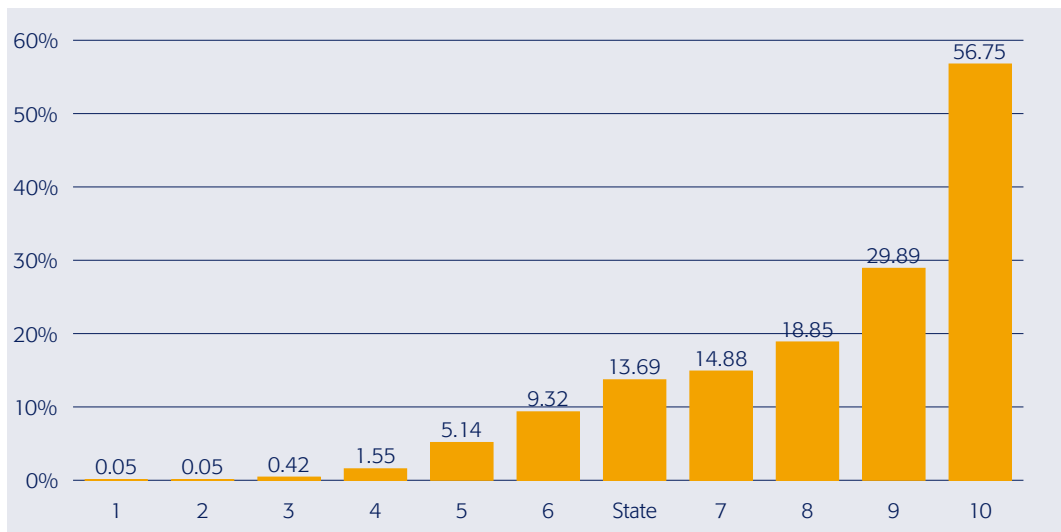
**Table 4.2: Average Weekly Household Expenditure on Pension Fund Premiums By Income Decile – 1999/00 - Euro**

	Decile									
	1	2	3	4	5	6	7	8	9	10
Household Expenditure on Pension Fund Premiums	0.04	0.04	0.33	1.22	4.05	7.34	11.72	14.84	23.54	44.69
Total Household Disposable Income	106	174	249	332	423	516	618	743	926	1,429
Household Expenditure on Pension Fund Premiums as a % of Total Household Disposable Income	0.04	0.02	0.13	0.37	0.96	1.42	1.90	2.00	2.54	3.13

Source: Central Statistics Office, Household Budget Survey.

Figure 4.1 presents a graphical representation of average weekly household spending on pension premiums. The upward trend in the level of expenditure is evident in the chart. It also shows that those in Deciles 7 to 10 have above-average expenditures on private pension contributions while those in Deciles 1 to 6 have below average spending.

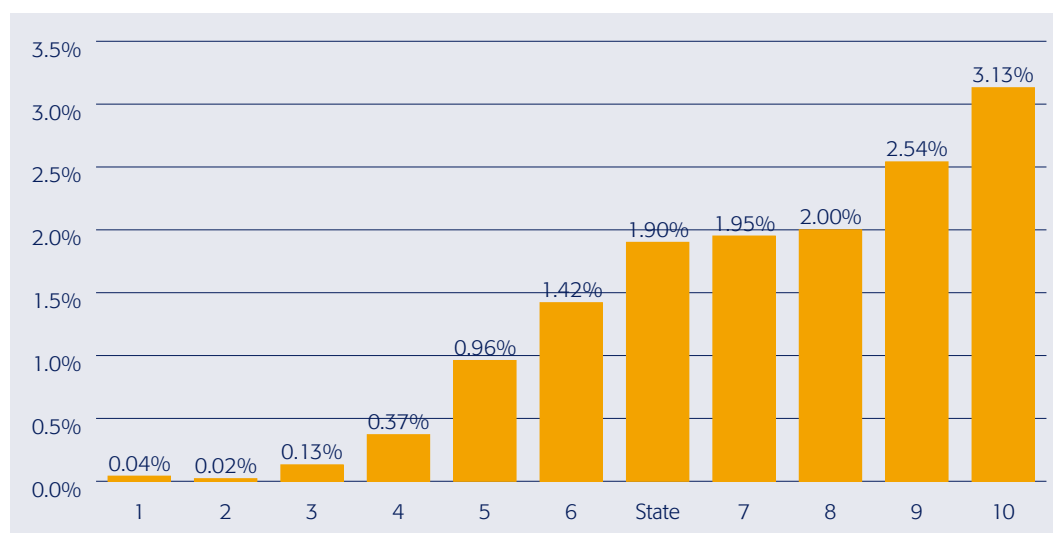
**Figure 4.1: Average Weekly Household Expenditure on Pension Fund Premiums By Income Decile – 1999/00 - Euro**



Source: Indecon analysis of HBS data.

Figure 4.2 presents a graphical representation of household spending on pension premiums as a percentage of household disposable income. Once again the upward trend in the level of expenditure is evident in the chart. Figure 4.2 shows that those in Deciles 8 to 10 have above-average relative (to income) expenditures on private pension contributions while those in Deciles 1 to 7 have below average relative spending.

**Figure 4.2: Household Expenditure on Pension Fund Premiums as a % of Total Household Disposable Income – 1999/00 - %**



Source: Indecon analysis of HBS data.

### 4.3 Summary

The analysis in the section shows that there is considerable variation in private pension fund contributions across households with different levels of disposable income. In particular, private pension fund contributions are monotonically increasing with income i.e. as income rises so too do contributions. There will of course also be variation in spending within, as well as across, income deciles. Households with higher incomes also tend to spend higher proportions of their incomes on private pension fund contributions.

## 5 Evidence from New Indecon Market Research

### 5.1 Introduction

The section presents analysis of survey data specially obtained for this study and commissioned by Indecon and undertaken by TNS mrbi. In particular the analysis focuses on a number of potential barriers to increasing pension coverage in Ireland as well as the likely impact of a number of pension-related initiatives. The survey was based on a representative sample of adults (i.e. males and females aged 15 or more) and respondents were selected for interview through random digit dialling (RDD).<sup>5</sup>

The survey included quota controls for region, by age within sex and social class within sex. These controls ensure that the final sample reflects the profile of the national population aged 15+.<sup>6</sup> The sample size of the survey was 933 adults aged 15+ years in the Republic of Ireland. Interviewing was conducted from November 30th to December 9th, 2004. The sample was weighted to represent the adult population in the Republic of Ireland aged 15+.

Respondents were asked a number of questions in relation to: ownership of selected financial products including pension products and SSIA's; potential barriers to increasing pensions coverage; the likely impact of enhanced tax allowances; and the impact of allowing transfers of SSIA monies into pensions. This section sets out the results of the survey and analysis of the data.

### 5.2 Ownership of Financial Products

Survey respondents were asked a number of questions, including a question relating to ownership of financial products:

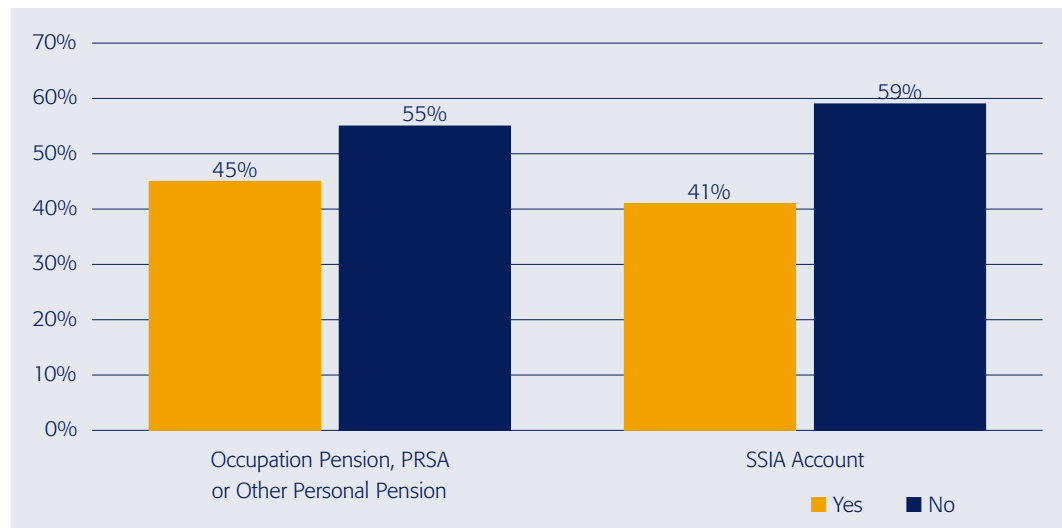
"Please indicate whether you have either of the following financial products?

- Occupation Pension, PRSA or Other Personal Pension;
- SSIA Account."

Figure 5.1 sets out a summary of the responses.

Overall, 45% of respondents indicated they had an occupational pension, PRSA or other pension product. The remaining 55% indicated they did not have a pension. In relation to Special Savings Investment Accounts (SSIA's), 41% of respondents have this investment while 59% do not. As expected, there was considerable variation in ownership of both pensions and SSIA's with age, with much higher proportions of older respondents owning these products compared to younger respondents.

**Figure 5.1: Ownership of Financial Products**



Source: Indecon commissioned TNS mrbi survey.

5 This method of respondent selection ensures that ex-directory households are as likely to be selected for interview as listed households.

6 Supervision of the interview procedure is carried out throughout the fieldwork period.

### 5.3 Potential Barriers to Increasing Pensions Coverage

Respondents were also asked their views in relation to a number of potential barriers to increasing pensions coverage in Ireland:

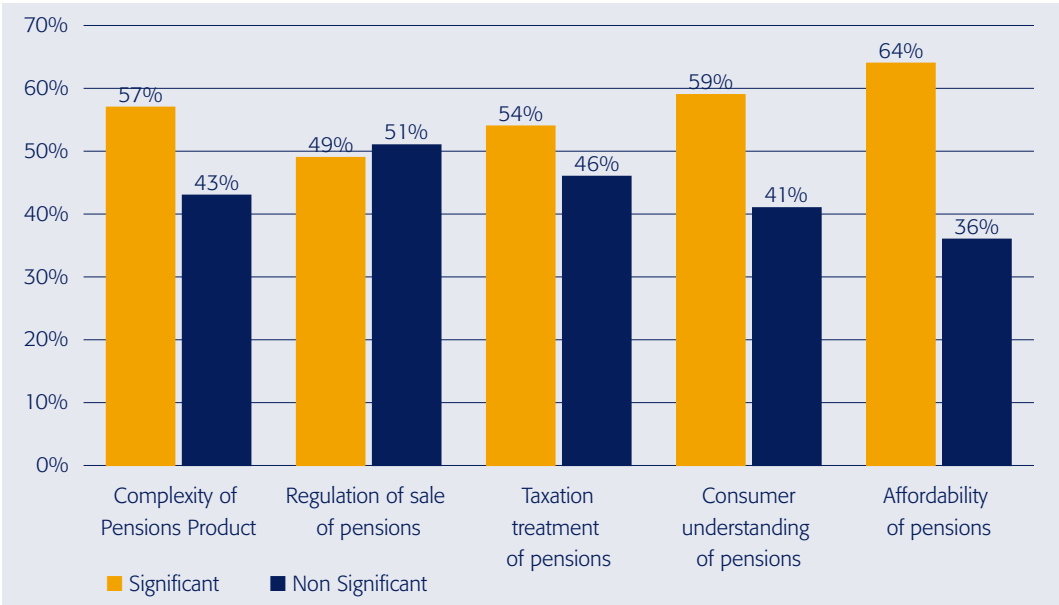
“In your view, are the following potential barriers to increasing the coverage of pensions in Ireland significant or not significant?”

