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# A UNIVERSAL PENSION FOR IRELAND - 70:30

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70% OF THOSE IN EMPLOYMENT  
IN IRELAND SAVING FOR  
A PENSION BY 2030

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## TABLE OF CONTENTS

3	INTRODUCTION
4	EXECUTIVE SUMMARY
6	THE PROBLEM / THE PRIZE. WHY DO WE NEED TO SAVE FOR PENSION?
8	GUIDING PRINCIPLES
9	SUPPORTING THOSE SAVING FOR A PENSION: CONSISTENCY
10	SUPPORTING THOSE SAVING FOR A PENSION: EQUALITY
13	SUPPORTING THOSE SAVING FOR A PENSION: SIMPLICITY
15	SUPPORTING THOSE SAVING FOR A PENSION: ADEQUACY
16	ACTIONS





# INTRODUCTION

Insurance Ireland supports policies designed to increase the numbers of our citizens who will have access to a supplementary pension over and above that provided by the state. This combination of the state and a supplementary pension provides the appropriate model for an individual's financial security in retirement.

We need to have a whole of society response to increase our levels of pension saving. This is a critical issue that requires a comprehensive, integrated, national set of solutions. The actions we take now will have an impact on the lives of generations to come. We will not be thanked for ignoring what we already know – not enough of us are saving for our retirement, and those of us that do are not setting aside enough to sustain our standard of living in retirement. For people who will have dependants in retirement the position is even more acute – their decision today to ignore this issue will affect those who will depend on them in years to come.

Insurance Ireland believes a target of having 70% of those in employment contributing to a supplementary pension by 2030 should be agreed by all, as an ambitious target. In identifying the target of 70%, Insurance Ireland is following a number of well-structured international precedents. According to the Office for National Statistics in the UK in 2012, only 47% of UK employees had an active workplace pension (a similar coverage figure to Ireland in 2019). As the reader may be aware, the UK began the roll-out of Auto-Enrolment (AE) in 2012. As measured in May 2018, the proportion of employees in the UK who contribute to a workplace pension has increased to 73% of employees having an active workplace pension<sup>1</sup>. Since its introduction in 2007, the New Zealand Kiwisaver in 2016 reached coverage levels of 80%<sup>2</sup>. In its recently published annual report, Kiwisaver also point to the high levels of non-active members, 1.2 million in 2018 and less than ideal levels of adequacy, in 2018 the average members balance was \$17,130 (NZ Dollars)<sup>3</sup>.

Leaving aside the issues of having a sufficient amount of money when you retire (adequacy) and potential opt-out rates, the UK and New Zealand provide clear examples as to how levels of coverage can be built. Having examined both systems in detail, we are confident that if Auto-Enrolment began in 2022, and all other forms of pension saving were supported, the target of 70% of those in employment saving for a pension by 2030 could be achieved.

In 2019, Irish pension coverage rates are similar to those observed in other OECD countries with voluntary private pension systems, but lower than those observed in countries with mandatory or quasi mandatory systems.

The state is to be commended therefore for proposing the introduction of an Auto-Enrolment system but this must be seen as just one element of the overall response. The OECD has warned that this initiative “should not compete with already existing provision to avoid creating incentives for employees to opt out”<sup>4</sup>. Achieving the target of having 70% of those in employment by 2030 is predicated on:

- > The experience in the UK and NZ
- > Auto Enrolment being delivered by 2022 in line with the state's already declared intention<sup>5</sup>; and
- > Additional policy initiatives to extend coverage levels beyond those targeted by Auto Enrolment;
- > Ensuring that those who are already saving are not discouraged from continuing to do so.

All initiatives ought to be seen in this light – the single silver bullet does not exist, and whatever else we do, we should protect what has already been achieved. This paper sets out a framework for ambitious policies to significantly advance pensions coverage levels.



Kevin Thompson  
CEO Insurance Ireland  
May 2019

<sup>1</sup><https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/articles/pensionparticipationatrecordhighbutcontributionsclusteratminimumlevels/2018-05-04> Accessed 29/04/2019 – while coverage has grown this has not been replicated with an increase in the adequacy of pension provision

<sup>2</sup>Dr Susan St. John (October 2018)- Feedback on the 'strawman' proposal for Irish pension reform from New Zealand Experience: Auckland, New Zealand, Retirement Policy and Research Centre – Joint Paper prepared for TOR Financial Consulting Limited and Insurance Ireland, p.12

<sup>3</sup><http://www.fma.govt.nz/assets/Reports/KiwiSaver-Report-2018.pdf> Accessed 29/04/2019

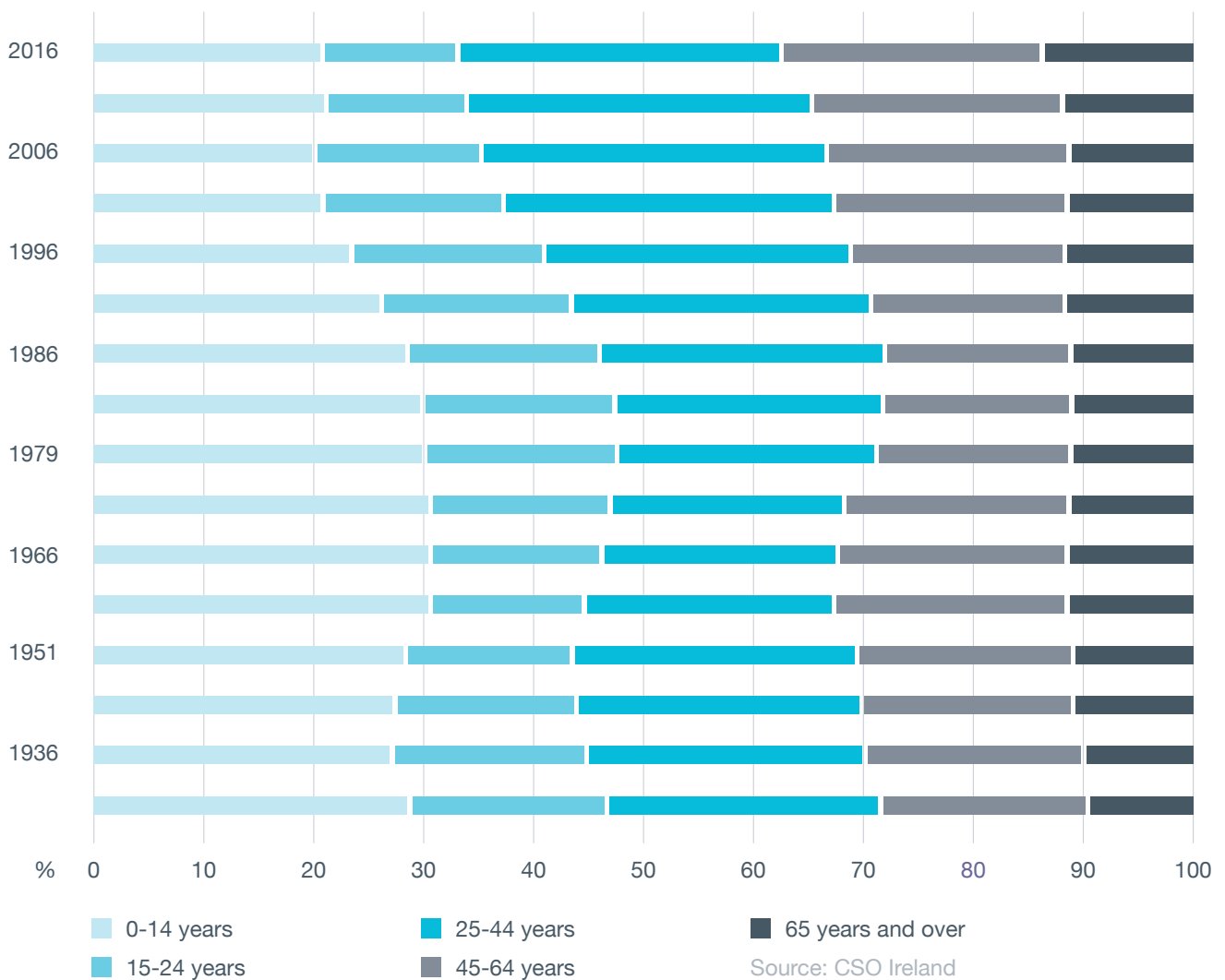
<sup>4</sup>OECD, Pensions Outlook 2018, p.170.

