

**IRELAND'S NATIONAL STRATEGY**

**REPORT TO THE EUROPEAN**

**COMMISSION ON ADEQUATE AND**

**SUSTAINABLE PENSIONS**

**JULY 2005**

## **Foreword**

I very much welcome the publication of this second report to the EU on Ireland's pension system.

Ireland, along with other European Member States, is facing the challenge of ensuring that our pensions system can sustain the pressures presented by an ageing population. At the same time we must ensure that pensions provide people with an adequate income in retirement. Through modernising our pension system, making difficult policy choices and coming up with innovative solutions to the challenges that are presented, I am confident that we can alleviate the pressures that our pension system faces. We must also remain aware that income is just one element of the position of people in retirement. Retirement also brings many other changes to a person's life – their relationships, routine and health can also face change during this time. We need to bear these issues in mind when contemplating reform.

The Open Method of Co-ordination allows us to learn valuable lessons from our European partners. The process is open, which means that we are free to develop our own solutions and strategies to meet the common objectives in ways which best suit our traditions and culture. That said, through the exchange of ideas and best practice, all Member States can benefit from the experience of our partners. In Ireland's case, where our population has a lower proportion of older people than other Member States, this experience is particularly valuable as we still have the opportunity, as a result of our favourable demographic situation, to ensure that a system is in place which will provide an adequate income in retirement for all our citizens in the future.

The EU synthesis report compiled following the submission of the first national strategy reports found that Ireland was making good progress in improving the adequacy of our pensions system and that it was broadly sustainable. However, while there is no doubt that further progress has been made on the common objectives, and this is borne out in this latest report, I am concerned at the rate at which things are developing, particularly in relation to our second pillar system.

Accordingly, earlier this year I asked the Pensions Board to bring forward the National Pensions Review which was originally due to be completed in 2006. This review will be comprehensive and will encompass our overall pension strategy and the role to be played by various elements of the system in ensuring retired people receive adequate incomes, both in relation to state pensions and supplementary provision and the interaction between these. The Pensions Board will produce a report on these issues later this year. Accordingly, this latest National Strategy Report sets out our current position on the policies and targets of the Irish pension system. Future reform will be considered after the publication of the Review.

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Minister for Social and Family Affairs  
July 2005

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## Section 1

### INTRODUCTION

#### **Pensions in Ireland**

- 1.1** The pensions system in Ireland comprises two main elements. The first is the Social Welfare System, run by the State, and the second comprises voluntary supplementary pensions provided through the private sector and regulated by the State. The overall policy in relation to pensions is to ensure that all residents will have an adequate replacement income when they retire from employment, experience permanent incapacity or when their spouse dies (if they are dependent upon their spouse).

#### ***Social Welfare System***

- 1.2** The pensions provided under the social welfare system are flat-rate payments with eligibility based on achieving a certain level of social insurance contributions over a person's working life or satisfying a means test. Means-tested payments are funded entirely through taxation. Payments based on social insurance contributions are funded through pay-related contributions made to the Social Insurance Fund by employers, employees and the self-employed. Those who are unable to contribute because of unemployment or illness are, subject to conditions, credited with contributions, while arrangements are also in place since 1994<sup>1</sup> to protect the pension entitlements of those who spend time out of the workforce on caring duties.
- 1.3** The pensions paid under the social welfare system are not related to previous income and are intended to provide for basic living expenses. The pensions can also include additional allowances for dependants, those living alone and those over 80 years of age. Supplements are also provided to assist in meeting the costs of electricity, fuel in the winter months, telephone rental and a television licence. All persons aged 66 and over are entitled to free travel on public transport while the other benefits mentioned, except the fuel allowance, are available on a universal basis to those over 70 years of age. The Government is committed to increasing social welfare pensions to €200 per week by 2007<sup>2</sup>. Both the old age (non-contributory) pension and old age (contributory) pension have increased by €32 per week, or by 24% and 22% respectively, since the last National Strategy Report was completed in 2002. At present, the social insurance-based old-age (contributory) pension is paid at a rate of €179.30 per week for a single person under 80 years of age while those qualifying for the means tested old age (non-contributory) pension receive a maximum of €166 per week.

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<sup>1</sup> Through the Homemaker's Scheme which allows up to 20 years spent on caring duties to be disregarded when a person's insurance record is being averaged for pension purposes.

<sup>2</sup> An Agreed Programme for Government between Fianna Fail and the Progressive Democrats (June 2002)

**1.4** Means-testing remains an important, but declining, feature in the provision of pensions through the social welfare system. In the 20 years from 1974, a number of significant changes were made in the system of social insurance with coverage extended to groups such as the self-employed, part-time workers and new public servants. These changes are now feeding into the pensions system with more people now qualifying for pensions on the basis of their social insurance record rather than means testing. In 1994, 55% of recipients of an old age or retirement pension qualified for a payment on the basis of their social insurance record and this increased to 70% by 2004. Social insurance pensions are paid as of right, are independent of any other income or earnings a person might have and are generally paid at a higher rate than the means-tested equivalent.

#### ***Voluntary Supplementary Pensions***

- 1.5** Voluntary supplementary pensions play a very important role in the Irish pensions system and account for approximately one quarter<sup>3</sup> of overall income in retirement. The role of supplementary pensions in the Irish system is to supplement the basic rate pensions provided through the social welfare system to ensure that income in retirement is related to the income received by a person when they were employed. The pensions can be provided through a person's employment or directly through pensions providers such as banks or insurance companies.
- 1.6** The State encourages and promotes membership of occupational and personal pension schemes through favourable tax treatment and regulation to safeguard entitlements. Payment of tax is exempted on contributions to such schemes and on the returns on the investment of these contributions while pension entitlements are being built up. The annual gross cost of tax foregone is estimated at about €2.6 billion<sup>4</sup>. Tax is paid on the pensions as they become payable with the exception of a tax-free lump sum.
- 1.7** The present taxation treatment of supplementary pensions is long-standing and supported by the social partners and has resulted in a significant portion of the labour market having supplementary pensions. The tax treatment is considered to be an essential and integral component of the pensions system in order to sustain coverage and adequacy.
- 1.8** The operation of occupational pension schemes and PRSAs is regulated by the Pensions Board in accordance with legislation which, amongst other things, sets down requirements for the financing and monitoring of schemes, vesting and preservation of benefits, payment of contributions and disclosure to members. The Pensions Board comprises representatives of the social partners, consumer and pensioner interests, the pensions industry and Government Departments.

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<sup>3</sup> ESRI (2005), "Pensioners' Incomes and Replacement Rates in 2000"

<sup>4</sup> Office of the Revenue Commissioners (2003), Statistical Report 2003. Of the €2.6 billion, €470m was relief to employees, €646m to employers, €1,292m (estimated) to income of pension funds and investment returns, and €205m to retirement annuity premiums.