- Complexity of pension products;
- Regulation of sale of pensions;
- Taxation treatment of pensions;
- Consumer understanding of pensions; and,
- Affordability of pensions.”

The findings of the survey in relation to potential barriers are summarised in Figure 5.2. The potential barrier identified by the highest proportion of survey respondents as a significant barrier was “affordability of pensions”. Overall, 64% suggested this to be a significant barrier, while 36% suggested it was not significant. A high proportion of respondents also identified “consumer understanding of pensions” and “complexity of pensions products” as significant (59% and 57% respectively). A majority of respondents also identified “tax treatment of pensions” as significant (54%).

Indecon fully accepts that while consumers are in the best position to evaluate the complexity of pension products and their understanding of pensions, as well as whether affordability or taxation treatment represents a potential barrier they are likely to be less competent than providers to evaluate the impact of regulation of sale of pensions. This aspect was however included to obtain a consumer perspective on regulatory issues and is not meant to constitute the basis for evaluating regulatory issues.

Figure 5.2: Potential Barriers to Increasing Pensions Coverage



Source: Indecon commissioned TNS mrbi survey.

There was also some variation in views across age groups and social classes to these potential barriers. For example, higher proportions of respondents in social class AB saw the complexity of pensions as a significant barrier to increasing pension coverage compared to respondents in social class F – see Table 5.1 below.

**Table 5.1: Does “complexity of pensions products” represent a barrier to increasing the coverage of pensions in Ireland? – Responses by social class**

Social Class	Significant	Not Significant
AB	64%	36%
C1	60%	40%
C2	65%	35%
DE	50%	50%
F	43%	57%
Total	57%	43%

Source: Indecon commissioned TNS mrbi survey.

In relation to variation in views across age groups, this was less pronounced though some variation is evident. For example, lower proportions of older respondents see complexity of pension products as a significant barrier to increasing coverage. Table 5.2 sets out a breakdown of responses by age group. The fact that very high percentages of individuals in the 20 – 44 age group see complexity of pension product as a significant barrier is important given that this group is a target for increased pension take-up.

**Table 5.2: Does “complexity of pension products” represent a barrier to increasing the coverage of pensions in Ireland? – Responses by age category**

Age	Significant	Not Significant
15 – 19	52%	48%
20 – 24	59%	41%
25 – 34	66%	34%
35 – 44	59%	41%
45 – 54	59%	41%
55 – 64	54%	46%
65+	44%	56%
Total	57%	43%

Source: Indecon commissioned TNS mrbi survey.

### ***Taxation treatment of pensions***

An analysis of views on the issue of whether the taxation treatment of pensions represent a barrier to increasing pensions coverage is presented in Table 5.3 below. Interestingly, the percentages indicating this is a significant barrier is very high among the 25 – 34 and 35 – 44 age groups. These groups are potentially important target groups.

**Table 5.3 : Does the “taxation treatment of pensions” represent a barrier to increasing the coverage of pensions in Ireland? – Responses by age category**

Age	Significant	Not Significant
15 – 19	58%	42%
20 – 24	53%	47%
25 – 34	60%	40%
35 – 44	58%	42%
45 – 54	50%	50%
55 – 64	56%	44%
65+	44%	56%
Total	54%	46%

Source: Indecon commissioned TNS mrbi survey.

An analysis of the views on taxation treatment of pensions as a barrier by socio-economic group is presented in Table 5.4. The lower percentages among the DE and F groups may reflect the issue of affordability for these groups although a sizeable minority of these categories also view the taxation treatment as a significant barrier.

**Table 5.4 : Does the “taxation treatment of pensions” represent a barrier to increasing the coverage of pensions in Ireland? – Responses by social class**

Social Class	Significant	Not Significant
AB	66%	34%
C1	60%	40%
C2	59%	41%
DE	44%	56%
F	44%	56%
Total	54%	46%

Source: Indecon commissioned TNS mrbi survey.

### *Consumer understanding of pensions*

The issue of consumer understanding of pensions is also a significant issue. This is particularly evident in the important 20 – 24, 25 – 34 and 35 – 44 groups as indicated in the table below.

**Table 5.5 : Does “consumer understanding of pensions” represent a barrier to increasing the coverage of pensions in Ireland? – Responses by age category**

Age	Significant	Not Significant
15 – 19	53%	47%
20 – 24	64%	36%
25 – 34	68%	32%
35 – 44	66%	34%
45 – 54	59%	41%
55 – 64	54%	46%
65+	46%	54%
Total	59%	41%

Source: Indecon commissioned TNS mrbi survey.

### *Affordability of pensions*

Affordability of pensions is seen by all age groups as a significant barrier. This suggests that while incentives and improved product design is likely to be important for some groups the issue of affordability will remain a barrier which will present private contributions to pension schemes.

**Table 5.6 : Does “affordability of pensions” represent a barrier to increasing the coverage of pensions in Ireland? – Responses by age category**

Age	Significant	Not Significant
15 – 19	66%	34%
20 – 24	64%	36%
25 – 34	68%	32%
35 – 44	70%	30%
45 – 54	66%	34%
55 – 64	59%	41%
65+	54%	46%
Total	64%	36%

Source: Indecon commissioned TNS mrbi survey.

## 5.4 Likely Impact of Enhanced Tax Allowances

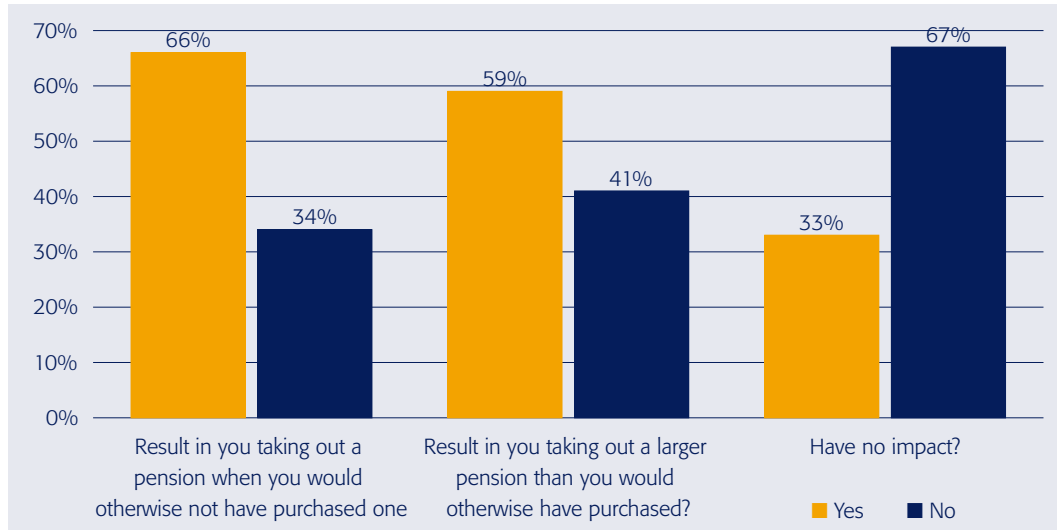
Survey participants were also asked their views on the likely impact of enhanced tax allowances:

“If the Government introduced enhanced tax allowances on pension contributions would this be likely to:

- Result in you taking out a pension when you would otherwise not have purchased one?
- Result in you taking out a larger pension than you would otherwise have purchased?
- Have no impact?”

Figure 5.3 presents a summary of responses to this issue. According to the survey, 66% of respondents suggested they would be more likely to take out a pension (if they did not already have one), if the Government introduced tax allowances on pension contributions. Overall, 59% of respondents indicated that the improved tax allowances would result in them taking out a larger pension, while only 33% indicated that this type of policy intervention would have no impact.

**Figure 5.3: Likely Impact of Enhanced Tax Allowances**



Source: Indecon commissioned TNS mrbi survey.

***Result in you taking out a pension?***

The views of different age groups on whether enhanced tax allowances would result in individuals taking out a pension when they would not otherwise have purchased one is presented in Table 5.7 below. The figures indicate very encouraging potential interest arising from appropriate targeted tax incentives. The lower percentage of over 65 may reflect a range of factors including income level and existing pension provisions.

**Table 5.7 : Would enhanced tax allowances result in you taking out a pension when you would otherwise not have purchased one? – Responses by age category**

Age	Yes	No
15 – 19	66%	34%
20 – 24	75%	25%
25 – 34	80%	20%
35 – 44	67%	33%
45 – 54	70%	30%
55 – 64	58%	42%
65+	39%	61%
Total	66%	34%

Source: Indecon commissioned TNS mrbi survey.

Interestingly the AB social group demonstrate one of the highest levels of percentage interest in securing pensions if there were enhanced tax allowances. Of significance, however, is the fact that a majority of all social groups suggested that enhanced tax allowances would result in them taking out a pension. This is not to suggest that all of this group would invest in a pension but highlights the potential interest in such incentives.

**Table 5.8 : Would enhanced tax allowances result in you taking out a pension when you would otherwise not have purchased one? – Responses by social class**

Social Class	Yes	No
AB	73%	27%
C1	68%	32%
C2	72%	28%
DE	58%	42%
F	62%	38%
Total	66%	34%

Source: Indecon commissioned TNS mrbi survey.

## 5.5 Impact of Allowing Transfers of SSIA Monies Into Pensions

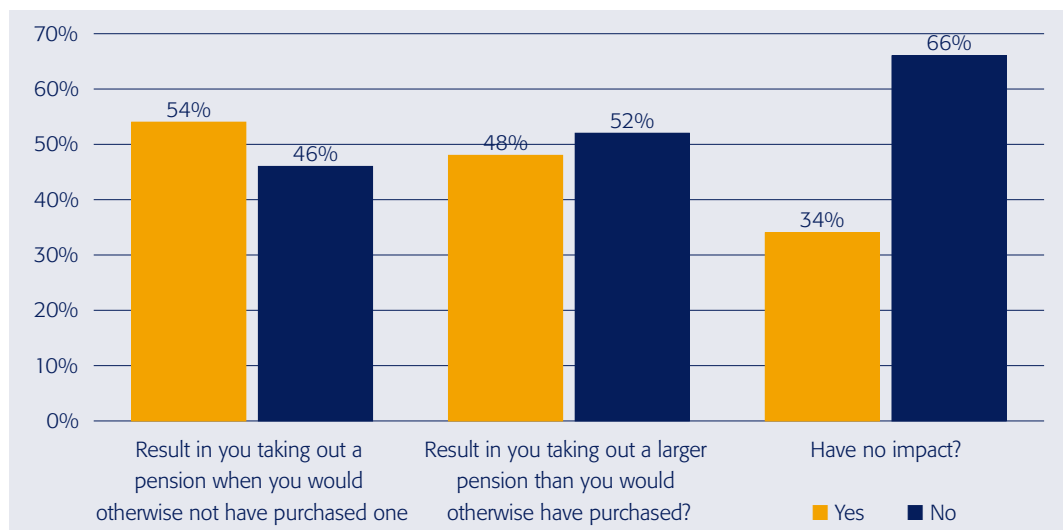
Finally, survey participants were also asked their views on the likely impact of tax relief for transferring SSIA investments into pensions:

“If tax relief was allowed on transferring SSIA money into pensions would this be likely to:

- Result in you taking out a pension when you would otherwise not have purchased one?
- Result in you taking out a larger pension than you would otherwise have purchased?
- Have no impact?”