<sup>5</sup>[https://www.welfare.ie/en/downloads/Automatic\\_Enrolment\\_Strawman\\_Proposal.pdf](https://www.welfare.ie/en/downloads/Automatic_Enrolment_Strawman_Proposal.pdf)

# EXECUTIVE SUMMARY

As a nation we are getting older. Increased longevity and better medical care are transforming ‘old-age’ and Ireland is now predicted to have over 1.4 million people over the age of 65 by 2046<sup>6</sup>. The 2016 Census<sup>7</sup> reported that the number in the 65 and over category increased by 19% (102,000) to 637,000 between 2011 and 2016, while the number of people at work increased by just 11% (199,000) to 2,000,000. Figure 1.1 from the 2016 Census illustrates the growing trend in the cohort of people aged 65 and over. By 2046 the 65+ dependency ratio could be double what it was in 2011.

**Figure 1.1** Population at each census by age group, 1926-2016



<sup>6</sup><https://www.cso.ie/en/csolatestnews/pressreleases/2013pressreleases/pressreleasepopulationandlabourforceprojections2016-2046/>

<sup>7</sup><https://www.cso.ie/en/releasesandpublications/ep/p-cp3oy/cp3/>

Less than half of the working population are saving for their needs in retirement, and many of those who do are not saving enough to preserve their living standards. This represents a looming crisis which, unless we take action, will be our legacy to our children. Government policy is to maintain the state pension at 34% of average earnings - a basic level of pension adequacy<sup>8</sup>. Individuals, supported by the state and their employers must increasingly take ownership of their security in retirement, but for this to happen further effort needs to be made to increase levels of trust in the pensions environment.

We must include more groups who presently are not engaged in planning for or participating in the pensions arena. The environment for pension saving must clearly adapt to deal with this issue. Change involves taking action – we must change behaviours to encourage participation. Rules, regulations, incentives, products, education, governance and administrative arrangements all must be scrutinised and challenged.

The state has acknowledged the issue through its Roadmap for Pensions reform<sup>9</sup>. The introduction of Auto-Enrolment as one key element of the roadmap should see a welcome increase in coverage levels but will not provide the solution for all. Insurance Ireland believes a target of 70% of those in employment saving for a supplementary pensions by 2030 should be formally adopted.

Individuals must increasingly take responsibility for their retirement. Policies to increase coverage should be built around the five key decisions that people need to make when planning and saving for retirement, according to the OECD<sup>10</sup>,

1. Participation – should I participate, postpone or avoid?
2. Contribution – how much do I need for my security in retirement?
3. Plan provider – which provider best fits my needs?
4. Investment strategy – how do I choose how to invest my contributions?
5. Retirement withdrawal option – what gives the best outcome for my accumulated savings when I retire?

These policies should be guided by 4 key principles - consistency, equality, simplicity, and adequacy.

The remainder of this document deals with the rationale for developing policies around these 4 principles in order to help people make the necessary decisions and so achieve the objective of having 70% of those in employment saving for a pension by 2030.

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<sup>8</sup><https://www.welfare.ie/en/pressoffice/pdf/PensionsRoadmap.pdf>

<sup>9</sup><https://www.welfare.ie/en/pressoffice/pdf/PensionsRoadmap.pdf>

<sup>10</sup>OECD, Pensions Outlook 2018, Chapter 5

# THE PROBLEM / THE PRIZE.

## WHY DO WE NEED TO SAVE FOR PENSION?

By definition, salary and wages finish on retirement from work. From the date of retirement, pensioners are reliant on accumulated savings and / or the state pension to pay the bills - which unfortunately do not retire. For the majority of people the state pension will not provide an adequate income to preserve their standard of living and so they face a 'cliff-edge' with the potential to fall into poverty.

Based on data published by the Central Statistics Office in 2019<sup>11</sup> and reproduced in the Table below, in Q3 2018 47.1% of workers aged between 20 and 69 were contributing to a pension, marginally increased from 46.7% in Q4 2015. While the increase is at best marginal, it is noteworthy that a decline in pensions saving rates has ceased and in absolute numbers those saving for a pension has increased as a result of an increase in the work force. Rates in the 25 – 34 age group brings the problem into even more sharp focus – the cohort who should be contributing towards their long-term journey to provide for their security in retirement stands at 37.1% in 2018, very slightly up from 36.1% in 2015, and significantly lower than the 48.9% rate in Q1 2008. It is welcome to note that for the first time in Q3 2018 more females are saving for a pension than males. Despite this however, there is divergence between coverage levels and adequacy. A recent study by Aviva Life and pensions has found that on average, Males save €306 per month into a pension, while Females save €173 per month<sup>12</sup>.

As we move towards the target of 70% of those in employment saving for a pension in 2030 it is Insurance Ireland's firm view that strategies to support gender equality in retirement income should also be a key design feature of public policy. In these goals, Insurance Ireland draws from the experience of Australia and in particular we rely on the work of Women in Super. When designing systems of pensions reliefs monthly thresholds are often utilised below which tax relief is not available. Such a system tends to penalise those on lower and multiple incomes, most of these workers tend to be women. Also there is a tendency for women to prioritise one pension pot in a household, often to their own financial detriment. A research paper published by the Australian Senate in 2016 found that "men's superannuation balances at retirement are on average twice as large as women's"<sup>13</sup>.