## **Challenges**

### ***Ageing***

- 1.9** In common with other European countries, Ireland's population is ageing from a combination of increasing life expectancy and a declining birth rate in the 1980s and early 1990s (although the latter has recovered somewhat in recent years). The decline in the birth rate below replacement levels, however, is relatively recent and this, coupled with the effects of high emigration for much of the period up to the 1990s, has resulted in Ireland having the lowest proportion of older people in the EU – 11.1% aged 65 and over, as compared to the current EU(25) average of 16.5% and EU(15) average of 17%. The proportion of older people in Ireland will remain at much the same level for approximately the next 10 years after which it is projected to increase rapidly to 15% in 2021, 19% in 2031 and 28% in 2056, when today's 10 year olds begin to reach pension age.
- 1.10** Currently, there are five persons in the active age groups i.e. aged 20 to 64, for every pensioner. This ratio is projected to decline steeply over the period to 2056 when there will be two active people for every pensioner. Ageing, therefore, presents the same challenge to Ireland in meeting growing pension costs as to other EU countries except that Ireland has a somewhat longer period to prepare for its full impact.

**Table 1: Population By Age and Sex, 2002**

<b>Age Group</b>	<b>Persons</b>	<b>Males</b>	<b>Females</b>
0-14	827,428	424,044	403,384
15-19	313,188	160,413	152,775
20-24	328,334	165,292	163,042
25-44	1,180,259	588,308	591,951
45-54	480,447	241,566	238,881
55-59	197,294	99,827	97,467
60-64	154,252	77,559	76,693
65 years and over	436,001	189,155	246,846
Total	3,917,203	1,946,164	1,971,039

*Source: CSO, Census 2002*

The figures in Table 1 relate to the 2002 Census. More recent population projections from the CSO (2004) show, amongst other things a higher overall population and a higher number of people aged 65 years and over.. These projections are outlined in Tables 14 and 15.

### ***Employment Rate***

- 1.11** One of the main ways of addressing the effects of an ageing population on pension costs is to substantially increase employment participation. The overall employment rate<sup>5</sup> in Ireland is 66.8%, almost reaching the EU Target of 67% for 2005. The female employment rate, at 57.5%, is close to EU averages and the rate for older workers (aged 55 to 64), at approximately 50%, is significantly higher.

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<sup>5</sup> CSO, QNHS, Quarter 1, 2005

### ***Changing Working and Social Patterns***

**1.12** The social welfare and pension system in Ireland was largely modelled on a traditional family pattern in which the man was the main breadwinner and his wife was a full-time homemaker caring for children and elderly family members. The traditional model also meant that the wife was dependent on the main breadwinner for income support from his earnings and, consequently, from his pension after retirement. This situation has altered significantly in Ireland as a result of major societal changes and the increasing participation of women in the workforce. The non-participation of married women in the workforce in the past (see 4.27) has given rise to a legacy where many are not entitled to old age pensions in their own right. In a lot of cases, such women are supported in old age through additional payments on their spouse's pension under social insurance, and survivors' pensions in the event of the death of the main breadwinner. They may also be eligible for pensions in their own right under social assistance.

### ***Long-Term Care***

**1.13** Care of the frail elderly, the proportion of whom is also growing significantly, is becoming a challenge in the overall provision of services for older people. It is estimated that the percentage of the population who are over 80 years of age will grow from 2.5% at present to a projected 3.3% in 2021 and 6% in 2031. The implications of these developments and the likely costs involved are currently being studied taking account of the *Report on the Future Financing of Long-term Care in Ireland* by Mercer<sup>6</sup>, and the Review of the Nursing Home Subvention Scheme by Professor Eamon O'Shea<sup>7</sup>.

**1.14** In order to progress the proposals in the studies, a consultation document was circulated to interested parties. The feedback from this process has been compiled and has been fed into a Long-Term Care Working Group. This Group is chaired by the Department of the Taoiseach (Prime Minister) and comprises senior officials from relevant Government Departments. The Group will report later this year.

### ***GDP, GNP and Pension Costs***

**1.15** Ireland's GDP and GNP have grown significantly in recent years. Since 1997, both GNP and GDP have more than doubled at current market prices. GNP per head is currently just over €30,000 while GNP per person at work is over €66,000<sup>8</sup>. The baseline projections for Ireland show that (social welfare and public sector employee) pension spending as a percentage of GNP will rise from 4.6% in 2000 to 9% in 2050, assuming an employment participation rate of 80%. However, revised population projections by the Central Statistics Office (CSO) and initial work done in the context of the current National Pensions Review suggest that this figure is significantly understated.

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<sup>6</sup> Study to examine the future financing of long-term care in Ireland. Mercer Ltd for the Dept of Social and Family Affairs (2002).

<sup>7</sup> Review of the Nursing Home Subvention Scheme, Professor Eamon O'Shea, National University of Ireland, Galway (2002)

<sup>8</sup> Figures taken from Department of Finance (April 2005), "Budgetary and Economic Statistics"

### ***Actuarial Review of Social Insurance Fund***

- 1.16** The main conclusion to emerge from the Actuarial Review of the Financial Condition of the Social Insurance Fund (as at 31 December 2000)<sup>9</sup> was that, if benefit rates are indexed to prices out to 2056, the pay-as-you-go contribution rates required to balance income and expenditure would not need to be significantly adjusted from their present levels. However, if benefits are to be indexed to earnings, it is projected that contributions will, by 2056, have to rise by almost 140% if income and expenditure is to be maintained in balance. These projections do not take into account revenues arising from the National Pensions Reserve Fund (established in 2000 to part pre-fund the cost of social welfare and public service pensions from 2025) nor any possible Exchequer subventions.
- 1.17** Realising the objective of financial sustainability will thus present two main challenges. The first arises from the ageing of the population resulting in greater public pension costs and a declining ratio of contributors to pensioners. The second arises from the maturing of the social insurance scheme as the extension of cover in recent decades translates into a growing proportion of those who reach pension age qualifying for a non means-tested pension in their own right. This will represent, in turn, a shift from financing public pensions from general taxation (social assistance pensions) to financing a greater proportion of these pensions from the Social Insurance Fund (SIF). The SIF holds contributions levied on earnings with any annual deficit being met from general taxation. There may be implications for non-wage costs and competitiveness given that social insurance contributions have a more direct impact on this area than general taxation.
- 1.18** Maintaining pension levels in real terms and keeping contributions at an acceptable level may, depending on how payments are increased or indexed, require a greater sharing of social insurance costs between contributions and general taxation in the future, as occurred in the 1970s and 1980s during periods of high dependency and unemployment. Decisions in this regard could take account of the present level of social insurance contributions which are relatively low by international standards. This is not, however, an immediate requirement. It will also require a spreading of costs between the generations to be achieved by advance funding of a proportion of public pension liabilities and the pre-funding of private sector supplementary pensions.