Figure 5.4 presents a summary of responses to this question (see Annex 4 for a breakdown by age and social class). Overall, 54% of respondents indicated they would be more likely to take out a pension if the government introduced tax relief on SSIA funds transferred to pensions. 40% of respondents indicated that the tax relief would result in them taking out a larger pension, while only 34% indicated that this option would have no impact.

**Figure 5.4: Impact of Allowing Transfers of SSIA Monies Into Pensions**



Source: Indecon commissioned TNS mrbi survey.

### ***Result in you taking out a pension?***

The views of different age groups on whether tax relief on transferring SSIA funds into pensions would be likely to result in them taking out a pension is presented in Table 5.9. While for some age groups such as over 55 a majority indicated this would not result in an increase in their pension take up, for other age groups a majority suggested it could have this impact.

**Table 5.9: Would allowing transfers of SSIA monies into pensions result in you taking out a pension when you would otherwise not have purchased one? Responses by age category**

Age	Yes	No
15 – 19	57%	43%
20 – 24	66%	34%
25 – 34	54%	46%
35 – 44	60%	40%
45 – 54	65%	35%
55 – 64	47%	53%
65+	25%	75%
Total	54%	46%

Source: Indecon commissioned TNS mrbi survey.

An analysis of the impact of providing tax allowances on transfer of SSIA funds into pensions by socio-economic group is presented in the table below. The figures highlight higher percentage responses by AB social groups who may not need a pension as much as others. This suggests the need for careful targeting of any new incentives.

**Table 5.10: Would allowing transfers of SSIA monies into pensions result in you taking out a pension when you would otherwise not have purchased one? Responses by social class**

Social Class	Yes	No
AB	67%	33%
C1	57%	43%
C2	55%	45%
DE	48%	52%
F	44%	56%
Total	54%	46%

Source: Indecon commissioned TNS mrbi survey.

## **5.6 Summary**

The section has presented survey data specially commissioned by Indecon for this study that focuses on a number of potential barriers to increasing pension coverage in Ireland, as well as the likely impact of a number of pension-related initiatives.

Respondents were asked a number of questions in relation to: ownership of selected financial products including pension products and SSIA's; potential barriers to increasing pensions coverage; the likely impact of enhanced tax allowances; and the impact of allowing transfers of SSIA monies into pensions.

Overall, 45% of respondents indicated they had an occupational pension, PRSA or other pension product, while 41% have SSIA's. The survey evidence suggests that much higher proportions of older respondents own these products compared to younger respondents.

In relation to potential barriers to increasing pension coverage in Ireland, the barrier identified by the highest proportion of survey respondents as a significant barrier was affordability of pensions - 64%. High proportions of respondents also identified consumer understanding of pensions and complexity of pensions products and taxation as significant.

The survey evidence suggests that 66% of respondents would be more likely take out a pension if the government introduced tax allowances on pension contributions. 59% indicated that the improved tax allowances would result in them taking out a larger pension, while only 33% indicated that this type of policy intervention would have no impact.

In relation to tax relief on SSIA funds transferred to pensions, 54% of respondents suggested they would be more likely take out a pension, while 40% indicated that this tax relief would result in them taking out a larger pension. 34% indicated that this option would have no impact.

## 6 Incentives and Pension Coverage

### 6.1 Introduction

This section looks at a number of issues in relation to the incentives available to increase pension take-up and pension savings. It begins with a brief description and general overview of the relationship between tax relief and pensions. It then focuses in greater detail at a number of issues of relevance to this study in examining the effectiveness of tax relief as incentives for pension take-up and pension savings. This section draws on international research and reports including a recent report published in the UK by the Pensions Policy Institute.<sup>7</sup> Overall the international research has tended to focus on tax incentives and that is the main focus of this section.

### 6.2 Tax Relief and Pensions

The current system of tax relief on pension contributions in Ireland provides significant incentives for investing in pension saving particularly for those on higher incomes. Within the current system there are a number of direct tax advantages that can be seen as incentives to encourage pension saving.

In the UK, over half of tax relief paid on pension contributions is in respect of contributions from employers.<sup>8</sup>

Tax relief on private pension contributions is seen by many however as regressive. This is because “higher earners receive a higher rate of tax relief, and so receive more state support for a given level of private pension contribution. Higher earners are also more likely to belong to private pension schemes, and so be making contributions that attract tax relief.”<sup>9</sup> Hence, overall this means that most tax relief is received by those classified as high-earners. In the UK for example, “55% of tax relief on individual and employee pension contributions is received by 2.5 million higher rate tax payers.” Some analysis of the incident of pension tax relief by income category in Ireland is discussed elsewhere in this report.

### 6.3 Tax Relief as an Incentive for Pensions Saving

Incentives, including tax incentives, are used in many countries to encourage people to save. For example, governments frequently aim to increase the amount people save by contributing some financial incentive – this has the effect of increasing the return on saving. According to PPI (2004), the UK has a history of private pension provision, supported by a system of tax relief and incentives. Despite significant annual expenditure on incentives however, and apparent success in building up a large stock of pension fund assets, there is still said to be a ‘savings gap’ in the UK.

The PPI (2004) report considers a number of issues pertinent to the debate in Ireland, including, *inter alia*:

- Tax incentives and the way people save;
- Complexity of tax incentives;
- Tax incentives and target groups;
- Tax incentives and total saving;
- Tax incentives and the ‘savings gap’; and,
- Other factors affecting the savings decision.

In this section we present an overview of some of these issues.

7 PPI (2004), “Tax Relief and Incentives for Pension Saving - A Report by the Pensions Policy Institute for Age Concern England.”

8 PPI calculations presented in PPI (2004).

9 PPI (2004).

### 6.3.1 Tax incentives and the way people save

Tax incentives can affect the way that people save. For example, countries that offer tax relief on pensions often have large numbers of people making individual private pension provision:

- 8 million people between ages 25 and 64 (50%) make contributions to Registered Retirement Savings Plans (RRSPs) in Canada;<sup>10</sup>
- More than 40 million households (40%) make contributions to Individual Retirement Accounts (IRAs) in the US;<sup>11</sup>
- Over 4 million employees and self-employed people (15%) report making contributions to a personal pension in the UK.<sup>12</sup>

According to PPI (2004), there is some research that suggests that “most of this pension saving comes at the expense of other forms of saving”.<sup>13</sup> It should be noted however that “tax incentives are not the only driver for increased individual private pension saving. In New Zealand the number of people with individual private pensions almost doubled between 1990 and 2001, despite New Zealand not having any tax incentives for private pension saving.<sup>14</sup> However, in the Irish context it is noteworthy that only 24% of the New Zealand labour force now has individual private pensions.”

### 6.3.2 Complexity of tax incentives

In Ireland, current tax incentives for pensions saving are based mainly around the marginal rate of income tax – this is also the case in the UK. According to PPI (2004), “the different tax rules, limits and even language makes it difficult for people to understand the value of tax relief in their own specific circumstances. Many low- and middle-income savers do not know if they pay tax on their savings, or what the value of relief would be to them.”<sup>15</sup>

PPI (2004) also claims that “people have said that they prefer other, simpler, forms of saving incentive.” They cite Vidler (2002) in support of the assertion that “more people say they would be highly likely to increase their saving if a matching contribution, or an increased employer contribution were available compared to higher tax relief [Indecon emphasis].” The issue of simplicity in both pension products and in any tax relief is an important criteria in designing any new incentives which we take account of in our review of options.

### 6.3.3 Tax incentives and target groups

The analysis of Household Budget Survey data presented in this report clearly shows that while middle- to high-income individuals and households do invest in private pensions, this is not the case to the same extent for low-income earners. Evidence from the UK suggests that although low to middle income individuals do save<sup>16</sup>, “they are not strongly influenced by the availability of tax relief, and most do not use ISAs”.<sup>17</sup> The reason for this is that benefits of tax relief are low for low-earners who do not pay as much tax as higher-earners. Also of significance is the high numbers of individuals who now have incomes below the taxable limits in Ireland implying that these individuals do not have any tax incentive to invest in pensions. The issue of affordability is also of key importance.

10 PPI (2004) calculation based on data from Statistics Canada.

11 Munnell (2003).

12 PPI analysis of the Family Resources Survey 2002/3.

13 Sandler (2002), OECD (1994), Whitehouse (2003).

14 PRG (2003).

15 See Whyley and Kempson (2000 b).

16 For example, for a ‘rainy day’ or longer term.

17 PPI (2004) and Whyley and Kempson (2000).

### 6.3.4 Tax incentives and total saving

Higher levels of savings and pensions are generally seen as desirable by policymakers for a number of reasons<sup>18</sup> leading to government policies and initiatives that are designed to increase both the numbers of savers and the amounts that people save or invest in pensions. In fact, it is often the case that policymakers will look to target lower-income and other groups who do not have large savings.

However, according to PPI (2004) “there is no evidence to suggest that tax incentives increase the overall level of saving [Indecon emphasis]”. PPI (2004) refers to a number of studies to support this assertion e.g. Littlewood (1998), Sandler (2002), NZT (2001) and Gale *et al* (2004). There are, according to the authors, a number of reasons for this:

- “Tax incentives are complex, making them difficult to understand;
- Tax incentives often do not appeal to their target group. Low to middle income groups (who are traditionally low savers) pay lower rates of tax, and so gain less from reduced tax liabilities; and,
- The amount that people want to save is determined by a range of factors not linked to tax relief or rates of return, such as income and affordability.”<sup>19</sup>

This, however, depends in part on the current economic position and the characteristics of savers. It also depends on the relative scale of incentives and this may be important in Ireland in considering the SSIA initiative.

### 6.3.5 Tax incentives and the ‘savings gap’

The PPI (2004) report defines the ‘savings gap’ as “the difference between the amount people need to save each year to achieve a reasonable retirement income, and the amount they are actually saving.”