### Pension coverage in the State for persons in employment (ILO) aged 20 to 69 years, 2008 - 2018

% of persons in employment aged 20 to 69 with pension cover

	Q1 2008	Q4 2009	Q4 2015	Q3 2018 <sup>1</sup>	Q3 2018 <sup>2</sup>
<b>State</b>	53.6	51.2	46.7	47.1	56.3
<b>Sex</b>					
Male	56.3	53.1	47.2	46.7	57.1
Female	50.0	49.0	46.2	47.6	55.4
<b>Age group</b>					
20-24	27.8	18.6	14.1	15.5	16.3
25-34	48.9	49.4	36.1	37.1	41.5
35-44	61.1	57.7	55.3	54.4	62.6
45-54	65.5	60.5	54.4	58.7	70.9
55-69	55.2	48.7	49.3	50.2	68.2
20-293	36.6	32.6	22.1	22.7	25.0
30-653	60.6	57.5	52.1	53.8	64.2

<sup>1</sup>Includes only occupational pensions from current employment and personal pensions in current contribution.

<sup>2</sup>Includes occupational pensions from current/previous employments and personal pensions, including deferred pensions and pensions in draw-down mode.

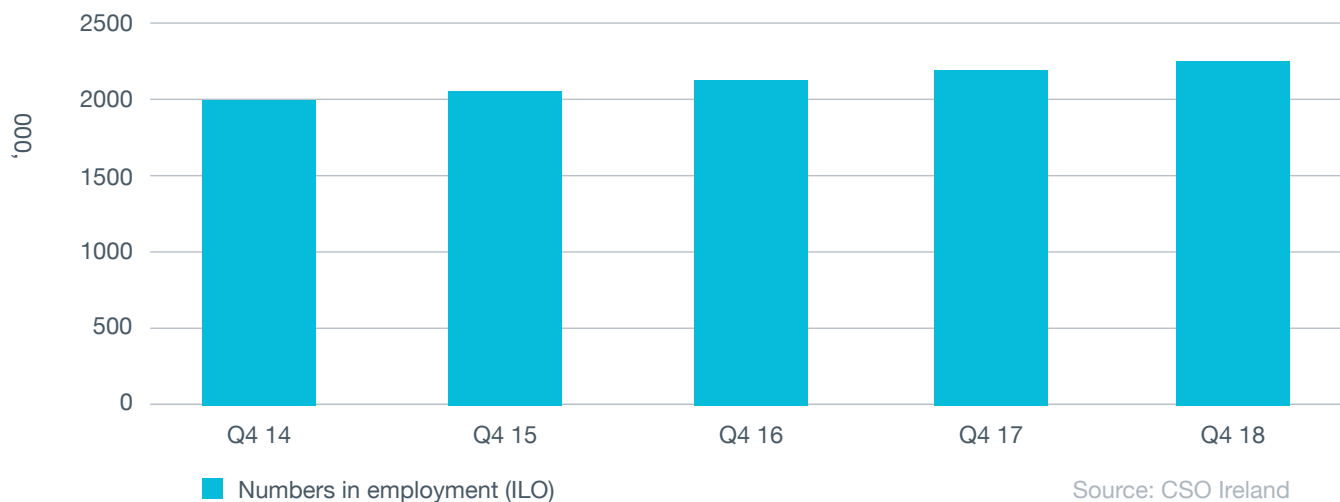
<sup>11</sup><https://www.cso.ie/en/releasesandpublications/er/pens/pensioncoverage2018/>

<sup>12</sup><https://www.aviva.ie/group/mediacentre/newsarchive/mind-the-pension-gap/> This is the mean average of those who save into a pension Accessed 29/04/2019

<sup>13</sup><https://clarety-wis.s3.amazonaws.com/userimages/Resources/report%20-%20Economic%20Security%20for%20Women%20in%20Retirement%20inquiry.pdf> Accessed 29/04/2019.



**Figure 1. Numbers in employment (ILO), in the fourth quarters 2014 to 2018**



Ireland has a unique opportunity to utilise last mover advantage and should deploy this advantage to support gender equality in retirement saving. In particular Insurance Ireland believes that there may be merit in actively supporting women into saving for their pension and to actively seek to educate women on the potential benefits to them of having their own pension provision in place. When designing any additional supports or changes to the pension system these changes are analysed for impact for men and women. There is a collective responsibility on all stakeholders in the pension system – employers, unions, policy makers, civil servants and providers to ensure that maximum supports are put in place to ensure there is gender equality in retirement.

Writing in 2013, the OECD asserted that Ireland's coverage rate "is similar to the ones observed in other OECD countries with voluntary private pension systems, but lower than ones observed in countries with mandatory or quasi mandatory systems"<sup>14</sup>. In Australia before the introduction of Superannuation in 1986, 31% of workers had access to a private pension<sup>15</sup>. In New Zealand in 2006, the year before the roll out of auto-enrolment, 32.7% of all workers (public and private) had access to a pension scheme<sup>16</sup>. At the end of 2016, the New Zealand Kiwisaver system had 80% coverage.

The expectation is that the introduction of Auto-Enrolment will see a similar increase in coverage levels. However, by virtue of the outline design, even after AE has been successfully rolled out there will continue to be cohorts of people who will not participate or are excluded<sup>17</sup>. Even more needs to be done.

Pension saving should be seen in the context of independence. Savers should be encouraged and indeed incentivised for ensuring neither they nor their dependents become a burden in retirement, whether on the state or their family. The strategy of setting the state pension at 34% of average earnings<sup>18</sup> while commendable, will hardly provide an adequate income particularly in the event of incapacity or ill-health. According to the American Psychological Association (APA)<sup>19</sup>, stress caused by debt and financial problems can cause major health problems. It can also cause people to adopt unhealthy coping mechanisms like drinking or eating too much. The comfort of knowing you have provided for your (and your dependants) financial security in your later years should not be underestimated.

The key message that must be promoted is that pension saving is and always has been the right thing to do. You do not meet pensioners who regret having set aside some of the income they earned while working and are now drawing it down in retirement. Those who have taken the time to plan for financial security in retirement ought to be commended and further encouraged while those who have not must be energetically incentivised to do so.

It is our firm belief that supporting both those who already save and those who do not with equal energy will deliver massive societal benefits.

<sup>14</sup>OECD, Review of Pensions Systems – Ireland 2013, p.47.

<sup>15</sup>OECD, Review of Pensions Systems – Ireland 2013, p.108.

<sup>16</sup><http://www.oecd.org/pensions/public-pensions/43021579.pdf> , Accessed January 2019.

<sup>17</sup>A Strawman Public Consultation Process for an AE Retirement Savings Scheme for Ireland

<sup>18</sup>Government of Ireland: A Roadmap for Pensions Reform 2018 - 2023

<sup>19</sup>[https://www.healthstatus.com/health\\_blog/money-fit/financial-stress/](https://www.healthstatus.com/health_blog/money-fit/financial-stress/)

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# GUIDING PRINCIPLES

INSURANCE IRELAND CONTENDS THAT POLICY INITIATIVES TO SUPPORT THE 70:30 VISION OUGHT TO BE GUIDED BY FOUR PRINCIPLES, AS FOLLOWS

## CONSISTENCY

policies focused on the long term, consistent with and complementary to previous actions need to be developed to bring more people into the market while ensuring successes to date are preserved. Change is to be embraced as demographics evolve. International experience needs to be harnessed.