### ***Supplementary Pensions***

- 1.19** Just over 52%<sup>10</sup> of the workforce currently has supplementary pension cover. The Pensions Board's view (stated in the National Pensions Policy Initiative 1998) was that up to 70% of those aged over 30 require this cover to provide an income in retirement that enables them maintain a reasonable relationship with their pre-retirement income. At present, just over 59%<sup>11</sup> of this key target group have the necessary coverage. The introduction of Personal Retirement Savings Accounts (PRSAs) in early 2003 was designed to facilitate increased supplementary coverage. Participation in a scheme is voluntary for employees, though employers who do not

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<sup>9</sup> Government Actuary's Department (UK) for the Department of Social and Family Affairs (2002)

<sup>10</sup> Quarterly National Household Survey, Pensions – 1<sup>st</sup> Quarter 2004.

<sup>11</sup> Ibid.

already operate a pension scheme are required to provide their employees with access to a PRSA. Up to the end of March 2005, over 51,000 people had opened a PRSA account - with total assets standing at €224 million.

### ***Modernisation of Pensions Systems***

- 1.20** Pension systems have to be adapted to take account of increasing proportions of the workforce in atypical employment, people experiencing frequent changes of employment and those with direct family responsibilities. A majority in these situations are women. These developments have implications for both the design and operation of pension schemes in the public and private sectors in terms of both coverage and quality of that coverage.

## **Pensions Strategy**

### ***National Pensions Review***

- 1.21** In 2002, when legislation was being enacted to provide the framework for PRSAs, a provision was included that required a review of the overall pensions strategy and related issues to be undertaken in 2006. For various reasons, it has been decided to bring this review forward and it is now underway.
- 1.22** The Pensions Board commenced work on this comprehensive review of Ireland's overall pensions strategy in February 2005. The review is wide-ranging and includes:
- An examination of the appropriateness of the original targets and main strategic recommendations of the National Pensions Policy Initiative;
  - A review of issues relating to supplementary pension provision, structures, coverage, costs and adequacy, including trends to date and future outlook;
  - An examination of specific areas such as longevity, female coverage, retirement options and post-retirement provision, and governance of pension schemes (insofar as it affects coverage and adequacy).
- 1.23** The review encompasses the overall strategy, the role to be played by various elements of the system in ensuring retired people enjoy an adequate income in retirement and the various targets and benchmarks deployed to monitor the progress being made. The Pensions Board will produce a report on these issues later this year. The review will not be completed, nor will decisions be made in relation to the future direction of the Irish pensions system, in the timeframe allowed for the submission and assessment of this National Strategy Report under the Open Method of Coordination. Accordingly, the strategy outlined in the following sections is based on current policies and targets.

### ***Adequacy***

- 1.24** The first priority is to guarantee every resident an adequate basic pension and related services that will eliminate poverty among our older citizens. This will involve continuing to increase pensions and maintain their value in real terms. A related aim is to ensure that as many workers as possible will qualify for such pensions on a non-means-tested basis and thus be able to build on them through supplementary pensions and earnings from work after normal retirement age either in their existing jobs or in alternative employment. Rules for entitlement will be reviewed and adapted, as

required, to ensure that those who complete periods during their careers in atypical employment or in caring full-time will not be penalised in terms of their entitlement to the basic social insurance pension. Those who fail to qualify for a social insurance pension will, subject to a means test, be entitled to a pension under social assistance with rates of payment that are in line with the Government's commitments.

### ***Pensions Coverage***

- 1.25** It is considered that supplementary pension cover is essential for up to 70% of the workforce who are over 30 years of age, if they are to obtain a pension that will maintain a reasonable relationship with their pre-retirement standard of living. At present, just over 59% of this particular group have such cover. The coverage target for workers in general is 60% and currently stands at 52.4%. State encouragement of voluntary occupational and personal provision, by means of favourable tax treatment and having regulations in place to protect entitlements, has played an important role in achieving these coverage levels. PRSAs have been introduced to enable individuals with no supplementary pension cover or with inadequate cover to begin saving in a secure way and on a voluntary basis for an appropriate pension and to avail of the favourable tax treatment. Employers who do not operate pension schemes are required to make arrangements so that their employees can access PRSAs.

### ***Financial Sustainability of the State Pensions System***

- 1.26** Means-tested payments will be financed from general taxation, though the proportion of such payments will decrease as improvements in social insurance cover over the last 20 years and improved workforce participation, particularly amongst women, feeds into the pensions system and results in more people qualifying for insurance based payments in their own right. The primary source of finance for social insurance pensions will be contributions levied on employers, employees and the self-employed. As costs increase as a result of ageing, there may be some subventions from general taxation in order to maintain benefit rates in real terms and to avoid placing too heavy a burden on non-wage labour costs through high contributions. However, the Actuarial Review of the Financial Condition of the Social Insurance Fund showed that future contribution costs are, in the medium to long-term, highly sensitive to the payment up-rating method chosen (e.g. prices or earnings). Partial advance funding of pension liabilities through the National Pension Reserve Fund will help to spread pension costs more fairly between the generations. The capacity to finance the growing pension costs will also be improved by substantially increasing employment participation across all sections of society and by keeping unemployment at a low level.

### ***Monitoring Progress***

- 1.27** Monitoring the overall pensions system to see if it is meeting the objectives is a key part of the strategy. Regular actuarial reviews of the public pension systems are carried out to determine emerging liabilities and the resources available to meet these liabilities so that the necessary adjustments can be made. The numbers of older people at risk of poverty is monitored through the National Anti-Poverty Strategy with a view to ensuring that the necessary additional income support and other services are provided for this group. Regular surveys of supplementary pension coverage by the Central Statistics Office are now in place to determine the extent to which people generally are making adequate pension provision. The effectiveness of pension scheme regulation to ensure members' entitlements under occupational and

personal pension schemes are adequately safeguarded is also monitored. The Pensions Board, which comprises representatives of the social partners, trustees, pensioners, consumers, pensions industry and Government, has a central role in the regulatory and policy advisory process. The Department of Finance, in conjunction with the Revenue Commissioners, monitors the tax treatment of such schemes as part of its ongoing tax policy work.

**1.28** While adequacy of pensions is a key priority, it is also important that policies should focus on other aspects of older people's lives. A person's view of retirement is also influenced by the many changes that take place during this period – in relationships, routine and health. In this regard, assumptions based on the provision of cash income alone will not fully reflect the lifestyle decisions of those considering retirement. This is particularly relevant when one examines the option of introducing a later retirement age or a return to the workforce in a different capacity. While some of these issues are considered in the report, its main focus is on the nature of the Irish pensions system – particularly its adequacy, sustainability and modernisation developments.