In the UK, it is generally accepted that there is a savings gap, but no consensus on how big it is. The UK Government estimates that between 3 million and 13 million people may be ‘undersaving’. Interestingly, for New Zealand, where there is no tax relief for pension saving, it has been suggested that there is no ‘savings gap’, although Indecon notes the low percentage of the labour force that has industrial private pensions in New Zealand.<sup>20</sup> In Ireland clear targets have been set by the Pension Board concerning the scale of underinvestment in pensions and the timescale to address this.

### 6.3.6 Other factors affecting the savings decision

PPI (2004) sets out a number of other factors that are important for personal decisions to save. They cite a number of factors that tend to impact negatively on savings:

- Many people have difficulty imagining the future, or aversion to long-term planning rather than concerns about the effective rate of return on saving.
- People with low or insecure incomes, or supporting a family, often find they do not have enough money to save in a pension.

## 6.4 Conclusions

Some research has suggested that tax incentives are often used to encourage people to save more, but their impact on overall savings ratio is more uncertain. It is clear, however, that if the incentives are understood and are targeted they can impact on the level of savings. Tax incentives can also encourage pension rather than other types of saving. This highlights the need for careful targeting of pension provisions.

<sup>18</sup> For example: to encourage people to be more secure financially; to spread their income more evenly over a lifetime; to reduce state expenditure.

<sup>19</sup> PPI (2004).

<sup>20</sup> See Grant Scobie and Le Thi Van Trinh (2004).

## 7 Discussion of Policy Options and Recommendations

### 7.1 Introduction

The objective of this study is to identify cost effective policy options that could assist in extending pensions coverage. In this chapter we outline a number of policy options to extend coverage. Our analysis is based on a rigorous review of the factors which are hindering pension coverage. Some factors, such as affordability, may not be amenable to change by fiscal incentives. We believe, however, that there is a case for limited targeted additional incentives.

### 7.2 Key Policy Considerations

Our analysis shows that a large percentage of the population have no or very limited pensions coverage although as indicated by the latest data from the CSO, some progress has been made since the Report of the National Pensions Policy Initiative<sup>21</sup> in extending pensions coverage. However, coverage is well below the interim targets recommended by the NPPI and accepted by Government.

Accordingly, the background to this policy discussion is an assumption that there is inadequate coverage and that there is a significant gap between current coverage levels and the interim targets recommended by NPPI.

In addition, it needs to be stressed that Government pension's policy has been evolving. In recent years the basic State Pension has been increased in excess of growth in earnings and the Government is committed to achieving the target of having the State Pension equal to 34% of the average manufacturing wage as recommended by NPPI. PRSAs have been introduced as a new pensions product supported by Government initiatives. Also of significance is the fact that the Exchequer provides tax relief at a taxpayers' marginal tax rate for contributions into private pensions schemes. For standard rate taxpayers, relief is available at 20% while relief is available at 42% for higher rate taxpayers.

In May 2002 the Government introduced an additional savings scheme (SSIA), that provided an Exchequer funded top-up payment of €1 for every €4 saved. This, not surprisingly, attracted significant funds and has encouraged savings including amongst sections of the population where pensions coverage may be inadequate.

The total Exchequer cost of supports for private savings and pensions are set out in Table 7.4, and indicate that very significant government incentives are provided for the pension sector. It should be stressed that this is in part deferred tax payments, as pension income is taxable. The figures show that over 670,000 employees secured tax relief on pensions and a further 109,000 benefit from tax relief on retirement annuity pensions. For comparison, it is interesting to note that the numbers employed in the economy, on a seasonally adjusted basis, was 1,631,000 in Jun-Aug 2000 and 1,865,000 in Jun-Aug 2004. The number of taxpaying units was 1,710,897 in 2000/2001.

**Table 7.1: Pension-Related Costs and Number of Recipients – 2000 / 2001**

	Cost - €m	Numbers Benefiting
Tax Relief - Employees	471.9	670,500
Employers' Contributions	646.2	n/a
Retirement Annuity Premiums	205.0	109,600
SSIA	532.7 (2003)	1,113,880 (2003)

Source: Revenue Commissioners and Department of Finance.

21 Securing Retirement Income, National Pensions Policy Initiative Report of the Pensions Board.

Details on the cost of tax reliefs for different classes of taxpayers are not available from official sources. However, the Household Budget Survey data indicates that the vast bulk of this relief is provided to higher income taxpayers. Some official information is available for tax relief for contributions to "Retirement Annuity Premiums". Details for the short-tax year are overleaf. The value of contributions allowed at the 20 and 42 per cent tax rates is estimated at €78 million and €368 million respectively, amounting to €446 million.

**Table 7.2: Income Tax 2001 (Short "Year") - Retirement Annuity - By Range of Gross Income**

Range of Gross Income		Totals			
From (€)	From (€)	Number of Cases	Amount of Deduction	Reduction in Tax	Average Deduction
-	6,000	1,258	1,301,889	76,588	1,035
6,000	8,000	1,217	1,131,858	159,747	930
8,000	10,000	1,976	2,066,245	318,130	1,046
10,000	12,000	2,779	3,131,978	538,747	1,127
12,000	15,000	5,489	6,725,589	1,228,558	1,225
15,000	17,000	4,446	5,613,493	1,067,199	1,263
17,000	20,000	7,513	10,476,115	2,039,761	1,394
20,000	25,000	12,222	19,723,266	4,505,791	1,614
25,000	27,000	4,567	8,276,351	2,214,991	1,812
27,000	30,000	6,350	12,331,704	3,457,396	1,942
30,000	35,000	9,441	20,838,925	6,506,746	2,207
35,000	40,000	7,942	20,490,572	7,354,258	2,580
40,000	50,000	11,427	37,038,299	14,847,501	3,241
50,000	60,000	6,807	29,985,541	12,417,840	4,405
60,000	75,000	5,741	35,653,618	14,883,125	6,210
75,000	100,000	4,543	41,479,867	17,310,850	9,131
100,000	150,000	3,951	56,115,725	23,514,956	14,203
150,000	200,000	1,753	38,561,305	16,149,432	21,997
Over	200,000	2,635	98,693,919	41,399,977	37,455
<b>Totals</b>		<b>102,057</b>	<b>449,636,259</b>	<b>169,991,594</b>	<b>4,406</b>

Source: Department of Finance.

In previous sections of this report we presented detailed data and analysis on pensions. It is useful in considering policy options to summarise some of the key conclusions from this detailed analysis. The analysis suggested the following:

- The CSO data, for the first quarter of 2004, indicated that 52.4% of persons in employment aged between 20-69 have a pension;

- This is a marginal increase on 2002, but markedly below the targets recommended by NPPI in 1998 of achieving supplementary pension provision for those at work aged 30 – 65 of 62% after 5 years, 66% after 10 years, and 70% ultimately;
- Market research data suggest that those likely to save and make a pensions provision are younger, and from a lower socio-economic class;
- Average PRSA employee contributions are modest and employer contributions are negligible;
- SSIA savings have exceeded expectations, with over 1.1 million account holders;
- The Exchequer cost to-date of the SSIA's tax credit is €1.5 billion;
- Annual subscriptions average €165 per month similar to the average PRSA contribution. 40% of account holders are saving the maximum amount;
- While there is a reasonable take-up of SSIA accounts amongst low income groups, middle and higher income groups are disproportionately represented;
- 38% of respondents who were SSIA account holders indicated that they would save all or part of their SSIA savings but only 9% propose to use the proceeds on a personal pension;
- The objective of policy proposals is to enhance pensions coverage amongst those groups that currently have inadequate coverage, particularly among low to middle income groups;
- There are significant exchequer costs associated with existing incentives for private pensions and the available evidence is that the benefits of current incentives accrue mainly to middle and higher income groups
- In addition, there is a significant group of employees outside the tax net that are not incentivised by existing pension-related tax reliefs;
- The marginal benefits to taxpayers on the higher band are, of course, greater than the benefits to "standard band taxpayers" on the standard rate;
- The SSIA's have been successful at increasing the overall level of savings and encouraging savings amongst groups with inadequate pensions provision – notwithstanding the fact that, in common with most savings initiatives, there may be an element of deadweight;
- There may be scope to take targeted initiatives to ensure that a percentage of the SSIA savings are retained as savings and investments.

### 7.3 Barriers to Taking-Up a Pension

In assessing the take-up of pensions we need to consider the barriers that may be preventing individuals from saving adequately for their pension.

As discussed previously, Indecon commissioned a survey of a representative sample of the population to assess their views on pensions issues. Specifically, we asked about their views on the potential barriers to increasing the coverage of pensions in Ireland. The results are set out in Table 7.3 and indicate that the affordability of pensions and consumer understanding of pensions were identified as significant barriers by a majority of the survey respondents. Other factors rated as significant included the complexity of pension products and the taxation treatment of pensions.

**Table 7.3: Views on the potential barriers to increasing the coverage of pensions in Ireland**

	Significant	Not Significant
Complexity of pension products	57%	43
Regulation of sale of pensions	49	51
Taxation treatment of pensions	54	46
Consumer understanding of pensions	59	41
Affordability of pensions	64	36

Source: Indecon Commissioned TNSMRBI Survey

As part of our research we also asked a small number of industry PRSA providers for their views of the significance of the following potential barriers to increasing the coverage of pensions in Ireland:

- Complexity of pension product
- Regulation of sale of pensions
- Taxation treatment of pensions
- Consumer understanding of pensions
- Affordability of pensions

The results from a small number of leading companies are set out in table 7.4. It is not suggested that these views are necessarily representative but are of interest for illustrative purposes.

**Table 7.4: Views on the potential barriers to increasing the coverage of pensions in Ireland**

	Significant	Not Significant
Complexity of pension product	50%	50%
Regulation of sale of pensions	50%	50%
Taxation treatment of pensions	100%	0%
Consumer understanding of pensions	100%	0%
Affordability of pensions	100%	0%

Source: Indecon Survey of Sample of Industry Practitioners

Issues such as the complexity of pensions and consumer understanding of pensions are important as barriers to increasing pension provision which must be addressed by the industry. The taxation treatment of pensions is also seen by both individuals and by the industry as one of the barriers to increasing the coverage of pensions. As we will discuss in detail below, the current system provides no pensions-related relief to persons earning less than €14,200 per annum and modest benefit to some taxpayers on incomes just below this.

The issue of the regulation of the sale of PRSAs and pensions is also relevant. Industry sources have suggested that brokers, who are significant players in the market, believe that the regulation of the new PRSA product can be prohibitive relative to likely returns. It is argued by the industry that the sale of a PRSA is unnecessarily complex and the actual sales process is consuming and expensive. This may be partly due to the complex procedure that needs to be followed.

It is, however, important to stress that regulations may be necessary to protect consumer interests. This is an issue which we will return to when considering options for the extension of coverage, but it is clear that regulatory issues require on-going examination and could affect the take-up of PRSAs and other pension products.

## 7.4 Assessment Criteria

Before assessing various options it is worth considering the criteria that we use in assessing options. These are set out in Table 7.5 and discussed below.

