

Securing Retirement Income - National Pensions Policy Initiative

Please note that the following booklet is not up to date. The Board will be updating this booklet to reflect legislative changes resulting from the enactment of the Pensions (Amendment) Act, 2002, in due course.

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National Pensions Policy Initiative

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1. Introduction

The issue of adequate and comprehensive pension cover has been under consideration in Ireland for more than 20 years. The Irish debate is set against an international background in which many countries are reforming or reviewing their pension systems. In 1995 the Pensions Board and the Department of Social Welfare (now the Department of Social, Community and Family Affairs), commissioned the ESRI to undertake a survey of occupational and personal pensions. This survey showed that approximately 50% of the workforce in Ireland have supplementary pension cover in addition to Social Welfare pension cover.

National Pensions Policy Initiative

The National Pensions Policy Initiative was launched in October 1996 to facilitate debate on how to achieve a fully developed national pension system and to formulate a strategy and make recommendations for actions needed to achieve this system. There was a very wide response to the Initiative from many different sources, showing a recognition of the importance of pensions and making use of the opportunity to influence future national pension policy. The Pensions Board received 143 separate submissions following publication of an initial consultation document. A national conference was held to discuss the main issues and the Board itself held a number of workshops in which it discussed and debated the many issues raised in this process, leading finally to the publication of the Board's Report, entitled 'Securing Retirement Income'.

This Report is the proposed plan for future pensions policy. It details the need for a fully developed national pension system which enables all residents in the State to acquire an income that allows them to maintain their established standard of living on attainment of retirement age, in long-term incapacity and, in the case of dependants, on the death of the income provider. Its recommendations set out how that aim can be achieved. The Report was published on May 7 1998 and presented to the Minister for Social, Community and Family Affairs, Dermot Ahern TD.

This booklet is a brief guide to Securing Retirement Income the National Pensions Policy Initiative Report of the Pensions Board. It is not intended to be comprehensive, however, and for more detailed information copies of the Report itself are available from:

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2. Pensions Coverage In Ireland

The Report looks at the position in a wide range of other countries and notes that in many European countries the current costs of pension provision are straining public finances. Costs in these countries are set to rise even further in the medium term due to evolving demographic trends.

The position in Ireland, however, is quite different. Firstly, there is an established and well developed funded occupational pension sector. Secondly, the cost of Social Welfare pensions is relatively modest at 4.5% of GNP at present.

In part, this reflects the fact that Social Welfare pensions in Ireland are low compared with benefits paid in many other European countries. The other contributing factor is that Ireland has a relatively low elderly dependency ratio and, unlike almost all other OECD countries, it does not face the immediate prospect that this ratio will rise. However, depending on future policy towards real increases in Social Welfare pension levels over time, the country could be faced with the same sustainability issues which are currently posing themselves elsewhere, as demographic patterns here come more into line with the structures prevailing now in other countries.

One of the first conclusions of the Board is that Ireland alone has the opportunity of preparing for a high level of elderly dependency during a period of relatively low dependency.

3. Overall Reform Strategy

The goal of the Initiative is adequate retirement income provision for all. The Board's proposals to achieve this are based on distinct but inter-related roles for Social Welfare pensions (or First Pillar, as it is known) and supplementary pensions (or Second Pillar, as it is known).

The Board believes that in assessing the adequacy of income in retirement a benchmark of 50% of gross pre-retirement income should be used.

The First Pillar should ensure adequacy of income for the lower paid as the level which the Board is recommending would meet its target for income after retirement for the 30% lowest paid employees in the private sector. In the case of those on lower pay the administrative cost of funding and paying a small pension through a funded Second Pillar scheme would be considerably greater than that under the First Pillar pension system and it is clear that the provision of replacement income through the supplementary system would therefore be inefficient.

The role of Second Pillar pensions would be to ensure maintenance of an established standard of living in retirement for those for whom the First Pillar pension would not achieve this target.

Main proposals

The Report's main proposals to meet these goals include:

- a target rate for Social Welfare pensions;
- making substantial efforts to preserve the real level of Social Welfare pensions, unless the economy was to enter a period of very high inflation, or a recession or both;
- a funding mechanism in relation to Social Welfare pensions which can exploit the advantages of current favourable demographics and which establishes a basis for avoiding many aspects of the sustainability issues being confronted elsewhere today; and
- a number of innovations that will enable the potential of an established voluntary Second Pillar to be developed and extended considerably.