## Section 2

### ADEQUACY OF PENSIONS

#### *Introduction*

- 2.1** As already outlined, the Irish pensions system comprises two main elements. The first comprises flat rate pensions, provided by the State and awarded on the basis of a person's social insurance contribution record or a means test. These pensions are designed to provide a minimum income which will ensure that pensioners do not live in poverty. The State also provides a range of non-cash benefits to supplement the basic pension and these are available on a universal basis to certain sectors of the pensioner population.
- 2.2** The second part of the pensions system comprises occupational and personal pensions. These are provided on a voluntary basis through employers and financial institutions and are availed of by employees and others on the same basis though, in some cases, employers make it a condition of service that employees join the company scheme. This sector of the pensions system is intended to provide an earnings-related payment in retirement which, when combined with the State social welfare pension, will help to ensure that pensioners can maintain their pre-retirement standard of living. Such second pillar pension schemes may either be defined benefit schemes (where the level of pension benefit is related to salary and is, therefore, explicitly income-related) or defined contribution schemes (where the level of contributions, but not benefit, is determined in advance).
- 2.3** Second pillar pension coverage is based on a voluntary approach. The State encourages and supports this voluntary approach to coverage through tax relief. Tax relief is available at an individual's top income tax rate for contributions to a pension fund. An employer contribution is also free of benefit-in-kind tax to the employee. In addition, pension contributions by an employer in respect of his employees can be written off against corporation or income tax. The fund also benefits from tax-free growth during the funding period. A tax-free lump sum on retirement amounts to either 1.5 times final salary or 25% of the fund, depending on the pension product.

#### *Minimum Income*

- 2.4** Minimum income levels are provided through the social insurance based old age (contributory) pension and the means-tested old age (non-contributory) pension. At present, the former comprises a maximum rate payment of €179.30 per week while the latter is paid at a maximum rate of €166 per week. These payments have been increased by 22% and 24% respectively since the completion of the last National Strategy Report. In addition to the basic rate, additional weekly amounts of between €109.70 and €138.50 are paid in respect of adult dependants and from €16.80 and €19.30 for child dependants. Other allowances paid include €7.70 per week for those who live alone and €6.40 per week for those over 80 years of age.
- 2.5** There is no formal indexing arrangement for the social welfare pensions system. Instead, pensions are increased each year in line with targets set periodically by

Government and taking account of budgetary considerations. That said, pensions are increasing faster than both the consumer price index and gross earnings. The Government is committed to increasing social welfare pensions to €200 per week. By 2007.

**2.6** Even though a formal indexing arrangement does not exist for social welfare pensions, discussions on appropriate rates take place within the social partnership process, which comprises the Government and social partners, including the community and voluntary sector. In deciding on targets, the Government have regard to its overall priorities, partnership agreements as well as research undertaken on appropriate levels of payment. A number of major research projects including the Commission on Social Welfare, Economic and Social Research Institute (ESRI) research, the Benchmarking and Indexation Group Report, the National Pensions Policy Initiative and the National Anti-Poverty Strategy have informed Government decisions in this area over the last 20 years. The old age (contributory) pension currently amounts to approximately 32% of Gross Average Industrial Earnings<sup>12</sup>, approaching the target rate of 34% recommended in the National Pensions Policy Initiative. It is expected that the rates of payment will continue to increase in line with periodic targets set by Government, which will have regard to movements in incomes and prevailing economic and social conditions.

#### ***Social assistance and social insurance***

**2.7** While the Government provides both social assistance and social insurance based payments, the importance of the former in the system has been steadily declining for many years. In the 20 years from 1974, coverage for social insurance was extended through a number of initiatives that brought some very significant groups into the system. In 1974, an income limit above which social insurance was not payable was abolished, self-employed were covered from 1988, part-time workers from 1991 and new public servants from 1995. This extended social insurance coverage is feeding into the pensions system with the result that the number relying on means-tested benefits has been in decline for some years.

**2.8** In 1994, some 108,300 people were in receipt of the means assessed old age (non-contributory) pension and this fell to 85,132 in 2004. At the same time, the numbers receiving the main social insurance based payments, old age (contributory) and retirement pensions, rose from 133,000 in 1994 to 207,253<sup>13</sup>, i.e., from 55% to 70% of pensions in payment. It is projected that social insurance based payments will comprise some 86% of pensions in payment by 2016<sup>14</sup>.

**2.9** The growing proportion of pensions being paid on the basis of social insurance rather than means-testing allows more people to supplement the basic social welfare payments through occupational pensions, investment income, earnings and other income without penalty. A recent report from the Economic and Social Research Institute<sup>15</sup> (ESRI) estimated that about 33% of existing pensioners have an

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<sup>12</sup> Based on average earnings in the previous year (2004) as proposed in the National Pensions Policy Initiative.

<sup>13</sup> Dept of Social and Family Affairs 2005.

<sup>14</sup> Actuarial Review of Social Welfare Pensions (1997) IPT Ltd on behalf of the Department of Social and Family Affairs.

<sup>15</sup> Pensioners' incomes and replacement rates in 2000 (2005)

occupational or personal pension and these contributed about 25% of post retirement income. However, the numbers with supplementary pensions will likely grow in the years ahead because, as outlined previously, the numbers at work participating in pension schemes is now much higher.

### *Non-monetary benefits*

- 2.10** In addition to the cash benefits payable under the various state pensions, older people may also qualify for a range of non-cash household benefits including free travel, , telephone rental and TV licence and an electricity (or gas) allowance. The total cash value of these benefits is estimated at €890 per annum, equivalent to almost 10% of the maximum rate of old age (contributory) pension. The benefits are available on a universal basis to those over 70 years of age. Those under 70 years of age are entitled to free travel on a universal basis with the other elements of the package depending on individual living arrangements and for non-welfare recipients on a means basis. Older people may also qualify for a seasonal cash payment to assist with fuel costs and those over 70 years of age are also entitled to free medical services.

### *Credited contributions*

- 2.11** Eligibility for social insurance payments are, in the main, based on contributions made through employment. However, arrangements are in place to protect the pension entitlements of those who, for one reason or another, cannot work for certain periods. Credited contributions are available to cover periods of unemployment or ill-health. Also, since 1994, under the Homemaker's Scheme, periods spent outside the workforce for caring purposes are disregarded when a person's contribution rate is being averaged for pension purposes.<sup>16</sup> Up to 12 years per child, or a maximum of 20 years, can be disregarded in this way. The scheme is not yet a factor in deciding pensions as it will be some years yet before those who are benefiting from the scheme reach pension age.