**Table 7.5: Assessment Criteria for Evaluation of Policy Options**

1.	Equity
2.	Focus on target group
3.	Effectiveness/Efficiency (including deadweight considerations)
4.	Simplicity

Source: Indecon

### 7.4.1 Equity

It is important that scarce Exchequer resources are used in an equitable manner. Current supports for private pensions provision disproportionately benefit higher income groups. It is essential that the proposed initiatives focus on groups that do not currently benefit significantly from current reliefs.

### 7.4.2 Focus on target group

Related to the issue of equity is the question of ensuring that proposals are targeted on those groups that currently have inadequate coverage. The available evidence suggests that these include low to middle income groups and that additional proposals of a fiscal/financial nature should focus primarily on these groups.

### 7.4.3 Effectiveness/Efficiency

Effectiveness involves the extent to which a proposal is likely to be effective in achieving its objective. A proposal may be effective at meeting a particular objective and a key question is whether it is cost effective. Deadweight is an important consideration in both effectiveness and efficiency. Deadweight is where some or all of the investment would have taken place in the absence of the tax subsidy. For example, if a fiscal proposal provides relief to individuals that are already providing adequately for their pension without the need for additional supports then the incentives may not impact on behaviour. In such circumstances part of the Exchequer cost is a deadweight cost. Related to effectiveness is efficiency of the policy instruments used.

### 7.4.4 Simplicity

It is important that proposals are as far as possible are easy for consumers to understand and easy to implement for both the Government, where relevant, and for the pension industry. In particular, administrative and regulatory costs should be minimised to the extent feasible.

## 7.5 Assessment of Options

In considering options for extending pensions coverage it should be noted that there are a large number of potential options and for each option there are a number of variations. In this section, we focus on the most commonly suggested policy options and a number of new proposals which we feel are appropriate. Policy options that could assist in extending coverage fall into a number of categories. These are set in Table 7.6.

**Table 7.6: Types of Potential Policy Options**

1.	Fiscal and other financial supports to employees and/or employers
2.	Industry Marketing / Product Development
3.	Regulatory / Legislative Reform of Pensions Market

Source: Indecon

Most of the policy options suggested by the industry involve additional Government supports, funded by the Exchequer, to encourage pension take-up. For example, many of the SSIA related proposals fall into this category.

The second set of proposals relates to potential development of pensions products or marketing initiatives by the sector that could encourage a higher take-up. The complexity of pensions products for consumers is a barrier to extending coverage and this issue has implications for the sector.

The final set of proposals relate to regulatory/legislative reforms. Of course, there may be a trade-off between the need to protect the consumer and lowering the transactions costs. This is an issue that arises for all pension, savings and investment products. Legislative issues relate to the extent or otherwise of mandatory pensions and other aspects impacting on coverage.

## 7.6 Discussion of Various Options

In this section we discuss the various options for encouraging a greater take-up of pensions. The main options which have been suggested to Indecon are outlined in table 7.7 as well as a number of additional options which have been developed by the consultancy team. Each of these are discussed below.

**Table 7.7: Option for Fiscal and Other Financial Supports**

(1)	Continue with the Status Quo
(2)	increase in pension contribution limits
(3)	Exempt 23% exit tax on capital gains on SSIA accounts
(4)	Pension related tax credit
(5)	Family income support tax credit uplift for pension contributions
(6)	Tax incentive for child pension accounts
(7)	Employers PRSI savings due to employee contributions to be transferred in employees pension fund
(8)	Further Support for PRSAs
(9)	Detailed review of regulatory framework for PRSAs
(10)	Industry action to increase consumer understanding and improved marketing
(11)	Incentives for Employees

Source: Indecon

***Continue with the Status Quo***

The first policy option which Indecon believes must be the benchmark for any other options is to continue with the status quo. This has the advantage that it would not involve additional Exchequer costs. In addition, it would not add further uncertainty into the market given the rapid change in recent years.

The disadvantage of the current position is that it would not take account of the benefits of measures which would direct part of SSIA monies into pensions and thereby reduce the inflationary impact on the economy. Also the status quo would not address the need to increase the level of pension take up.

***Once-Off Increase in Pension Contributions Limits for All SSIA Account Holders***

The SSIA accounts will mature over the period May 2006 to May 2007. Several proposals have been suggested to encourage the transfer of some of this SSIA money into savings and pensions. These include the proposal to have a once-off increase in pension contributions limits for all SSIA account holders. Our market research suggests that in the absence of new initiatives only a very small percentage of these funds will be directed to pensions.

Under existing policy, individuals can make pension contributions up to a certain percentage of their income and avail of the tax relief at either the standard or marginal rate depending on their tax position. The limits are set out in Table 7.8. It has been suggested to Indecon these limits be increased for all SSIA account holders on a once-off basis to encourage the transfer of SSIA funds into pension accounts. This would benefit individuals who have sufficient SSIA funds which are in excess of their current allowable limit for pension contributions.

**Table 7.8: Current Contribution Limits**

Age	Contributions as a % of Earnings
Under 30	15%
30-39	20%
40-49	25%
50+	30%

Source: Indecon

It has been suggested to Indecon that the benefits of this proposal include the following:

- It would minimise the negative macroeconomic effects of SSIA funds flowing into inflationary expenditures;
- It could encourage an increase in pensions take-up;
- It could encourage existing pension holders to increase their contributions.

Indecon accepts that these benefits are valid but believe that despite these benefits there are a number of downsides to this proposal as follows:

- This is not targeted on those that do not at present have a pension or have inadequate pension provisions;
- There are no benefits from this proposal to those without a tax liability and it provides only a modest benefit to those on low incomes in the tax net;
- SSIA account holders have already secured very substantial Exchequer subsidies and an increase in the current limits for all SSIA account holders could provide additional benefits regardless of whether the individuals currently had adequate pension provision.

### ***Once-Off Increase in Pension Contribution Limits for Individuals with Underestimated Contributions***

We believe however that a modified version of the proposal on pension limits discussed above and targeted on selected groups would merit consideration. In particular we believe there would be merit in refining the proposed increase in pensions contributions to allow for the transfer of SSIA monies for individuals who have not used their total allowable contribution in recent years. For example, an individual earning €50,000 and aged 30-39 could have made a maximum contribution of €10,000 in each of the previous three years. Lets' assume that a person has been contributing €5,000 each year; this equates to an unused contribution of €15,000 over the three-year period. One option is to permit individuals to add this amount to the individual's contribution limit in either of the two years in which the SSIA will be encashed.

This proposal would particularly focus resources on those persons without any pension or who have underinvested in pension provision in recent years. This minimises deadweight effects, in as much as persons making the maximum contribution would not benefit, and it would tend to focus resources on those individuals not making adequate contributions at present.

We believe also that the once-off timetable could be effectively used by the pension industry in their marketing effects to encourage pension take-up and could also assist in minimising the inflationary impact of SSIA related expenditures. We propose that this once off use of underutilised allowances should be linked with the years of the ending of SSIA but should be available to individuals regardless of whether they hold an SSIA account or not. This would therefore not restrict this additional incentive only to those who were in a position to afford SSIA investments.

### ***Exemption of Exit Tax on Capital Gains on All SSIA Accounts on Transfer to a Pension***

A proposal suggested to Indecon relates to the exemption of the 23% exit tax on the total gains of all SSIA accounts on maturity. For convenience, we assume that the capital gain on the funds invested equals €2 billion. At a tax rate of 23%, this equates to a maximum tax liability of €460 million. A proposal from the Irish Insurance Federation, in their 2005 pre-budget submission, suggests that this tax should be waived if the monies are transferred into a pension fund. If we assume that even 50% of the capital gain is transferred, the cost to the Exchequer is €230 million. Indicative calculations of the cost of the cost of this proposal under different scenarios are set out below:

**Table 7.9: Indicative Estimates of the Cost of waiving the Exit Tax**

	€
Total Capital Gain	2 billion
@ 23% Exit Liability	460 million
Cost – Assumed 100% transfer to pensions	460 million
Cost – Assumed 50% transfer to pensions	230 million
Cost – Assumed 25% transfer to pensions	115 million

Source: Indecon

The arguments for and against this proposal are similar to the points raised earlier in relation of the increase in the contribution limit. There are a number of potential benefits for this initiative, but issues may arise in relation to equity, targeting and deadweight.

### ***Exempt 23% Tax on Capital Gains on SSIA Accounts upon Transfer to Pension Fund Providing No Income Tax Relief is obtained on this Amount***

Indecon believes that a modified version of the proposal to exempt 23% tax on capital gains has significant merits. Specifically we believe there is a strong case to exempt the exit tax for individuals who invest the capital gain in pensions provided the exempt amount does not result in additional income tax relief on transferring this capital gain into a pension fund. This could be exempt at source providing an ease of administration for pension contributions.

For high income tax payers this additional incentive would be of no interest but for those employees who are not in the tax net it would be a significant benefit and would also be of some limited benefit to those who are paying tax at the standard rate. This provision would also assist the sector in their marketing to secure wider pension coverage by highlighting to SSIA investors the potential ability to secure an exemption from the SSIA capital gain exit tax.

We would also be supportive of an exemption from any SSIA penalties for early withdrawals of SSIA funds provided they are invested in pensions.

### ***Pension Related Tax Credit***

The proposed exemption of SSIA capital gains exit tax for selected pensioners is a specific example of a credit or payment by the state to certain individuals who invest in pensions. This is of particular value to those who are not in the tax net. In this context it is useful to consider the wider issue of the introduction of tax credits to increase pensions coverage.

The introduction of tax credits seeks to provide incentives to take-out a pension for individuals who do not benefit under existing tax relief arrangements. A pension related tax credit would take a refundable form to non-taxpayers. The Minister for Finance in the 2005 Budget increased the thresholds at which an individual is exempt from tax and the income levels at which tax is paid at the higher rate. This will increase the number of number of taxpayers who receive no or limited pension-related tax relief under the current incentive arrangements as set out in Table 7.11. The introduction of a tax credit could be a significant incentive to increasing pensions coverage for some individuals in low to middle income groups.

**Table 7.10: Distribution of Income Earners on the Income Tax File for 2005**

	Exempt	Marginal Relief	Standard Rate	Higher Rate	Total
On a Pre-Budget Basis	590,457	13,735	620,239	685,848	1,910,279
Percentage of Taxpayers	30.9%	0.7%	32.5%	35.9%	
On a Post-Budget Basis	656,517	11,947	608,075	633,740	1,910,279
Percentage of Taxpayers	34.4%	0.6%	31.8%	33.2%	

Source: Department of Finance

The pre-Budget distribution forecasts the numbers of income earners, (assuming income growth for 2005), which would be in each tax band in 2005 if no Budget were introduced.

A jointly assessed married couple is treated as one tax case.

For some individuals with no or very low tax liability, the introduction of tax credits could encourage pensions take-up. There are various ways that pension tax credit could operate. It is suggested that the tax credit could be organised as a transfer with a pensions provider as is already the case with SSIA's as we believe this has distinct merits.

There are a number of different ways in which this could operate. One option would be to include the following:

- For the government to transfer a credit of a fixed sum to the pension providers; and/or
- For individuals to claim a tax credit equivalent to a percentage of the amount invested in a pension.