4. First Pillar Proposals

Target Rate

The Board recommends a target rate for Social Welfare pensions equal to 34% of average industrial earnings*. The rate as of June 1998 stood at 28.5%. This proposed target should form a backdrop to the achievement of the Government's £100 (€126.98) per week target and considered that it should be achieved within a 5 to 10 year period.

Costs

It is already the stated policy of Government to raise the level of old age pensions to £100 (€126.98) per week over five years (to 2002). The projected incremental costs of the Board's proposals by 2003, compared with this alternative benchmark, is £440 (€558.69) million in current prices, or 0.7% of GNP if the Board's proposals are implemented over the minimum period envisaged (5 years).

While the Board considers that the matter of how the additional costs should be shared ought to be considered by the social partners and other relevant groups, it is, of course, ultimately a decision for Government.

The Board believes that achievement of its proposed target for First Pillar pensions of 34% of average industrial earnings would not entail significant downside risks to the current macro-economic projections for the next five years or so of continued rapid economic growth with strong overall increases in employment.

Indexation

Substantial efforts should be made to maintain the real level of Social Welfare pensions unless the economy was to enter a period of very high inflation or recession. This approach would ensure that minimally acceptable income levels would be preserved in the future. Therefore, the Board views price indexation as a minimum. Higher goals should be aimed for and it would be desirable, in the medium term, to increase Social Welfare pensions in line with growth in earnings in the economy.

Funding

The Board recommends that steps should be taken now to establish an explicit mechanism to fund, at least partially, the substantial growth that is projected to occur in old age pensions.

The funding could be met by an annual Exchequer contribution of £250 (€317.44) million from 1999 - 2003 increasing to £500 (€634.87) million from 2004 - 2008; followed by annual contributions equal to 50% of projected PRSI contributions to pensions. This initial outlay could be met, at least in earlier years, from realised or other Exchequer gains and by exploring the potential of this and other avenues in future years. This level of funding would yield a fund in 2031 of £30 (€38.10) billion. Thereafter the fund could be depleted as it is used to meet the growing pension payments and would be extinguished in 2046. In practice, the funding level would have to be reviewed regularly and may be adjusted upwards over the later years in order to continue the benefits of funding over a longer period.

** The representative of the Minister for Finance qualified his approval of this strategy outlined in the Report in regard to this aspect.*

5. Coverage Targets

Targets are set for both the quality and extent of pension coverage in the future. In particular, it is considered that comprehensive achievement of an adequate level of income over a lifetime involves an ultimate goal of some 70% of the total work force, aged over 30, making or having supplementary pension provision. Interim targets for the extent of coverage are specified in the Report for the next 5 and 10 years according to employment status, gender and as between public and private sectors, consistent with the achievement of this ultimate goal.

These targets are ambitious. However, as a result of the measures contained in the Report, the potential of the Second Pillar system to play a more important role in the future should be realised.

6. Mandatory Options

There is a degree of compulsion involved in terms of the design of pension schemes, and in the behaviour of the pensions industry, in the Report's proposals for occupational and personal pension plans. However, the Board recognises that these may not go far enough to achieve the goals set. More compulsion may be needed.

Compared to present arrangements, additional elements of compulsion for supplementary pension provision could be extended in any of four different ways.

These are:

- mandatory provision of access by all employers to coverage for all employees;
- mandatory contributions by employees;
- mandatory contributions by self-employed;

mandatory contributions by employers.

The Board recommends that mandatory provision of access should be implemented in the short run. Additional increased coverage could certainly be achieved by going further down the list but this would entail costs that should not be incurred unless necessary. Therefore, the Board recommends that these additional options should be held in reserve. Further consideration should be given to these only if, on review, insufficient progress has been made towards the targets set out in the Report. The first meaningful opportunity for such a review would arise five years after implementation of the proposals.

7. Second Pillar Proposals

A substantial number of recommendations are made to improve the extent and quality of Second Pillar coverage. To a large extent the changes proposed are inter-dependent.

There are many aspects of current pension provision which are very valuable and sound and the overall pensions environment in Ireland is well regarded generally. Therefore, in framing recommendations the Board has been careful to ensure that measures which are proposed would support and complement existing good quality provision rather than undermine it. This recognition has led the Board to take an approach which might be summed up as evolutionary rather than revolutionary.

The principal Second Pillar proposals are the following:

The Personal Retirement Savings Account (PRSA)

The Board recommends the introduction of a new style of private pension saving account - the PRSA. This low-cost, easy access, investment account is designed to allow people to save for retirement in a flexible manner.

The PRSA is also designed to be owned by an individual, regardless of their employment status, to be transferable from job to job, and be available from a variety of providers.