### *Maintaining Living Standards*

- 2.12** It is estimated that the basic pensions provided through the social welfare system are adequate to provide an earnings-related payment for about 30% of the workforce. The balance need to supplement the social welfare pension if they are to maintain their standard of living in retirement. The overall target suggested in the National Pensions Policy Initiative is for an income in retirement of 50% of gross income before retirement to include income from all sources including the social welfare pension, income from a supplementary pension, investments and other income. This level of replacement income could be attained by a DB scheme member on average earnings with 20 years of service in a typical scheme.<sup>17</sup>
- 2.13** A recent report from the ESRI<sup>18</sup> suggests that the 50% target for replacement income in retirement is being achieved in some cases. The effective replacement rate for pensioner couples in 2000 was 51% and that for single pensioners was 43%<sup>19</sup>.

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<sup>16</sup> Qualification for pension is based on the average number of contributions made each year from the time a person enters insurance until they claim pension.

<sup>17</sup> Based on analysis of a hypothetical career where a person retires at age 65 on average industrial earnings with a social insurance pension and 20 years service in an integrated defined benefit schemes with a 1/60<sup>th</sup> accrual rate.

<sup>18</sup> ESRI (2005), "Pensioners Incomes and Replacement Rates in 2000"

### ***Defined Benefit and Defined Contribution schemes***

- 2.14** At present, there are over 88,000 occupational pension schemes in operation comprising over 726,000 members. The size of individual schemes can vary considerably – 9% of members are in single member schemes while over 50% are in schemes containing in excess of 1,000 members<sup>20</sup>. Overall membership has increased by over 8% since the last National Strategy Report. Approximately 69% of members are in Defined Benefit (DB) schemes with 31% in Defined Contribution (DC) schemes. In 2003, Irish private pension funds had assets in excess of €53 billion which represents 44.6% of GNP.
- 2.15** For those in DB schemes, including the public sector, the likely level of pension at normal retirement for those with full service is good. Many private sector defined benefit schemes provide a pension of one sixtieth of final salary per year of service – inclusive of the social welfare old age (contributory) pension. This would provide good replacement rates for those with unbroken service. For example, a typical DB scheme member could expect to attain a two-thirds of final salary pension based on 40 years service.
- 2.16** For members of DC schemes, there is, by definition, a degree of uncertainty about the level of eventual benefits. Average total contributions to DC schemes amount to approximately 11% of salary, which is lower than in DB arrangements<sup>21</sup>. Subject to a person's social insurance record, a social welfare pension may also be payable in addition to any pension derived from a DB or DC scheme.

### ***Tax treatment of pensions***

- 2.17** The tax treatment of pensions (EET) has been one of the cornerstones of Irish supplementary pensions policy. Contributions and the returns on the investment of such contributions are tax exempt while the pension entitlements are being built up. Tax is due on the pensions as they become payable with the exception of a lump sum. The Revenue Commissioners estimate the gross (i.e. before allowing for tax payable on ultimate pension benefits) cost of such tax reliefs to employees, employers and the self-employed at €2.6 billion for the tax year 2000/01. (It should be noted that these costs are very tentative and that efforts are being made to improve information on the cost of tax relief for pensions.) Contributions are also relieved of PRSI and the Health Levy.
- 2.18** In Ireland, those aged 65 and over are treated more favourably under the Irish income tax code than the generality of taxpayers. For example, the age exemption thresholds ensure that such persons have a higher amount of income free of tax than other taxpayers up to specified limits. The purpose of this relief is to boost the after-tax incomes of older people and thereby assist in maintaining and improving living standards of people aged 65 and over.

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<sup>19</sup> The data is based upon 260 cases – 60 single pensioners and 200 pensioner couples, and combines data from all waves of the Living in Ireland Survey (the Irish element of European Community Household Panel) from 1994 to 2000. Income is calculated for pensioner and spouse only and CPI adjustments are included.

<sup>20</sup> Pensions Board Annual Report and Accounts, 2004

<sup>21</sup> IAPF Benefits Survey 2002

- 2.19** In 2005, the limits are €16,500 in the case of a single or widowed person and €33,000 in the case of a married couple where one or both are aged 65 or over. The increases announced in the 2005 Budget mean that the age exemption limits have increased by well over 50% in four years. The 2005 limits mean that an elderly married couple can have well in excess of the average industrial wage, as projected for 2005 (estimated at €30,700), without having an income tax liability.
- 2.20** For an older taxpayer whose income rises slightly above the age exemption limits, he or she can be taxed under the system of marginal relief taxation. It should be stressed that a taxpayer who is taxed under the marginal relief system pays less tax than he or she would if taxed under the normal tax system. Where the normal system of tax credits and bands applies, those aged 65 and over are also entitled to a special age tax credit. Older persons in the tax system also stand to benefit from the increase in the value of the personal credits (i.e. the basic personal credit and the employee/PAYE credit, as appropriate) and the increases in the standard rate tax bands announced in the 2005 Budget.
- 2.21** Social insurance is not payable by persons over 66 years of age. In addition, those over 70 years are exempt from the health levy.

***Regulatory protections***

- 2.22** In addition to the above, a comprehensive regulatory regime has been put in place through the Pensions Act, 1990, and subsequent amendments. Such a regime aims to protect pension rights and provide members of pension schemes with comprehensive information on their entitlements. Pension scheme trustees and others involved in the running of pension schemes are obliged to ensure that the regulatory requirements are met. In addition, the Pensions Board has an investigations and compliance function to carry out inspections in relation to the state and conduct of pension schemes under the provisions of the Pensions Act.
- 2.23** Ireland's Funding Standard for defined benefit schemes is a wind-up standard, based on the benefits a scheme is obliged to provide should the scheme be wound up. The Funding Standard defines the minimum assets that each scheme must hold and sets out the rules that apply if a scheme falls short. DB schemes must meet funding standard requirements, with extensions provided in some circumstances, which involves certification by an actuary that the scheme has sufficient funds to meet accrued liabilities in the event of the scheme having to wind up. Following the investment losses suffered since 2000, and because of other developments that affected schemes' ability to meet the standard, a review of the Funding Standard was conducted by the Pensions Board in 2004. The Board's recommendation was to continue the current Funding Standard, including the current provision for an extended funding period in some circumstances, together with a minor modification of the calculation of the Standard for active and deferred members. The recommendation, provided for in the Social Welfare and Pensions Act, 2005, was designed to safeguard members' accrued benefits and to encourage continued DB provision.
- 2.24** The adequacy of DC arrangements needs to be closely monitored. As the full investment risk is placed on the employee, comprehensive, quality information needs

to be furnished to such members in order to protect their rights and allow them to make informed decisions. These and related issues are addressed, firstly, through the provision of better information at a general level. In addition, Disclosure Regulations are currently being amended to further protect members through the compulsory provision of better quality information. It should be noted that the DC system in Ireland is quite immature and there is little information on the outcomes of such arrangements to date.