A tax credit for pensions would ensure the integration with the existing system and allow a taxpayer to claim the tax credit or relief under the existing system.

An example of how a tax credit system could operate for specific types of taxpayers could help in providing an explanation. For illustrative purposes, we set out an example of the potential operation of a system of pension tax credits. Table 7.11 shows the tax liability for single taxpayers at different income levels for the tax year 2005. Based on the recent Budget changes, single taxpayers would no longer pay tax at incomes below 14,200 and there is a relatively modest tax liability for incomes below the €29,600 tax band.

**Table 7.11: Tax Liability for Single Persons - 2005**

Gross Income	Tax Liability Before Tax Credit	Existing Tax Credit	Tax Due
6000	1200	2840	0
8000	1600	2840	0
10000	2000	2840	0
12000	2400	2840	0
14200	2840	2840	0
16000	3200	2840	360
18000	3600	2840	760
20000	4000	2840	1160
25000	5000	2840	2160
30000	6132	2840	3292
35000	8232	2840	5392
40000	10332	2840	7492
45000	12432	2840	9592
50000	14532	2840	11692
60000	18732	2840	15892
80000	27132	2840	24292
100000	35532	2840	32692
120000	43932	2840	41092

Source: Indecon

Table 7.12 shows the reduction in tax liability if we assume that each taxpayer contributes 10% of their income into a pension fund. Of course, individuals on modest incomes may not be in a position to make such a contribution but this example is for illustration only. The table shows that under the existing tax system individuals on incomes below €14,200 receive no tax benefits from making a pension contribution. The tax relief as a percentage of total pension contribution shows the distribution of the benefits of the existing reliefs.

Table 7.12 Changes in Tax Liability for Selected Pension Contributions - 2005

Gross Income	Pension Contribution @10 % of Earnings	New Tax Liability	Savings on Tax Liability under Current Tax Code	Tax Relief as a % of Pension Contribution
6000	600	0	0	0.0%
8000	800	0	0	0.0%
10000	1000	0	0	0.0%
12000	1200	0	0	0.0%
14200	1420	0	0	0.0%
16000	1600	40	320	20.0%
18000	1800	400	360	20.0%
20000	2000	760	400	20.0%
25000	2500	1660	500	20.0%
30000	3000	2560	732	24.4%
35000	3500	3922	1470	42.0%
40000	4000	5812	1680	42.0%
45000	4500	7702	1890	42.0%
50000	5000	9592	2100	42.0%
60000	6000	13372	2520	42.0%
80000	8000	20932	3360	42.0%
100000	10000	28492	4200	42.0%
120000	12000	36052	5040	42.0%

Source: Indecon

Table 7.13 shows the impact of the introduction of tax credits. First, we examine the implications of introducing a tax credit of €5 week. Under our example, we assume that taxpayers would invest at least €260 per annum in a pension and accordingly all would receive the minimum tax credit of €260. The effect of this is seen in the table as all individuals with incomes below amount €14,200 would benefit considerably compared with the current system. Overall, as it is a fixed payment, the additional benefits in percentage terms disproportionately benefit those on the lowest incomes.

Table 7.13: Impact on Tax Savings of Illustrative Tax Credit Scheme and Pension Contribution of 10% of Income

Gross Income	Savings on Tax Liability under Current Tax Code	Savings Assuming Additional €5 per Week Tax Credit	Tax Relief and Credit as a % of Pension Contribution
6000	0	260	43.3%
8000	0	260	32.5%
10000	0	260	26.0%
12000	0	260	21.7%
14200	0	260	18.3%
16000	320	580	36.25
18000	360	620	34.44
20000	400	660	33.00
25000	500	760	30.40
30000	732	992	33.06
35000	1470	1,730	49.42
40000	1680	1,940	48.50
45000	1890	2,150	47.77
50000	2100	2,360	47.20
60000	2520	2,780	46.33
80000	3360	3,620	45.25
100000	4200	4,460	44.60
120000	5040	5,300	44.17

Source: Indecon

Of course, there are alternatives to this approach, which would provide a tax credit as a percentage of contributions. In other words, the Government would provide a top-up as a fixed percentage of a pension contribution up to a maximum contribution and this has a number of advantages.

We believe that there are very strong arguments in favour of introducing a system of tax credits for pensions as it would provide significant benefits to individuals who do not benefit under the existing tax relief arrangements.

### *Pension Tax Credit Providing No Income Tax Relief is Obtained*

An alternative approach would be to provide a pension tax credit provided no other income tax relief on pensions is obtained by the individuals securing the tax credit. This would represent an effective targeted measure with significant equity advantages. It would also focus the incentive on those groups which are less likely to have adequate pension provision. In the table below we illustrate using the €5 example the impact of this on different income categories. As outlined earlier a tax credit could be provided either in the form of a fixed amount (as in our example) or in the form of 20% of pension contribution in both cases it would only benefit those employees who have incomes below the taxable levels. However, if this was given direct to the pension provider as a matching contribution it may also increase the understanding and attractiveness of pension incentives to those on medium incomes.

**Table 7.14: Impact of Illustrative Tax Credit Scheme Assuming it was Restrictive to Those Not Securing Income Tax Relief on Pensions**

Gross Income	Impact of €5 Tax Credit
6000	260
8000	260
10000	260
12000	260
14200	260
16000	320
18000	360
20000	400
25000	500
30000	732
35000	1470
40000	1680
45000	1890
50000	2100
60000	2520
80000	3360
100000	4200
120000	5040

Source: Indecon

### *Family Income Support Tax Credit Uplift for Pension Contributions*

A more limited version of this tax credit scheme would be to provide pension tax credits through modifications of family income supplement system. This could be provided as an uplift on the FIS amount for contributions to private pensions. The advantage of this would be that it would provide an incentive for pension take up of low income working families and there is an existing administrative mechanism by which this could be undertaken. It could also be introduced quickly at low exchequer costs. In the current calculation of the FIS payment we understand that relief is given for pension contributions which are a deduction from gross earnings. We would however, favour a more widespread introduction of a tax credit system as FIS would not provide any incentive to single individuals or those falling outside the FIS criteria but this would be a potentially welcome first step.

### *Tax Incentive for Child Pension Accounts*

There are various proposals to establish special pension accounts for children in order to encourage the savings and pensions habit. There are a number of specific proposals suggested to Indecon that we discuss briefly in this section.

SIPTU has for some time been proposing the establishment of special pensions accounts for all children. Prior to Budget 2005 they put forward a detailed proposal suggesting that the basic rate of Child Benefit be increased to €150 per month (a target already set under national agreements) and that an extra 10%, (which would be €15 per month), should then be added and earmarked for pensions. This ‘from birth’ arrangement would apply to all children born after January 1, 2005. For children born prior to that date, they suggested that the Child Pension Accounts (CPAs) could be set up at the point when the child comes off Child Benefit (i.e. usually at age 17 or 18). This could be done by paying a lump sum, or “pensions start-up bonus” – equivalent to, say, six months Child Benefit – which would be used to set up their special pension account. SIPTU have suggested that this particular mechanism would spread the cost to the Exchequer over 17-18 years (as only 2 age cohorts would be covered each year, i.e. 0-1 and 17-18) and would mean that after that period virtually every young person below the age of 36 would have a personal pension account. This account could be added to, or used to supplement, pensions provided through social insurance, occupational pensions or other supplementary arrangements.

SIPTU also proposed that tax relief would be available for additional contributions to these child pension accounts (e.g. from parents, grandparents, etc.) with appropriate ceilings on any contributions for which tax relief could be claimed. SIPTU also believes that while the purpose of these CPAs would have to be the provision of a mechanism for ensuring very long-term savings, primarily for pension purposes, some early encashment of these funds would be desirable (e.g. a once-off chance to take 25% of the fund at around age 25 probably for housing purposes) and this would also add to their attractiveness.

Indecon would be supportive of considering utilising part of any future uplift in Child Benefit for this purpose.

The Irish Insurance Federation (IIF) have proposed a scheme with the establishment of a personal pension for every child in the State. The main elements, which are drawn directly from the IIF statement, are as follows:

- A personal pension account should be opened for every child in the country and the Government should deposit €10 a month into each child’s account until he/she turns eighteen. (Cost: €130 million per annum);
- A Sponsor(s) (e.g. a parent or guardian of the child) may make additional contributions to the child’s account of between €5-€50 per month over the same time period;
- For every €5 contributed by sponsors it is proposed that the government would contribute an additional €1;
- On the account-holder’s 25th birthday he/she may withdraw 25% of the current gross value of the fund tax-free if and only if he/she has been contributing a minimum of 5% of earnings when working. The remainder cannot be accessed until retirement.

IIF suggests the potential costs to the Exchequer of their proposal would be of the order of €180 million per annum.

The IIF submission has suggested that the benefits of this proposal are that:

- Every child in the country now has a growing pension fund from birth;
- The 18-25 rule would develop in the child/young adult a positive attitude to saving and a saving habit;
- The necessity for the State to put increasing funds aside to look after senior citizens will be reduced;
- This would lead to better-funded personal pensions.

Indecon believe that there are a number of issues regarding the child pension incentives including whether they would provide incentives to high income families who do not need the state assistance and whether they would result in genuine pension habits or simply represent a form of short-term savings which would be spent subsequently. There is also the issue of equity in terms of the treatment of spouses versus children. If this incentive was capped to a maximum of existing contribution levels the issue of discrimination between children of public servants and other groups in the labour market could arise.

#### ***Tax Relief on Children's Pensions Subject to Current Contribution Limits and Allowances to be at Standard Rate***

If it is decided despite the issues raised above to introduce an incentive for children pensions we believe this should either be in the form of a tax credit or alternatively any new allowance should only be available at the standard rate of tax. Any relief on children's pensions could be subject to the adults current contribution limit, so that an individual currently securing maximum personal tax relief on pensions up to the current limits would not be eligible to secure additional relief for their children.

#### ***Employers' PRSI Savings to be Transferred to Employee Pension Funds***

In our discussions with social partners and others on extending coverage, the question of mandatory provision was raised. In a number of the confidential submissions received from pension industry sources this was recommended. This approach has been adopted in a number of other countries but requires careful evaluation.

One specific aspect of this is whether it should be required for employers to transfer any PRSI savings when making deductions for employee contribution. This latter issue was examined by Coyle Hamilton in a recent study. We understand that the current position of the Policy Committee of the Pensions Board is that after much discussion it was felt that applying the employers PRSI savings to employees had administrative cost implications and it was felt this was not consistent with pensions simplification. Indecon believe that employers should be encouraged to contribute any PRSI savings and there is merit in considering more widespread employer incentives.

#### ***Further supports for PRSAs***

There are also additional sets of proposals that suggest ways of underpinning the current PRSA framework. One proposal involves making a transfer from a PRSA fund to a State Fund, which would supplement an individual's social welfare pension. For example, an individual would purchase a given social welfare pension for a specified sum per week. The second related option involves the Government providing an additional top-up to PRSA funds to safeguard their value in the event of a fall in the funds value. A specific proposal is that for every €15 paid to a PRSA the state would provide a supplementary social welfare pension equal to €1. This is an additional support to individuals with PRSA.