## EQUALITY

ensure all pension savers are treated fairly in respect of supports available to them, aligned to the OECD's 11 policy guidelines to improve the design of financial incentives. Equality should be correlated across socio-economic status, income levels and gender<sup>20</sup>.

## SIMPLICITY

make it easy to save for a pension, focus on measures to improve financial knowledge and awareness of risk, address poor pension-specific knowledge, as well as people's behavioural biases which undermine their ability to make appropriate decisions for their retirement. Align actions with the OECD's<sup>21</sup> 5 key decisions for an individual in planning for and subsequently saving for retirement.

## ADEQUACY

while an increase in numbers of participants is desirable, sight should not be lost of the requirement to have sufficient income to cover needs in retirement. The state pension will hardly be enough. Set expectations for likely required levels of contribution.

<sup>20</sup>OECD, Pensions Outlook 2018, pp.70-72.

<sup>21</sup>OECD Pensions Review 2018 Chapter 5.

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## SUPPORTING THOSE SAVING FOR A PENSION: CONSISTENCY

According to 2015 statistics produced by the Central Statistics Office (Table 1.1) and notwithstanding the introduction of PRSA's in 2002, supplementary pension coverage 'peaked' at 55.9% of the general population in Q4 2005 and declined steadily to 46.7% in 2015. The most recent statistics produced by the CSO<sup>22</sup> have shown this figure to have remained static – coverage in Q3 2018 was 47.1%. During this time significant reductions in tax reliefs have been implemented – e.g. age/salary related limits on tax-relieved employee contributions have been introduced and relief from USC and PRSI on individual contributions no longer applies; In addition in the period between 2011 and 2015 a Pension Levy amounting to a total of 2.75% was applied to pension funds. This last action – a short term 'raid' on the assets accumulated by pensioners over many years - undermined confidence in pension saving. It would be helpful if assurances were provided that this would never be repeated, with such assurances underpinned by a legal framework.

It was argued that among the reasons for the implementation of these changes were that the associated financial incentives were thought to have been too generous against the background of the global financial crisis, which itself had a serious impact on the state and individual finances. Nonetheless we still find ourselves in a position where over 50% of the population are not participating in the state's supplementary pension regime. This will inevitably impact in the future on an individual's finances when they do retire, with knock-on consequences for the state's finances as retirees fall into poverty – a vicious circle of sorts. In terms of building participation levels, auto enrolment along with continuing supports for those currently saving for a pension (public and private sector workers) will, as has been the case in the UK and New Zealand, go some distance to addressing this challenge.

It is our view that new incentives and strategies may be needed to encourage those who have never saved for a pension. Rather than a series of disjointed short-term policy responses to current pressures, policies with a view to the long term must be developed. Initiatives to adapt the future pensions landscape need to be consistent with and complementary to each other as well as rationalised against those taken in the past. Once developed there must be a determination to stick the course, without the temptation to waver under short term economic pressures.

International experience should be embraced. For example, in Denmark more tax will be collected from withdrawals than it costs to provide tax relief on contributions in c. 2035<sup>23</sup> due to a large increase in tax revenues collected on withdrawals between 2015 and 2045. This is because coverage increased greatly in the 1990s through collective agreements, and contribution levels gradually increased to around 15% in the mid-2000s. With sufficient ambition, energy and commitment there is no reason that Ireland in 2045 could not be in a similar position to Denmark in 2019.

Society needs to be conditioned to accept that there will be changes to the pensions environment over time, but these should not be proposed as a response to 'flaws' with the existing environment nor to penalise those who have already set out on their pension saving journey and may in fact be approaching retirement. Changes to make it more attractive to access the pensions market are of course good – but it doesn't follow that the 47% of those in employment who have already embraced the market have been 'wrong' and ought to pay some penalty. The state should consider carefully any further reductions to existing incentives – people should not be discouraged from continuing their savings journey.

Change is an appropriate response to evolving social and demographic development. For example, those who are starting their working lives today will invariably live longer than those who started 40 years ago and are approaching retirement. In that context it is entirely reasonable that the pensions environment should equally evolve to deal with a 'good' problem – people are living longer than before, will require more to sustain their years in retirement than those who retire today, and should be encouraged to start their savings journey even earlier than their parents to ensure they can enjoy their many more years in retirement.

Similarly, as life expectancy increases there are arguments to be made for changes to the pension environment to support partial retirement earlier and facilitate a partial pension draw down while continuing to participate in the working environment and simultaneously taking opportunities to start enjoying non work-related activities.

The Government is to be commended for its proposals to introduce an Auto-Enrolment system, but is to be cautioned that this can only be one component of an overall solution. Each component of pensions reform should have as a fundamental design proposition that they will not seek to disadvantage those supports currently assisting Irish workers to provide for their retirement.

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<sup>22</sup><https://www.cso.ie/en/releasesandpublications/er/pens/pensioncoverage2018/>

<sup>23</sup>OECD, Pensions Outlook 2018, p 59

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# SUPPORTING THOSE SAVING FOR A PENSION: EQUALITY

Insurance Ireland believes that policy changes to the pensions environment should focus on 3 broad and overlapping socio-economic groups; women, those who have left the workforce temporarily or permanently, and lower or even non-income earners.

These groups are already disadvantaged in their access to state pension benefits. It is critical for the state to implement its proposals to move from the Averaging to the Total Contributions Approach. However, in a critique of the state proposals by Susan St. John<sup>24</sup> 'While 20 years of time out of the workforce for care-giving may be credited, there will be many, of whom women will be disproportionately represented, who still need top-ups from the means-tested supplementary pension'.

The gender pay gap is 13.9%; however, the gender pensions gap is over twice as large at 38%<sup>25</sup>. There are a number of interconnected reasons why the gender gap nearly triples in retirement:

- > Because women are paid less than men the amount of 'spare' income they have to set aside income for retirement is much lower. According to Aviva Life and Pensions men save on average €306 per month into their pension, whereas, women save €173 per month<sup>26</sup>
- > Women are more likely to take substantial breaks from work to care for children or others. If they are unwaged during these breaks there is currently no way for them to make contributions to their pension.
- > Other softer factors such as lower understanding of pensions amongst women (A 2016 survey by the Irish Brokers Association found that 73% of women had either none or only a basic understanding of pensions, compared to 55% of men)

The launch of Auto Enrolment represents a huge opportunity to tackle the historic lack of focus on women in pensions promotion and education. We also need specific taxation measures targeted at the needs of women and parents to close the gap – for example:

1. We suggest that tax credits be given for pension contributions during periods:
  - > when a person is on temporary absence from work for caring duties i.e. maternity leave, parental leave, adoption leave
  - > when a person is unemployed and engaging in caring activities e.g. looking after children or ill people
2. The design of the Auto-Enrolment scheme needs to be carefully considered to ensure that people on lower income (who are disproportionately female) are not unduly excluded. Again, according to St. John 'it is very important to make sure that the Irish Auto-Enrolment does not disadvantage the growing number of workers in the new age who experience more casual employment, variable work hours, and other labour market uncertainties and the need to retrain from time to time' We suggest that:
  - > Auto-Enrolment salary threshold be lower than €20,000 – we suggest about €17,000
  - > There is a mechanism to include people with more than one salary once the sum of the salaries reaches the threshold
  - > Non-earners are allowed make contributions and receive tax credits (subject to reasonable limits)
  - > People below the threshold are allowed opt-in with the option to subsequently opt-out
  - > The system is closely regulated to ensure that there is no abusive or false 'self-employment'

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<sup>24</sup>Feedback from New Zealand experience on the 'strawman' proposal for Irish pension reform: University of Auckland Retirement Policy and Research Centre

<sup>25</sup><https://publications.europa.eu/en/publication-detail/-/publication/950dce57-6222-11e8-ab9c-01aa75ed71a1> - Accessed 29/04/2019

<sup>26</sup><https://www.aviva.ie/group/mediacentre/newsarchive/mind-the-pension-gap/> Accessed 29/04/2019

3. Consistent with arguments made by the Irish Congress of Trade Unions (ICTU)<sup>27</sup>, Insurance Ireland supports the position that no further changes should be made to the levels at which marginal tax-relief should apply as this would impact on those earning 75% of the average industrial wage
4. Further, we would exhort strategies to consider some form of incentive to those paying no or little tax. One solution could be to facilitate both tax relief and matching contributions, with the saver capable of benefitting from whichever gives the best outcome.

We can also learn from international experience with regard to equality issues. For example, in Australia there have been calls for a review of their Superannuation pension system to deal with structural inequities in the system, more specifically to address women's retirement outcomes.<sup>28</sup>

State support for retirement saving should be fair and equitable. The 2018 OECD<sup>29</sup> report sets out that '*all countries provide financial incentives to promote savings for retirement. Those financial incentives can take the form of tax incentives, taxing retirement savings more favourably than other types of savings, or non-tax incentives, paying money directly in the pension account of eligible individuals (matching contributions and fixed nominal subsidies). The most common tax incentive exempts contributions and returns on investment from taxation, and taxes withdrawals ("EET").*'

### **Ireland operates the EET system**

Based on the analysis of country practices and the comparison of the inherent characteristics of different approaches to designing financial incentives to promote savings for retirement, the OECD offers the following 11 policy guidelines to help to improve the design of financial incentives.

1. Financial incentives are useful tools to promote savings for retirement.
2. Tax rules should be straightforward, stable and common to all retirement savings plans in the country.
3. The design of tax and non-tax incentives for retirement savings should at least make all income groups neutral between consuming and saving.
4. Countries with an "EET" tax regime already in place should maintain the structure of deferred taxation.
5. Countries should consider the fiscal space and demographic trends before introducing a new retirement savings system with financial incentives.
6. Identifying the retirement savings needs and capabilities of different population groups could help countries to improve the design of financial incentives.
7. Tax credits, fixed-rate tax deductions or matching contributions may be used when the aim is to provide an equivalent tax advantage across income groups.
8. Non-tax incentives, in particular fixed nominal subsidies, may be used when low-income earners save too little compared to their savings needs.
9. Countries using tax credits may consider making them refundable and converting them into non-tax incentives.
10. Countries where pension benefits and withdrawals are tax exempt may consider restricting the choice of the post-retirement product when granting financial incentives.
11. Countries need to regularly update tax-deductibility ceilings and the value of non-tax incentives to maintain the attractiveness of saving for retirement.

<sup>27</sup>Comments by Laura Bambrick - on Inside Business with Ciarán Hancock, "Solving Ireland's Pension Problem - Live at Irish Life", Aired 13 February 2019.

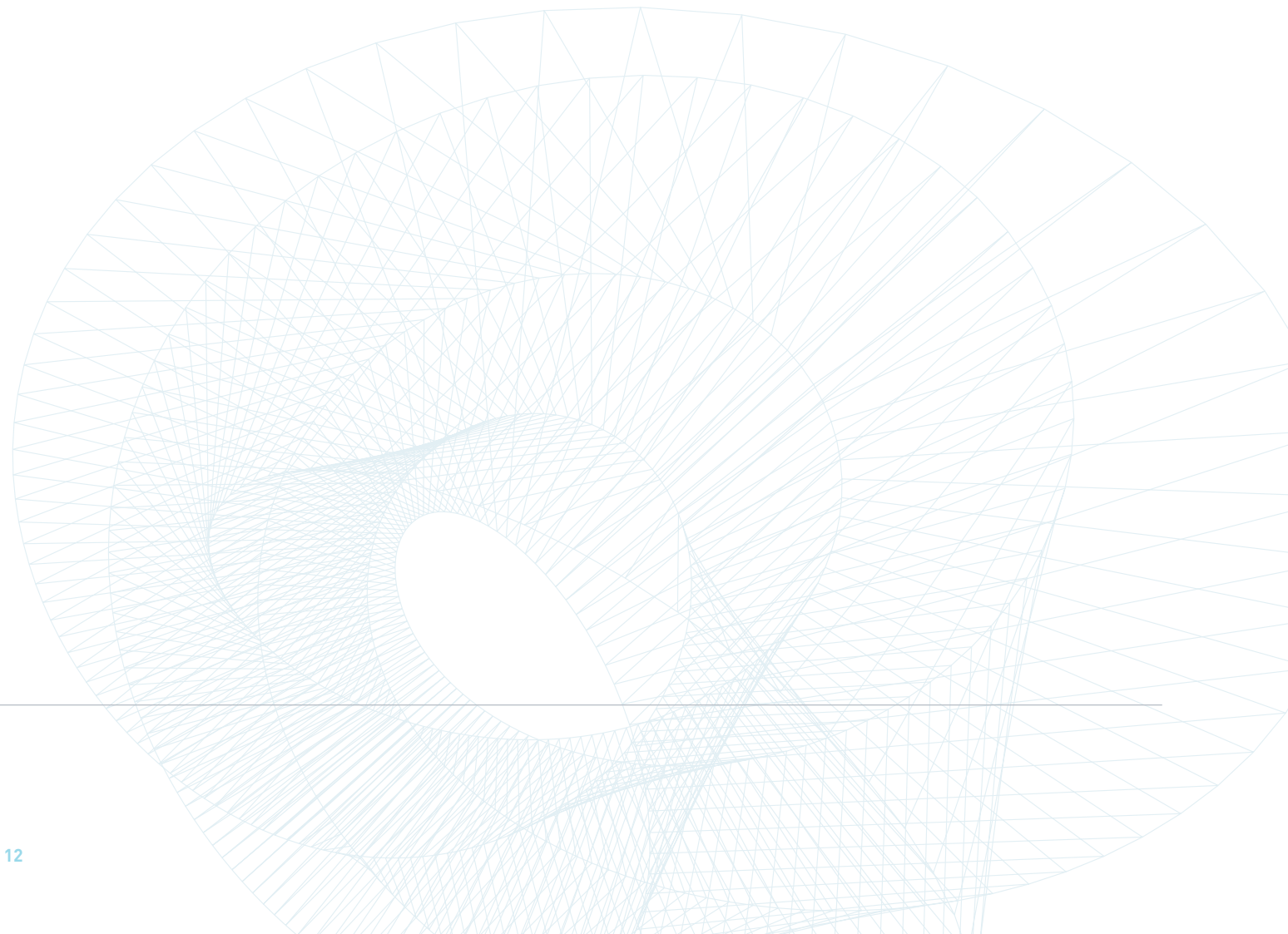
<sup>28</sup><https://www.investmentmagazine.com.au/2019/04/women-in-super-lashes-out-at-canberra/?UUID=0032800000AnySPA AZ,0032800000AnySPA AZ>