- 2.25** Approximately two thirds of DB schemes provide for increases in pension payments. Some 76% of these provide guaranteed increases or discretionary increases on a regular basis, the majority of which are related to the CPI<sup>22</sup>. The extent to which schemes are indexed depends entirely upon the rules of individual schemes operated by employers. In general, increases in payments to public sector pensioners are related to increases in public sector earnings. (In recent years, due to the public sector pay benchmarking process, there have been significant increases in public sector pensions.)

### *Pensions Coverage*

- 2.26** The overall Government target in relation to supplementary pension coverage is that 70% of the working population over 30 years of age will have pensions (whether occupational or personal). Data from the Central Statistics Office<sup>23</sup> suggest that overall pensions coverage for persons in employment aged 20 to 69 is 52.4%, increased from the 2002 figure of 50.7%. In relation to the overall target, the coverage rate for those in employment and over 30 years of age currently stands at almost 60%. Younger workers continue to have the lowest coverage rate (23.2% for those in the 20-24 age group) while those aged 35-44 years have the highest coverage rate at 62.2%. In addition, males continue to have a higher coverage rate than females. In this regard, information and awareness campaigns on pensions coverage have maintained a particular focus on women.
- 2.27** The table below sets out the breakdown, by age and gender, of those with pension coverage (derived from Q1 2004 CSO coverage data) .

*Table 2: Breakdown of pension coverage in the State for persons in employment aged 20 to 69 years (%)*

Male	Female	20-24 years	25-34 years	35-44 years	45-54 years	55-69 years
58.6	41.4	12.8	30.3	25.7	20.0	11.3

### *Personal Retirement Savings Accounts (PRSAs)*

- 2.28** The Pensions (Amendment) Act, 2002, provided for PRSAs which were seen as the main vehicle for increasing supplementary pension cover. Participation in a PRSA arrangement is not compulsory but employers are obliged to facilitate employee access to a PRSA unless they already operate a pensions scheme for their employees. To date<sup>24</sup>, around 51,000 PRSAs have been taken out with a total asset value of €224m. Research shows that there is now a high level of awareness of pensions

<sup>22</sup> Irish Association of Pension Funds Benefits Survey

<sup>23</sup> CSO Quarterly National Household Survey, Quarter 1, 2004

<sup>24</sup> Pensions Board, May 2005 (figures relate to the position at 31 March 2005)

issues among the general public and the challenge is to translate this into increased coverage. The Pensions Board runs a targeted awareness campaign aimed at groups with low pension coverage. In addition, they are also involved in an extensive control project to identify employers who are not honouring their legal obligations with regard to PRSA access for their employees.

### ***Current Economic Position of Older People***

- 2.29** Improving the position of older people has been a Government priority in recent years. Significant improvements have been made in old age pension payment rates since the last National Strategy Report in 2002. Old age pension payments have increased between 22 and 24 per cent, while the rise in CPI over the period amounted to approximately 8%. Since 1997, payments have increased by between 81 and 94 per cent against a rise in prices of just over 30%.

### ***Measuring Poverty and the Risk of Poverty***

- 2.30** Ireland's National Anti-Poverty Strategy uses the measure of 'consistent poverty' in its poverty reduction targets. Consistent poverty is defined in the National Anti-Poverty Strategy (as revised in 2002) as being below certain income lines and experiencing enforced basic deprivation. Basic deprivation refers to a set of eight indicators, which are regarded as necessities and possessed by a majority of those surveyed. Consistent poverty was chosen for the NAPS targets as it provides a more reliable guide than income alone to changes in the extent and nature of exclusion arising from inadequate resources. It has the capacity to identify distinctively disadvantaged groups for priority attention. Consistent poverty is discussed at 2.42 and 2.43 below.
- 2.31** Up to 2001, statistics on poverty were collected from the annual Living in Ireland Survey, a longitudinal survey of households based on a representative sample of all households carried out by the ESRI. Since 2003, however, the EU-SILC, conducted by the CSO, is being used. The first results from the EU-SILC were produced this year.
- 2.32** While there is no one 'correct' methodological approach in this area, it is generally recognised that the relative income indicator, as used by the EU, only serves to identify those at risk of poverty. It does not clearly identify those actually experiencing poverty and social exclusion, although it may point to those more likely to experience poverty and social exclusion in the future. Data and discussion of the consistent poverty and risk of poverty approaches, and their implications for older people, are set out below.
- 2.33** Identification of risk groups is based upon the level of the risk and incidence of risk of poverty for population groups. The risk is the percentage of each population group that fall below the relative income line; incidence – also known as composition or distribution – takes the total group under the income line and shows how they are distributed across population groups. Using both measures together gives a clear picture of the size of the risk groups and the scale of the policy intervention required to improve relative incomes for each group. Data are presented in the table below from the Living in Ireland Survey from 1994 and 2001, and also from the EU-SILC survey in 2003. (The national equivalence scale (1.0/0.66/0.33) is used here.)

**Table 3 – Analysis of the level and incidence of risk of poverty (60% median income level) for main household types<sup>25</sup>**

	1994 (%)		2001 (%)		2003 (% EU-SILC)	
	Risk	Incidence	Risk	Incidence	Risk	Incidence
All	15.6	100.0	20.9	100.0	22.7	100.0
<i>By household composition</i>						
1 adult household	7.3	3.3	46.8	15.8	44.9	14.6
2 adult household	6.8	5.5	28.8	20.4	20.6	15.8
3 or more adults	2.6	2.1	10.4	8.1	13.1	14.1
2 adults with 1-3 children	12.5-21.8	30.4	13.9-20.8	23.2	15.3	17.7
2 adults, 4 or more children*	44.0	26.8	40.7	12.6	33.9	30.8
3 or more adults with children*	13.6	21.8	13.0	11.9		
1 adult with children	36.3	10.2	42.9	8.0	42.3	7.1
<i>By household reference person</i>						
Employee/at work*	3.2	8.3	8.1	18.8	9.2	n.a.
Self-employed/farmer*	16.0-18.6	20.7	14.3-23.0	14.2		n.a.
Unemployed	51.4	41.1	44.7	7.3	42.1	n.a.
Ill/Disabled	29.5	6.2	66.5	11.9	54.0	n.a.
Retired	8.2	6.0	36.9	18.8	31.0	n.a.
Home Duties	20.9	17.8	46.9	29.0	37.0	n.a.
<i>By age</i>						
Adults aged 65+	5.9	4.1	44.1	22.9	36.4	n.a.
Adults aged 18-64	12.1	43.6	17.1	47.8	20.1	n.a.
Children	24.5	52.3	23.4	29.3	23.9	n.a.

Source: *Living in Ireland Surveys 1994, 2001; EU-SILC 2003*

\*These groups were merged within their classification headings in EU-SILC.