Its key features would be:

- availability irrespective of employment status;
- a flexible retirement age;
- a deferral option;
- better information and greater consumer protection;

- standard minimum set of terms and conditions;
- the development of investment mandates;
- the potential for a wider range of pension providers extending to banks, building societies, credit unions etc.

Simplification and changes to tax structures

The purpose of the Board's recommendations is to reduce complexity which increases cost and makes it more difficult for employers and individuals to understand and commit themselves to making pension provision.

Widen access to pension provision

Allowing access for all employees to coverage through their employer, equal treatment, vis-a-vis full time workers, for part-time, seasonal and other atypical workers, allowing those not actually working to make provision, and facilitating the establishment of umbrella schemes.

Establishment of a quality norm

It is recommended that products which are approved as meeting the standards of flexibility, scope and information which make up the norm would show a 'kitemark' so that customers can have confidence that they meet common needs.

Improvements to existing pension arrangements

These measures, such as improved vesting and preservation provisions, generally entail little additional cost to the schemes involved and are geared more at improving value and flexibility for those already covered.

A regulatory regime suited to the new environment

Generally the proposals make use of structures which already exist or involve additional steps which are considered to be needed in any event.

Education and Awareness

The consultation process undertaken by the Board highlighted that there is a low level of understanding and awareness of pensions amongst the general public. The recommendations contained in the Report will need to be supported by an effective educational awareness programme and, in this context, the Board recommends a Government driven pensions awareness campaign to be conducted in conjunction with the relevant public and private sector bodies.

8. Implementation

This Initiative contains proposals for the most comprehensive reform of pension provision in Ireland for a generation. It is essential that appropriate steps are taken to monitor the outcome of the Initiative and the Board recommends that a long-term monitoring and measurement strategy be drawn up by the Department of Social, Community and Family Affairs and the Board.

The Board also recommends that a critical time path should be drawn up for the implementation of the reform programme. When this time path has been agreed by Government and the relevant agencies, it

is proposed that the Board would report on progress annually and highlight whether key reforms are being implemented according to the time path.

9. The Pensions Board

The Pensions Board was established by the Minister for Social Welfare under the terms of the Pensions Act, 1990.

Its main functions are:

- to monitor and supervise the operation of the Pensions Act and pension developments generally;
- to issue guidelines on the duties and responsibilities of the trustees of schemes and codes of practice on specific aspects of their responsibilities;
- to encourage the provision of appropriate training for trustees of schemes, and to advise the Minister on standards for trustees;
- to advise the Minister on the operation of the Pensions Act and on pension matters generally.

Pension schemes must register with the Board, and most schemes must pay an annual fee to meet the Board's administrative costs. The Board can act on behalf of pension scheme members who are concerned about their scheme; it can investigate the operation of pension schemes; it has the power to prosecute for breaches of the Pensions Act.

The Pensions Board includes representatives of trade unions, employers, Government, member trustees, the pensions industry and the various professional groups involved with occupational pension schemes.

10. Further Information

The following booklets are also available free of charge from the Pensions Board.

[What Do You Know About Your Pension Scheme?](#)

An overview of the information which occupational pension schemes must give.

[Is My Pension Secure?](#)

A guide to the protections provided by the Pensions Act, designed specifically for members.

[Selecting Member Trustees](#)

A guide to the participation by members in the selection of the trustees of occupational pension schemes.

[So You're A Pension Scheme Trustee?](#)

A brief guide to the duties and responsibilities of trustees of occupational pension schemes.

[Securing Retirement Income](#)

A guide to the preservation and transfer of benefits for early leavers under the Pensions Act.

[A Brief Guide To Pensions](#)

A guide to help you understand your pension scheme and its benefits.

[What Happens When Your Pension Scheme Is Wound Up Or A Merger/Acquisition Takes Place?](#)

A guide to trustees and pension scheme members on the winding up of a pension scheme and on the effects of mergers/acquisitions on pension schemes.

[A Guide To Your Scheme's Annual Report](#)

A guide to pension scheme members to assist them in reading and understanding their scheme's annual report.

[A Brief Guide To the Pension Provisions Of The Family Law Acts](#)

Guidance on the pension provisions of the Family Law Act, 1995 and the Family Law (Divorce) Act, 1996.

[The Pensions Board](#)

An introduction to the Board, its functions and its membership.

[A Brief Guide To Annuities](#)

A guide to Annuities and how they work.

[A Brief Guide To Integration](#)

Guidance on the integration of occupational pension scheme benefits with the benefits payable under the Social Welfare system.