<sup>29</sup>OECD, Pensions Outlook 2018, pp.69



In accordance with the OECD policy guidelines, Insurance Ireland strongly endorses the use of financial incentives to support and encourage long term saving to provide for supplementary income in retirement. The design of such financial incentives ought to be available to all socio-economic groups on a consistent, logical basis. For example where both tax relief and matching contributions are available within the one system, it should be possible for an individual to avail of whichever incentive is best in a given year.

Noting that Ireland already operates an EET system which essentially defers the payment of tax on income forgone until it is subsequently available for consumption many years into the future, we believe that any changes to this, or the introduction of any new systems to extend coverage should be measured against these 11 guidelines. In respect of ensuring equal treatment across socio-economic groups we point specifically to guidelines 6, 7 and 8 above.





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# SUPPORTING THOSE SAVING FOR A PENSION: SIMPLICITY

Many individuals may not be prepared to or be capable of taking responsibility for their financial security in retirement – clearly this is the case with 65% of Irish private sector workers. In an environment where participation is voluntary, public discourse on pensions can be consumed with criticism of the structure and complexities of the pensions environment. This can have the ‘behavioural’ effect of inertia - undermining confidence and discouraging participation until a time in the future when the ‘issues’ - real and perceived – will be dealt with. For anyone who knows they should save for retirement, but who is wavering at the short-term impact of diverting money from current consumption or short-term saving to a very long-term commitment, the “pensions are just too complicated” argument makes “do nothing” almost look like the sensible option.

It is perfectly appropriate to challenge the existing pensions landscape with a view to simplifying rules, regulations, governance and product structures where at all possible. However, the OECD asserts that a combination of the lack of general financial knowledge and awareness of risk, poor pension-specific knowledge, as well as behavioural biases undermines people’s ability to make appropriate decisions for their retirement.

Individuals must increasingly take responsibility for their retirement. Policies to increase coverage underpinned by appropriate educational supports should be built around the five key decisions that according to the OECD<sup>30</sup> people need to make when planning and saving for retirement:

1. Participation – should I participate, postpone or avoid?
2. Contribution – how much do I need for my security in retirement?
3. Plan provider – what provider best fits my needs?
4. Investment strategy – how do I choose how to invest my contributions?
5. Retirement withdrawal option – what gives the best outcome for my accumulated savings when I retire?

Policies aiming to increase participation in voluntary funded pension arrangements fall into four broad categories: changing the default enrolment mechanism (e.g. Auto-Enrolment or compulsion), simplifying choice, providing incentives, and providing financial education. We await the state’s final Auto-Enrolment proposals – specifically measures to offer default choices of provider and investment choice; a consistency of policies between existing and proposed financial incentives and the roles and responsibilities of the stakeholders in providing education and /or advice.

Policies are needed to help individuals to contribute at the appropriate level given their individual circumstances, including setting default contribution rates at higher levels than current practice, automatically increasing contribution rates over time, providing matching contributions, simplifying the contribution process and providing information about expected pension benefits<sup>31</sup>.

The state has proposed a gradual implementation of contributions to Auto-Enrolment, eventually reaching a 6:6:2 (employee: employer: state) contribution level. Given the OECD perspective, the state should consider either a faster ramp-up or a full implementation of the 14% with perhaps an option to lower contribution rates on an affordability basis. Policies should also cater for individuals with more than one or erratic income flows - for example low levels of income from multiple employers which combine to exceed minimum income thresholds for participation, or for individuals who have periods of unemployment followed by employment. State agencies such as the Revenue Commissioners or the Department of Employment Affairs and Social Protection (DEASP) can facilitate such policies.

The OECD<sup>32</sup> asserts that while approaches facilitating provider choice, strengthen competition, include defaulting people into providers chosen through a tender mechanism and enhancing information disclosure and standardisation. They continue by stating these policies need to be complemented by measures improving efficiency in the pension industry, so that individuals can expect good value for money independently of the choice of the provider.

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<sup>30</sup>OECD, Pensions Outlook 2018, Chapter 5

<sup>31</sup>OECD Pensions Review 2018 p 156

<sup>32</sup>OECD Pensions Review 2018 p 160

The state's Auto-Enrolment proposition envisages a tender process with a limited number of pension providers receiving authorisation to offer Auto-Enrolment products. Where a participant does not choose, a provider will be selected on a "carousel" basis. We believe the market should not be limited to a small number of providers, rather we believe that a properly regulated competitive market should govern provider participation. We would also have concerns about competition rules. According to Susan St. John who has provided a valuable critique of the Irish Auto-Enrolment proposals with reference to the New Zealand Kiwisaver equivalent<sup>33</sup> "The NZ experience shows that the default arrangements need care. The appointment of 9 of the 31 providers to be default providers has produced perceptions of unfair competition".

Of course efficiency is an appropriate objective. Measures to simplify rules, regulations, governance and product structures ought to be pursued. Adopted by the OECD Council on 27 September 2016, the OECD Core Principles of Private Pension Regulation serve to encourage more efficient regulation and management of private pension systems, thereby helping countries to strengthen private pension systems and improve their complementary role in ensuring that retirement income is adequate. They provide governments, regulators and supervisors worldwide with a relevant common benchmark and high-level guidance on the design and operation of private pension systems. However, a note of caution – products already taken out by existing customers are long-term contracts designed under the regulations in force at the time they were taken out. Simplification or rationalisation of product structures must consider the implications for both new and existing pension savers.

The OECD proposes that policies to assist with effective approaches to facilitate the choice of the investment strategy include simplifying choice by reducing the number of available investment options, establishing appropriate default investment strategies, and providing financial advice and financial education.

We agree that the number of available investment strategies should be limited, with default options provided for those who cannot or will not make a choice.

The OECD<sup>34</sup> suggests that policy options to help individuals transform the assets accumulated in their pension account into retirement income should include promoting the demand for annuities and facilitating product comparisons. Given the potentially large sums accumulated during the savings phase, retirement withdrawal options must be on the agenda for reform and simplification. The Interdepartmental Pensions Reform and Taxation Group (IDPRTG)<sup>35</sup> considers in scheme drawdown and Group Approved Retirement Funds products.