These proposals, which were outlined in a recent paper<sup>22</sup>, propose supports, which may over time make PRSAs more attractive. However, we do not believe that they should be the immediate priority for policy action.

<sup>22</sup> "Pension Provision in Ireland" - The Shape of things to come? By James R. Kehoe.

### ***Detailed Review of Regulatory Framework for PRSAs***

In terms of the regulation of PRSAs, there are concerns from pension industry sources about the limited impact of PRSAs on the market. A number of providers had stated that PRSAs had replaced personal pensions for many self-employed persons. For persons in non-pensionable employment it has been suggested that the impact so far has been limited.

A feature, which may have implications for coverage, is that we have been informed that brokers may be selling less than 20 % of PRSAs. Brokers are significant players in the overall pensions market and if these estimates are correct, the suggested lack of interest of brokers may be an issue in determining the take-up of PRSAs.

It is argued by some in the industry that the sale of a PRSA is unnecessarily complex and the actual sales process is time-consuming and expensive. This may be partly due to the procedure that needs to be followed and, specifically, what we have been informed is that a large number of processes need to be completed to finalise a PRSA sell. Some of these processes are required by IFSRA, some by the Pensions Board and some by the Revenue Commissioners. According to one provider contacted by the consultancy team, the following is the procedure that must be followed:

- Contact Referral Form to be completed;
- Terms of Business Letter to be provided;
- Factfind to be completed - Requirement to establish that PRSA is best advice for a particular client relating to their individual circumstances - also need to establish that client can effect a PRSA as opposed to an AVCPRSA or other pension product;
- IFSRA PRSA information leaflet to be provided;
- Company PRSA Brochure to be provided;
- Reason why letter to be provided - copy to be signed by client;
- PRSA Disclosure Information to be provided;
- PRSA Application Form to be completed - Application Form contains information specifically required by the Pensions Board for statistical purposes, PRSA Disclosure Declaration, Data Protection Declaration, Details of method of payment;
- Sec 30 receipt may be required if a payment is received;
- Evidence of individual's age to be obtained;
- Evidence of individual's PPSN to be obtained;
- Further detailed prescribed information issued to the client following the acceptance of the proposal and the issuing of the PRSA contract.

A further complicating factor is there are a number of regulators including IFSRA, The Revenue Commissioners and the Pensions Board overseeing the approval and sales processes. There are also concerns in the sector about the time taken to approve new products. A detailed investigation of whether this is the case or not is outside the scope of this assignment.

Given these regulatory issues, it is suggested by some in the sector that a number of steps could be undertaken. These include:

- Increasing the maximum allowable charges on Standard PRSAs;
- Reducing the level of administration involved;
- Reviewing the overall level of regulation involved;
- Make it easier to claim the tax relief.

***Key Points from Meeting with IFSRA re: Pensions Board Study – Tuesday, March 8th, 2005***

We understand from our consultations with IFSRA that the timing of commencement of PRSAs was in line with that of the commencement of IFSRA and that the regulatory structures pertaining to other products were essentially applied to PRSAs. Apart from its prudential function, the principal concern of IFSRA related to the manner in which PRSAs are sold.

IFSRA noted that while the PRSA was originally designed for a mass audience, the introduction of the non-standard product had meant that the product was more complicated than would have been the case if all PRSAs had standard characteristics.

In relation to the specific requirements when a consumer is taking out a PRSA, IFSRA noted that there was scope for some streamlining in this area. However, they stressed that while the regulator did not determine the level of information required as part of the 'Fact Find', it would be expected that the level of information required was greater in the case of the non-standard PRSA.

**On the issue of the feasibility of combining some elements of the information requirements for opening a PRSA so that duplication is minimised, we understand that IFSRA would have no objection in principle, so long as minimum regulations were followed.**

In relation to each element of the procedure that must be followed to open a PRSA, IFSRA noted the following and stressed that many of the requirements were common to all financial products:

- (i) The chief purpose of the Contact referral Form was to prevent 'cold-calling'.
- (ii) In relation to the Terms of Business Letter, IFSRA suggested that this was necessary to set down the business relationship, as in any other transaction.
- (iii) In relation to the fact-find, IFSRA stressed the need to distinguish between the standard and non-standard PRSAs, but accepted that there might be some scope to streamline this element in the case of the standard product.
- (iv) In relation to the 'Reason Why' letter, it was suggested that for a standard PRSA this need not be as comprehensive as for a non-standard PRSA.
- (v) Re: the Section 30 receipt – this is a standard legal requirement.
- (vi) Requirements for evidence of age and PPSN were in common with other products.

**Overall, IFSRA suggested that in any further review of regulations on PRSAs, there would continue to be merit in distinguishing between the standard and non-standard PRSA in relation to the regulatory framework.**

IFSRA noted that two opportunities arise for the industry to submit their views on the regulatory structure – one in relation to the consultation exercise regarding transparency & remuneration (deadline 30th March) and the other in relation to codes of conduct (deadline 14th April).

A detailed evaluation of the merits or otherwise of each of these issues is outside the scope of this study but we would recommend that the Pension Board in association with other interests undertake a detailed review of regulation to ensure that there is sufficient consumer protection and that regulatory requirements do not unnecessarily hinder pension take up. Some of our proposals, however, will address the issue of making it easier for individuals to claim the tax relief by providing tax credits or exemptions for tax directly to the pension providers. We would also point out that available research suggests that regulation may be a less important barrier to increasing pension coverage than the other factors identified.

### ***Industry Action to Increase Consumer Understanding and Improved Marketing***

An important barrier to take up of pensions is consumers assessment of the complexity of pension products and the difficulties in understanding the nature of the product offering.

This has important implications for the sector and enhanced industry action is needed to increase consumer understanding, simplify products and improve the marketing of pensions. Recent improvements in the performance of pension funds reflecting their weighting on equities and the improvements in equity markets should also assist in pension take up. Indecon however accepts that there are constraints on the pension industry arising from the regulatory environment.

## **INCENTIVES FOR EMPLOYERS INVESTMENT IN PENSIONS**

We believe that ways to incentivise employers to invest in pensions should be an important element of any medium term plan to enhance pension coverage. This could include ways to ease administrative and financial costs particularly on SMEs. Within this restricted assignment it has not been feasible for Indecon to develop cost effective targeted proposals on this area but we support a more detailed review of this issue.

### **Recommendations**

Based on the detailed analysis undertaken by the consultancy team and taking account of our assessment of the real barriers to pensions take up and the need to ensure that any new incentives are equitable and cost effective we have recommended a number of new initiatives as outlined in the table below.

**Table 7.15: Proposed Recommendations**

■ Once-off increase in pension contribution limits for individuals with underutilised contributions over past three years
■ Exempt 23% exit tax on capital gains on SSIA accounts upon transfer to pension fund providing no income tax relief is obtained on this amount
■ Pensions related tax credit providing no income tax relief is obtained
■ Family income support tax credit uplift for pension contributions
■ Detailed review of regulatory framework for PRSAs
■ Industry action to increase consumer understanding and improved marketing
■ Review of Incentives for SME Involvement in Pensions.

Source: Indecon

We believe these recommendations would assist in increasing pension take up and would address equity, effectiveness and deadweight concerns. The proposed additional incentives represent a package of new targeted initiatives which are focused on those groups with no or inadequate pension provisions. They would also assist the sector in marketing pension options to SSIA account holders and therefore reduce the inflationary impact of SSIA fund expenditures.

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## ANNEX 2

### Additional Data on Characteristics of Persons Who 'Save'

Table A2.1: Characteristics of Persons Who 'Save'

■ Tend to be:
■ Male;
■ Somewhat older;
■ Higher social class.
■ More likely to be married, working full-time and finished education at third level.
■ They believe that regular saving is the best way to save and like to put money aside for any day. They like the idea of saving but still feel they could save more if they tried.
■ They feel it is getting easier to pay bills and that they have money aside at the end of the month.
■ They are quite savvy when it comes to pensions.
■ They believe that company pension schemes are good, when you save for pension you get tax relief and companies are cutting back on pensions.

Source: Lansdowne Market Research Undertaken for the Irish Insurance Federation.

Table A2.2: Characteristics of Persons Who 'Can't Save'

■ Tend to be:
■ Female;
■ Lower social class;
■ Either very old or very young.
■ They are more likely to be married and either working part time or not working, and finished education at primary level.
■ They acknowledge that they can barely make ends meet and that they should manage their money carefully.
■ It is not getting easier for them to pay their bills. They generally do not have something left at the end of the month. They worry about money and could not save more even if they tried.
■ They disagree that insurance companies give a good return when you invest with them, and that they should save more for their pension. At the same time, they are aware that they will not survive on less when they retire.

Source: Lansdowne Market Research Undertaken for the Irish Insurance Federation.

Table A2.3: Characteristics of Persons Who 'Intend to Save'

■ More likely to be:
■ Female;
■ 25-44;
■ Farmers.
■ They are more likely to be married and housewives.
■ They do like to put money aside for a rainy day but also feel that they should save more for their pension.
■ They tend to disagree that they do not have to worry about money anymore.

Source: Lansdowne Market Research Undertaken for the Irish Insurance Federation.

**ANNEX 3****Trends in Payments to Special Savings Incentive Scheme – 2001 to 2004****Table A3.1: Monthly Revenue Cashflow Figures Relating to the Special Savings Incentive Scheme - 2001**

Claims for month	Subscriptions in month/ year - €m	Tax Credit in respect of month/year - €m	Tax Credit Payout in month/year (i.e. Exchequer Cost) - €m
May	7.8	2.0	/
June	24.6	6.1	2.0
July	36.7	9.1	6.1
August	44.0	11.0	9.1
September	50.4	12.6	11.0
October	57.2	14.2	12.6
November	64.4	16.0	14.2
December	71.5	17.8	16.0
Total	356.6	88.8	71.0

Source: Department of Finance.

**Table A3.2: Monthly Revenue Cashflow Figures Relating to the Special Savings Incentive Scheme - 2002**

Claims for month	Subscriptions in month/ year - €m	Tax Credit in respect of month/year - €m	Tax Credit Payout in month/year (i.e. Exchequer Cost) - €m
January	78.0	19.3	17.8
February	85.8	21.3	19.3
March	102.1	25.3	21
April	173.5	43.1	25.6
May	178.6	44.4	43.1
June	175.1	43.5	44.4
July	178.3	44.1	43.5
August	176.3	43.6	44.1
September	176.8	43.6	43.6
October	175.5	43.5	43.6
November	177.3	43.5	43.5
December	181.0	44.4	43.5
Total	1,859.30	459.6	433.0

Source: Department of Finance.