**2.34** In the table above, the level of the risk of poverty has increased for almost all groups from 1994 to 2001. Comparisons with EU-SILC data for 2003 at this detailed level should be interpreted with caution, although the overall risk of poverty data are broadly comparable. The incidence figures show that 44% of people with a current income below 60% of the median in 2001 were in adult only households, compared to 11% in 1994. A shift in risk of poverty from the active (i.e. employed or unemployed) to the inactive population is clear in the composition by household reference person; 41% of those at risk in 1994 were unemployed compared to 7% in 2001, and they have largely been replaced by inactive people. The risk of poverty for the elderly is seven times higher in 2001 than it was in 1994, and they could be present in any of the adult only household or inactive categories. Older people comprised 23% of those at risk of poverty in 2001, compared to 4% in 1994.

**2.35** The following table shows the risk of poverty (people with equivalised income of less than 60% of overall median equivalised income) for different age groups across EU countries. This comparison is based on the OECD modified equivalence scale of 1.0/0.5/0.3 which tends to produce a higher risk of poverty for older people than our national equivalence scale.

<sup>25</sup> This table uses the national equivalence scale (1/0.66/0.33) and results are not directly comparable with Eurostat figures which used the OECD modified equivalence scale (1/0.5/0.3).

**Table 4: Risk of poverty (i.e. those with equivalised income of less than 60% of overall median equivalised income) of people aged 0-64, 65+, 75+ (%)**

	0-64			65+			75+		
	Total	M	F	Total	M	F	Total	M	F
BE	14.1	13.5	14.7	22.7	20.5	24.4	24.4	23	25.3
CZ	9.0	8.0	9.0	4.0	2.0	6.0	7.0	2.0	9.0
DK	10.1	10.1	10.1	20.9	19.6	21.8	26.8	28.5	25.8
DE	15.0	14.0	17.0	16.0	11.0	19.0			
EE	18.3	18.4	18.3	15.8	6.6	20.8	17.8	3.4	23.5
EL	19.6	19.4	19.7	28.2	25.9	30.1	35.8	35.7	35.9
ES	16.1	15.7	16.5	28.2	25.6	30.3	31.2	28.5	33.1
FR	12.8	12.4	13.3	9.9	8.8	10.7	11.8	10.1	12.9
<b>IE</b>	<b>18.5</b>	<b>18.3</b>	<b>18.6</b>	<b>41.2</b>	<b>34.1</b>	<b>46.6</b>	<b>47.2</b>	<b>38.2</b>	<b>52.7</b>
IT	20.0	19.0	20.0	17.0	16.0	19.0			
CY	10.0	10.0	11.0	52.0	48.0	55.0			
LV	17.0	18.0	17.0	10.5	6.1	12.6	13.0	5.0	15.0
LI	17.4	17.6	17.3	12.2	6.3	15.4	15.0	8.8	17.6
LU	9.9	9.2	10.7	11.7	9.5	13.5	12.1	10.5	13.3
HU	9.8	9.8	9.7	8.2	4.9	10.3	9.9	6.1	11.9
MT	14.4	14.4	14.5	19.9	19.1	20.7	21.2	17.9	23.6
NL	10.0	10.0	10.0	4.0	4.0	3.0	3.0	3.0	3.0
AT	12.4	12.0	12.9	16.4	12.7	18.7	16.9	10.5	20.1
PL	19.9	20.6	19.2	7.6	5.6	8.9	7.7	5.6	8.8
PT	18.0	19.0	18.0	30.0	28.0	31.0			
SI	8.3	8.3	8.4	19.2	10.8	24.1	23.2	/	26.4
SK	22.0	22.0	22.0	13.1	12.3	13.5	20.1	20.2	0.0
FI	10.0	11.0	10.0	17.4	10.7	21.0	22.0	13.0	26.0
SE	10.3	10.4	10.2	11.7	8.8	13.9	16.7	12.2	19.5
UK	17.0	16.0	18.0	25.0	23.0	27.0			

Source: Eurostat, 2003 EU-SILC data for Ireland and mixed reference years and sources for others

**Table 5: Risk of poverty (i.e. those with equivalised income below 40%, 50% and 70% of overall median equivalised income) of people aged 65+ and 75+ (%)**

	40% of median			50% of median			70% of median		
	Total	65+	75+	Total	65+	75+	Total	65+	75+
BE	4.9	4.2	4.1	9.0	11.2	11.7	24.9	38.3	40.0
CZ	1.0	0.0	0.0	4.0	1.0	2.0	16.0	15.0	20.0
DK	3.8	1.8	1.6	5.6	4.5	6.2	19.4	41.8	50.8
DE	5.0			10.0			23.0		
EE	6.9	1.6	1.9	11.1	4.6	5.4	25.9	33.2	37.3
EL	9.7	11.6	16.6	14.2	18.4	25.2	28.8	37.9	46.1
ES	5.7	5.9	6.1	11.2	16.8	17.7	27.0	38.0	43.0
FR	2.3	0.8	0.7	6.1	3.5	4.1	20.8	20.6	23.5
IE	6.5	9.1	9.6	12.8	16.3	17.2	28.1	58.3	63.5
IT		4.0	3.0		10.0	11.0		27.0	29.0
CY	4.0			9.0			23.0		
LV	5.0	1.0	1.0	9.0	3.0	3.0	26.1	27.0	33.0
LI	5.2	1.5	2.0	10.1	5.2	6.4	24.5	23.5	29.3
LU	2.8	3.8	3.1	5.6	6.3	6.2	17.5	18.0	17.0
HU	1.8	0.6	0.2	4.8	2.6	2.8	16.8	18.8	22.2
MT	3.2	2.0	2.4	8.0	8.5	21.2	23.0	34.1	35.4
NL	3.3	1.0	1.0	6.0	1.0	1.0	0.0	11.0	15.0
AT	3.8	4.5	5.1	7.3	8.6	8.7	20.2	24.3	25.9
PL	7.2	1.8	1.9	12.3	4.0	4.4	26.0	13.5	14.0
PT		8.0	9.0		19.0	21.0		41.0	47.0
SI	2.6	3.4	4.7	5.5	10.0	11.7	17.0	29.8	38.8
SK									
FI	12.6	1.2	1.1	16.1	6.0	6.1	26.7	19.6	25.9
SE	2.0	1.0	1.0	5.1	5.0	7.0	20.3	35.0	45.0
UK	2.8	1.1	1.3	5.4	4.3	6.3	18.8	27.8	38.6

Source: Eurostat, 2003 EU-SILC data for Ireland and mixed reference years and sources for others

### **Changes in household incomes vs earnings and social welfare incomes**

**2.36** Table 6 shows the evolution of household incomes, industrial earnings and social welfare rates over the period covered by the Living in Ireland Surveys (LIIS) (1994-2001) and by EU-SILC for 2003. The analysis of poverty and household incomes that underpinned the National Pensions Policy Initiative (NPPI) was largely based on the 1994 LIIS results, supplemented by analysis of individual incomes collected through the P35 tax system. The main comparison of interest is the rise in household incomes compared to social welfare rates and average industrial earnings; household incomes have risen at twice the level of growth of both income benchmarks over the period 1994-2001, while from 2001 to 2003, the increases in the three measures are broadly similar.