Each of the 5 OECD key decisions for the individual needs to be underpinned by the provision of appropriate levels of financial advice and education. Financial education empowers people to understand better their finances, including pensions. The introduction of Auto-Enrolment provides an ideal opportunity for this. Technology has a role to play in the engagement with prospective participants. Internet based applications can be used to simplify choice and provide financial education, improve disclosure of information and facilitate the comparison of options. The UK is considering the introduction of a pensions dashboard<sup>37</sup> which would be a simple way for individuals to access information on all their pension pots. To ensure that retirees are fully informed to make vitally important decisions at the point of drawdown Insurance Ireland is of the view that advice on the options available to manage accumulated savings is necessary.

The underlying message is clear; make it simple and accessible and expect increased engagement.

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<sup>33</sup>Feedback from New Zealand experience on the 'strawman' proposal for Irish pension reform: University of Auckland Retirement Policy and Research Centre

<sup>34</sup>OECD Pensions Review 2018 p 163

<sup>35</sup>OECD Pensions Review 2018 p 167

<sup>36</sup><https://www.gov.ie/en/consultation/1533591008-interdepartmental-pensions-reform-and-taxation-group/>

<sup>37</sup><https://pensionsdashboardproject.uk/industry/about-the-pensions-dashboard-project/>

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## SUPPORTING THOSE SAVING FOR A PENSION: ADEQUACY

As we have argued at the outset, there are two distinct but related problems when attempting to bring about reform of an undersubscribed pension system such as Ireland's. The first is coverage, that is getting enough people to save for a pension. Insurance Ireland believes that by pursuing a twin track approach of auto-enrolment combined with strategies to support those already making provision for their retirement is the most effective way to achieve this.

The second issue, which tends to prove more challenging is that of adequacy. The dictionary definition for 'adequacy' is the state of being sufficient for the purpose concerned. The meaning does not suggest abundance or excellence, or even more than what is absolutely necessary. It is our view that the success of the pension system will ultimately be judged on whether or not people have adequate resources in retirement. To stimulate coverage, it is appropriate for the roll out of Auto-Enrolment to focus primarily on participation; but making appropriate levels of contributions to ensure that the projected pension income preserves the required standard of living is, in our view possibly more important.

At a very high level the message is simple – most individuals understand that they have income that typically comes from their occupation and expenses to fund their living costs, but the reality is that this is failing to translate into actions to fund these living costs into retirement. Individuals are ignoring the fact that the state pension is a flat amount, by definition providing different levels of income replacement as a function of pre-retirement income. A growing concern is for the cohort of people advancing towards retirement who are not homeowners and are without any supplementary pension provision, neither these people nor the state can afford to ignore their needs in retirement.

In the context of pensions, the question of what is 'adequate' is the responsibility of the individual, taking into account their (and their dependents) expected needs in retirement. In its Roadmap for Pensions Reform 2018 – 2023, the state has committed to maintaining a basic level of adequacy to ensure that the value of the State pension is maintained at 34% of average earnings. According to a calculator provided by the Pensions Authority<sup>38</sup>, a 25 year old earning €50,000 per annum and targeting a pension of 50% of their final salary (including the state pension) would need to be contributing at a rate of 15.8% per annum – which is not far off the proposed AE rate. The scale of the adequacy issue is sobering given the coverage levels at Table 1.1 above.

A 2013 Australian study<sup>39</sup> proposed that income adequacy in retirement be measured in two different ways. Firstly the 'consumption shortfall' – the amount by which projected income is less than consumption requirements to preserve a given standard of living. Using this measure, even among those Australians who will have contributed significantly to their pensions for at least half their working life, superannuation is nowhere near sufficient to fund an adequate level of consumption during retirement. Another way to look at the adequacy of retirement savings is the age gap – life expectancy following retirement. Using this measure it was found about half of the population are expected to run out of savings before reaching their life expectancy.

Expectations around contribution levels must be set. In the UK, workers eligible to be auto-enrolled when the scheme was first introduced in 2012 began automatically contributing 1% of basic pay into their pension, matched by 1% from their employer. In 2018 this was increased to a 3% contribution by the employee and 2% from the employer. In April 2019 it will increase to 5% from the employee and 3% from the employer – resulting in an 8% total contribution.

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<sup>38</sup>[https://www.pensionsauthority.ie/en/Calculators/Pension\\_Calculator/](https://www.pensionsauthority.ie/en/Calculators/Pension_Calculator/)

<sup>39</sup><https://australiancentre.com.au/publication/measuring-retirement-savings-adequacy-in-australia/>

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# ACTIONS

Insurance Ireland is proposing the below actions as a first step in achieving the goal of 70% of those in employment saving for a pension in 2030. We have not suggested implementation plans, a prioritised timetable or owners for these actions as we would like to discuss this with those active in the pensions community with a view to answering four questions initially:

1. Is the policy goal of 70% of those in employment saving for a pension by 2030 an appropriate and achievable goal?
2. If so do you agree with the guiding principles, if not would you suggest alternative principles?
3. Do you believe the proposed actions as laid out below will achieve the goal? Are there other actions you believe should be present?
4. Who are the appropriate owners for the actions and what is a realistic timetable for delivery of these actions?

## Overall

- > Set target coverage to be 70% by 2030
- > Promote a narrative that pension saving is and always has been a good thing for individuals to embrace.
- > Engage as many strands of society as possible
- > Challenge the existing pensions landscape, particularly with a view to reuse and recycle already developed infrastructure

## Consistency

- > Develop a long-term vision for retirement planning, including a consideration of demographic and life expectancy changes.
- > Persist with the implementation of the Pensions Roadmap, in particular the Auto-Enrolment proposal to be rolled out by 2022
- > Embrace best practice from international experience in developing plans
- > Agree a suite of pensions reforms, rationalising new actions with those taken previously. Any and all actions taken to adapt the future pensions landscape need to be consistent both with each other and with actions taken in the past
- > Advance a plan that shows determination to stay the course no matter what, and a timetable for implementation including actions and owners
- > Be cautious about new initiatives that have the potential to discourage those already saving for their retirement from continuing their savings journey.