Table A3.3: Monthly Revenue Cashflow Figures Relating to the Special Savings Incentive Scheme - 2003

Claims for month	Subscriptions in month/ year - €m	Tax Credit in respect of month/year - €m	Tax Credit Payout in month/year (i.e. Exchequer Cost) - €m
January	184.3	44.9	44.4
February	180.1	44.1	44.8
March	181.9	44.0	44.2
April	181.5	44.2	44.0
May	181.6	44.0	44.2
June	181.8	44.3	44.0
July	182.4	44.3	44.3
August	181.2	44.1	44.3
September	183.7	44.9	44.1
October	183	44.7	44.9
November	181.8	44.3	44.8
December	183.8	44.9	44.0
Total	2187.1	532.7	532

Source: Department of Finance.

Table A3.4: Monthly Revenue Cashflow Figures Relating to the Special Savings Incentive Scheme - 2004

Claims for month	Subscriptions in month/ year - €m	Tax Credit in respect of month/year - €m	Tax Credit Payout in month/year (i.e. Exchequer Cost) - €m
January	185.4	45	45.2
February	182.6	44.1	44.8
March	188.4	45.7	44.2
April	187.1	45.3	45.6
May	187.6	45.5	45.1
June	188.6	45.7	45.8
July	188.1	45.7	46
August	189.7	46.2	45.3
September	190.1	46.3	46.3
October	190.6	46.4	46.3
November	Na	Na	Na
December	Na	Na	Na
Total	1878.2	455.9	501

Source: Department of Finance.

**ANNEX 4****Additional Survey Data****Table A4.1: Ownership of Financial Products**

Financial Product	Yes	No
Occupation Pension, PRSA or Other Personal Pension	45%	55%
SSIA Account	41%	59%

Source: Indecon commissioned TNS mrbi survey.

**Table A4.2: Are the following potential barriers to increasing the coverage of pensions in Ireland significant or not significant?**

Potential Barriers	Significant	Not Significant
Complexity of pension products	57%	43%
Regulation of sale of pensions	49%	51%
Taxation treatment of pensions	54%	46%
Consumer understanding of pensions	59%	41%
Affordability of pensions	64%	36%

Source: Indecon commissioned TNS mrbi survey.

**Table A4.3: Does “complexity of pension products” represent a barrier to increasing the coverage of pensions in Ireland? – Responses by age category**

Age	Significant	Not Significant
15 - 19	52%	48%
20 - 24	59%	41%
25 – 34	66%	34%
35 – 44	59%	41%
45 – 54	59%	41%
55 – 64	54%	46%
65+	44%	56%
Total	57%	43%

Source: Indecon commissioned TNS mrbi survey.

**Table A4.4: Does “complexity of pensions products” represent a barrier to increasing the coverage of pensions in Ireland? – Responses by social class**

Social Class	Significant	Not Significant
AB	64%	36%
C1	60%	40%
C2	65%	35%
DE	50%	50%
F	43%	57%
Total	57%	43%

Source: Indecon commissioned TNS mrbi survey.

Table A4.5: Does the “regulation of sale of pensions” represent a barrier to increasing the coverage of pensions in Ireland? – Responses by age category

Age	Significant	Not Significant
15 - 19	54%	46%
20 - 24	52%	48%
25 – 34	54%	46%
35 – 44	48%	52%
45 – 54	49%	51%
55 – 64	44%	56%
65+	40%	60%
Total	49%	51%

Source: Indecon commissioned TNS mrbi survey.

Table A4.6 Does the “regulation of sale of pensions” represent a barrier to increasing the coverage of pensions in Ireland? – Responses by social class

Social Class	Significant	Not Significant
AB	64%	36%
C1	50%	50%
C2	53%	47%
DE	43%	57%
F	40%	60%
Total	49%	51%

Source: Indecon commissioned TNS mrbi survey.

Table A4.7: Does the “taxation treatment of pensions” represent a barrier to increasing the coverage of pensions in Ireland? – Responses by age category

Age	Significant	Not Significant
15 - 19	58%	42%
20 – 24	53%	47%
25 – 34	60%	40%
35 – 44	58%	42%
45 – 54	50%	50%
55 – 64	56%	44%
65+	44%	56%
Total	54%	46%

Source: Indecon commissioned TNS mrbi survey.

Table A4.8: Does the “taxation treatment of pensions” represent a barrier to increasing the coverage of pensions in Ireland? – Responses by social class

Social Class	Significant	Not Significant
AB	66%	34%
C1	60%	40%
C2	59%	41%
DE	44%	56%
F	44%	56%
Total	54%	46%

Source: Indecon commissioned TNS mrbi survey.

Table A4.9: Does “consumer understanding of pensions” represent a barrier to increasing the coverage of pensions in Ireland? – Responses by age category

Age	Significant	Not Significant
15 - 19	53%	47%
20 - 24	64%	36%
25 – 34	68%	32%
35 – 44	66%	34%
45 – 54	59%	41%
55 – 64	54%	46%
65+	46%	54%
Total	59%	41%

Source: Indecon commissioned TNS mrbi survey.

Table A4.10: Does “consumer understanding of pensions” represent a barrier to increasing the coverage of pensions in Ireland? – Responses by social class

Social Class	Significant	Not Significant
AB	67%	33%
C1	68%	32%
C2	63%	37%
DE	52%	48%
F	42%	58%
Total	59%	41%

Source: Indecon commissioned TNS mrbi survey.

**Table A4.11: Does “affordability of pensions” represent a barrier to increasing the coverage of pensions in Ireland? – Responses by age category**

Age	Significant	Not Significant
15 – 19	66%	34%
20 – 24	64%	36%
25 – 34	68%	32%
35 – 44	70%	30%
45 – 54	66%	34%
55 – 64	59%	41%
65+	54%	46%
Total	64%	36%

Source: Indecon commissioned TNS mrbi survey.

**Table A4.12: Does “affordability of pensions” represent a barrier to increasing the coverage of pensions in Ireland? – Responses by social class**

Social Class	Significant	Not Significant
AB	70%	30%
C1	70%	30%
C2	69%	31%
DE	58%	42%
F	54%	46%
Total	64%	36%

Source: Indecon commissioned TNS mrbi survey.

**Table A4.13: Likely Impact of Enhanced Tax Allowances**

Impact	Yes	No
Result in you taking out a pension when you would otherwise not have purchased one?	66%	34%
Result in you taking out a larger pension than you would otherwise have purchased?	59%	41%
Have no impact?	33%	67%

Source: Indecon commissioned TNS mrbi survey.

**Table A4.14: Would enhanced tax allowances result in you taking out a pension when you would otherwise not have purchased one? – Responses by age category**

Age	Yes	No
15 – 19	66%	34%
20 – 24	75%	25%
25 – 34	80%	20%
35 – 44	67%	33%
45 – 54	70%	30%
55 – 64	58%	42%
65+	39%	61%
Total	66%	34%

Source: Indecon commissioned TNS mrbi survey.

**Table A4.15: Would enhanced tax allowances result in you taking out a pension when you would otherwise not have purchased one? – Responses by social class**

Social Class	Yes	No
AB	73%	27%
C1	68%	32%
C2	72%	28%
DE	58%	42%
F	62%	38%
Total	66%	34%

Source: Indecon commissioned TNS mrbi survey.

**Table A4.16: Would enhanced tax allowances result in you taking out a larger pension? – Responses by age category**

Age	Yes	No
15 – 19	57%	43%
20 – 24	69%	31%
25 – 34	64%	36%
35 – 44	66%	34%
45 – 54	65%	35%
55 – 64	52%	48%
65+	39%	61%
Total	59%	41%

Source: Indecon commissioned TNS mrbi survey.

**Table A4.17: Would enhanced tax allowances result in you taking out a larger pension?**  
– Responses by social class

Social Class	Yes	No
AB	67%	33%
C1	63%	37%
C2	60%	40%
DE	51%	49%
F	63%	37%
Total	59%	41%

Source: Indecon commissioned TNS mrbi survey.

**Table A4.18: Would enhanced tax allowances have no impact? – Responses by age category**

Age	Yes	No
15 – 19	29%	71%
20 – 24	30%	70%
25 – 34	33%	67%
35 – 44	32%	68%
45 – 54	31%	69%
55 – 64	44%	56%
65+	36%	64%
Total	33%	67%

Source: Indecon commissioned TNS mrbi survey.

**Table A4.19: Would enhanced tax allowances have no impact? – Responses by social class**

Social Class	Yes	No
AB	30%	70%
C1	35%	65%
C2	34%	66%
DE	33%	67%
F	34%	66%
Total	33%	67%

Source: Indecon commissioned TNS mrbi survey.

Table A4.20: Impact of Allowing Transfers of SSIA Monies Into Pensions

Impact	Yes	No
Result in you taking out a pension when you would otherwise not have purchased one?	54%	46%
Result in you taking out a larger pension than you would otherwise have purchased?	48%	52%
Have no impact?	34%	66%

Source: Indecon commissioned TNS mrbi survey.

Table A4.21: Would allowing transfers of SSIA monies into pensions result in you taking out a pension when you would otherwise not have purchased one? Responses by age category

Age	Yes	No
15 – 19	57%	43%
20 – 24	66%	34%
25 – 34	54%	46%
35 – 44	60%	40%
45 – 54	65%	35%
55 – 64	47%	53%
65+	25%	75%
Total	54%	46%

Source: Indecon commissioned TNS mrbi survey.

Table A4.22: Would allowing transfers of SSIA monies into pensions result in you taking out a pension when you would otherwise not have purchased one? Responses by social class

Social Class	Yes	No
AB	67%	33%
C1	57%	43%
C2	55%	45%
DE	48%	52%
F	44%	56%
Total	54%	46%

Source: Indecon commissioned TNS mrbi survey.

Table A4.23: Would allowing transfers of SSIA monies into pensions result in you taking out a larger pension? Responses by age category

Age	Yes	No
15 – 19	50%	50%
20 – 24	51%	49%
25 – 34	48%	52%
35 – 44	53%	47%
45 – 54	58%	42%
55 – 64	43%	57%
65+	25%	75%
Total	48%	52%

Source: Indecon commissioned TNS mrbi survey.

**Table A4.24: Would allowing transfers of SSIA monies into pensions result in you taking out a larger pension?  
Responses by social class**

Social Class	Yes	No
AB	58%	42%
C1	53%	47%
C2	50%	50%
DE	39%	61%
F	40%	60%
Total	48%	52%

Source: Indecon commissioned TNS mrbi survey.

**Table A4.25: Would allowing transfers of SSIA monies into pensions have no impact?  
Responses by age category**

Age	Yes	No
15 – 19	33%	67%
20 – 24	32%	68%
25 – 34	38%	62%
35 – 44	38%	62%
45 – 54	27%	73%
55 – 64	38%	62%
65+	32%	68%
Total	34%	66%

Source: Indecon commissioned TNS mrbi survey.

**Table A4.26: Would allowing transfers of SSIA monies into pensions have no impact?  
Responses by social class**

Social Class	Yes	No
AB	33%	67%
C1	33%	67%
C2	35%	65%
DE	36%	64%
F	30%	70%
Total	34%	66%

Source: Indecon commissioned TNS mrbi survey.