## **Equality**

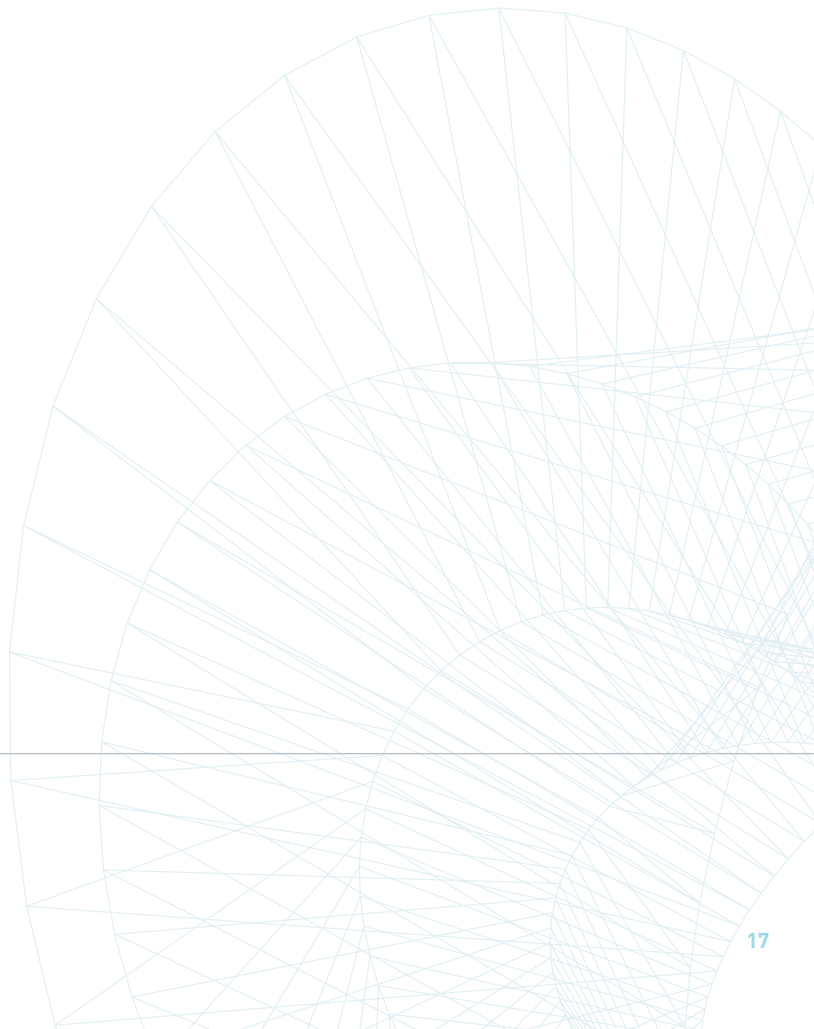
- > Design specific financial incentives to encourage participation by women, low income groups and people with no income.
- > Align the design of all financial incentives with the 11 policy guidelines proposed by the OECD
- > Set out commitments to tax treatment for pension savers over the long term, in particular the retention of marginal rate tax relief on deferred consumption invested in long term saving for pensions
- > Facilitate both tax relief and matching contributions, providing for an individual to choose whichever is best for them in a particular year
- > Commit to pension savers that there will be no repeat of the pension levy

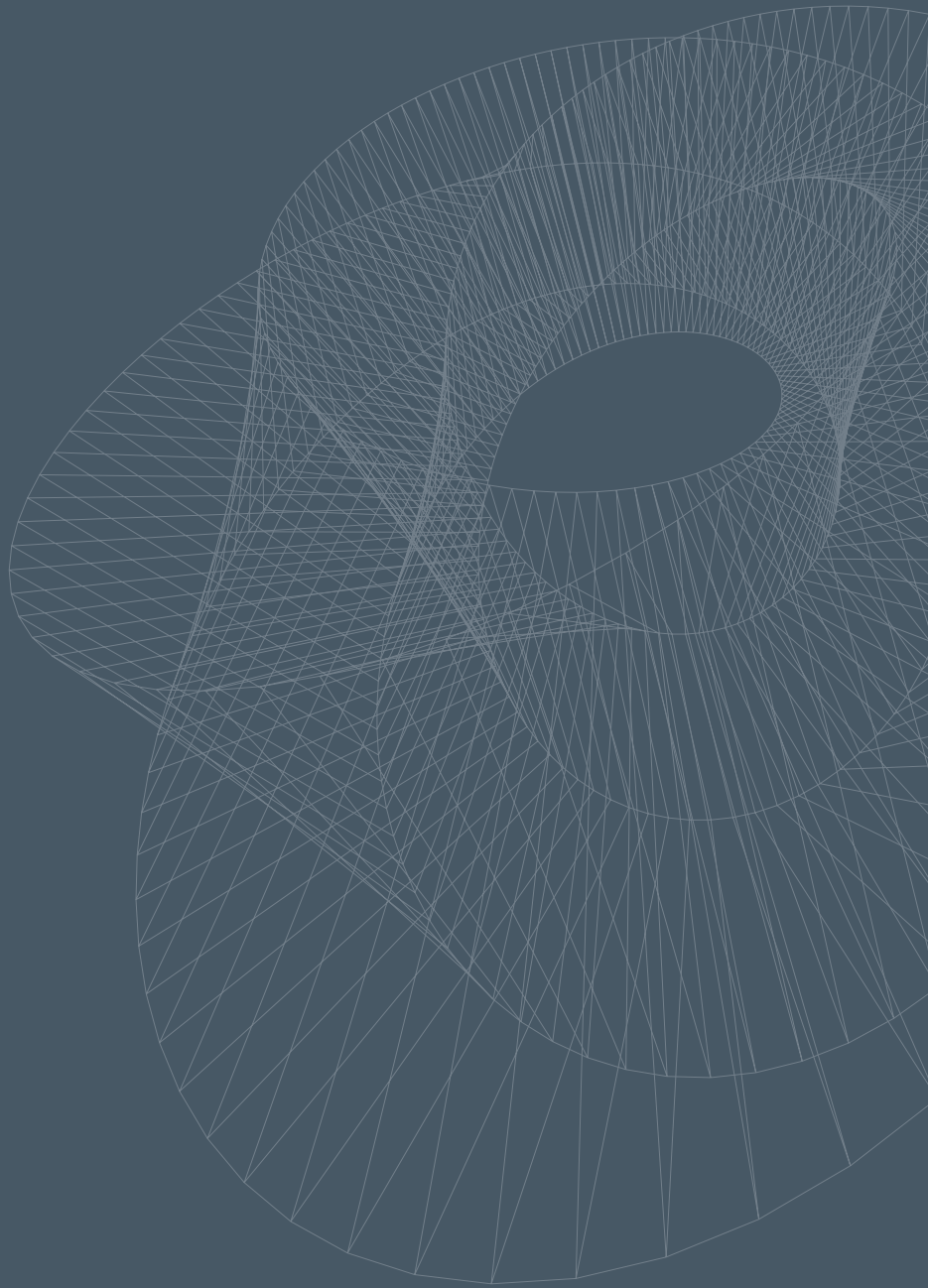
## **Simplicity**

- > Embrace OECD policy options to promote participation, help with provider, contribution level, investment selections and retirement withdrawal options
- > Develop a comprehensive financial education programme, with a particular bias on long- term and pensions planning
- > Measures to simplify rules, regulations, governance and product structures ought to be pursued.

## **Adequacy**

- > Introduce mechanisms to help people understand their needs in retirement and place ownership of the issue with the individual, assisted by the state
- > Develop accessible tools to facilitate consideration of income needs in retirement, and the impact of starting accumulation earlier and later during working lives
- > Establish ownership and accountability for delivering on needs in retirement





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