**Table 6 – Rise in Average Industrial Earnings, Consumer Prices and OACP compared to the 60% median income line**

	1994 EUR	1997 EUR	2001 EUR	% rise 1994- 2001	2003 (EU- SILC) EUR	% rise 2001- 2003
Equivalised median income	138.96	170.74	273.80	97.0%	308.80	12.8%
<b>60% median income line</b>	<b>83.38</b>	<b>102.44</b>	<b>164.28</b>	97.0%	185.28	12.8%
Average Industrial Earnings	344.06	371.42	470.96	36.9%	535.74	13.8%
CPI	100	106	122	22.0%	132	8.2%
OACP	90.15	99.04	134.59	49.3%	157.30	16.9%

Source: Living in Ireland Survey (ESRI), EU-SILC, Average Industrial Earnings and CPI (CSO)

**2.37** This pattern can be placed in the context of the social partnership agreements over the period. Moderation in wage increases was facilitated by generous tax concessions,

and the interaction of these two effects contributed towards a third dynamic of increased employment. People on social welfare incomes throughout the period received the benefit of the first effect (although formal indexation of social welfare rates to earnings growth did not apply), but did not benefit from tax reforms or improvements in the labour market. Some of the extra employment was taken up by people who were previously unemployed, which could be expected to reduce relative income poverty levels. However, a significant proportion was taken up by people who were most likely in households already above the risk of poverty line. The increase in female participation over the period largely falls into this category. This has the effect of increasing the risk of poverty line further above the level of people on fixed social welfare incomes. On the tax reform side the generous tax concessions over the period increased net income and would have had a similar effect of raising the bar for people who were outside the labour market.

**2.38** It is evident from Table 6 that the rising poverty risk for older people has been largely driven by these factors. In 1994, a single person on an old age (contributory) pension with no additional income was above the risk of poverty line. By 1997, this person was below the risk of poverty line (but would probably have been just above it when the Living Alone Allowance is taken into account). By 2001, this person is below the risk of poverty line, despite having received rate rises above the nominal and real rises in industrial earnings.

**2.39** Table 7 outlines the relative income of older people relative to the complementary age groups (expressed as a ratio of median equivalised income of the complementary age groups). It further underlines the point that the incomes of people in older age groups have generally lagged behind those of the working age population.

**Table 7: Relative income of people age, 65+, 75+ (relative to the complementary age groups) in 2001 (%)**

	Relative income 65+/0-64			Relative income 75+/0-74			Relative income 65+/45-54			Relative income 75+/45-54		
	Total	M	F	Total	M	F	Total	M	F	Total	M	F
BE	72	72	73	74	73	76						
CZ	83	85	82	82	85	81	75	80	72	73	78	69
DK	70	73	69	68	66	69						
DE	94	99	91	93	111	87	85	93	80	84	104	76
EE	76			79	87	73	76	82	72	75	85	69
EL	80	82	79	73	71	74						
ES	78	75	81	79	75	82						
FR	93	96	92	91	95	89						
<b>IE</b>	<b>61</b>	<b>66</b>	<b>59</b>	<b>61</b>	<b>62</b>	<b>58</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>
IT	90	100	90	91	91	89	86	90	84	83	85	81
CY												
LV												
LT	89	97	84	84	91	81						
LU	94	93	95	99	105	97						
HU	88	93	86	88	94	84	84	90	80	83	90	77
MT	90	96	86	90	91	84	90	85	74	78	81	72
NL	89	90	89	89	88	88	79	83	77	77	80	76
AT	94	99	90	91	102	88						
PL	113	123	107	110	120	105	108	118	101	106	118	100
PT	78	80	76	71	76	69	73	76	70	66	72	63
SI	87	94	82	79	88	78	84	93	77	76	86	73
SK	89	89	89	86	84	83	85	81	92	77	76	86
FI	76	81	72	72	79	69	68	73	64	63	71	59
SE	80	87	75	72	78	70	74	82	68	66	73	63
UK	76	77	73	71	74	71	64	66	61	60	63	58

Source: Eurostat, 2003 EU-SILC data for Ireland and mixed reference years and sources for others

### ***Household types compared to the risk of poverty line***

**2.40** The older population needs to be further disaggregated to show how specific household types sit relative to the risk of poverty line. The income gaps for the different family formations show whether the equivalised incomes for the persons in each household type are above or below the risk of poverty line, and by how much. (The figures used in Table 8 are based on the LIIS equivalence scale of 1/0.66/0.33 for first adult/subsequent adults/dependent children. Based on the modified OECD equivalence scale, the 60% median income line would be set about EUR205.)

**Table 8 – Selected social welfare incomes compared to the 60% median income poverty line**

	1994	1997	2001	% rise 1997- 2001	2003 (EU- SILC)	2003 NPPI rec.*
Risk of poverty line (60%)	83.38	102.44	164.28	97.0%	185.28	185.28
<i>2 person pensioner households</i>						
OACP + QAA aged over 65	154.91	169.38	235.66	52.1%	278.80	314.51
Equivalised income	93.32	102.04	141.96		167.95	189.47
<i>Income gap</i>	<i>9.94</i>	<i>-0.40</i>	<i>-22.32</i>		<i>-17.33</i>	<i>4.19</i>
<i>2 OACP pensioners</i>						
Equivalised income	180.30	198.08	269.18	49.3%	314.60	341.03
<i>Income gap</i>	<i>108.61</i>	<i>119.33</i>	<i>162.16</i>		<i>189.52</i>	<i>205.44</i>
<i>2 non-con pensioners</i>						
Equivalised income	154.91	171.41	242.52	56.6%	288.00	288.00
<i>Income gap</i>	<i>93.32</i>	<i>103.26</i>	<i>146.10</i>		<i>173.49</i>	<i>173.49</i>
<i>1 person pensioner household</i>						
(OACP + Living Alone Allowance)	96.24	106.66	142.21	47.8%	165.00	178.21
Equivalised income	96.24	106.66	142.21		165.00	178.21
<i>Income gap</i>	<i>12.87</i>	<i>4.22</i>	<i>-22.07</i>		<i>-20.28</i>	<i>-7.07</i>

Source : EU SILC and LIIS

\*OACP set at 34% of 2002 GAIE (NPPI recommendation) and Qualified Adult Allowance (QAA) equal to non-contributory pension

**2.41** For the two-person pensioner households, only the household receiving two full contributory pensions was above the risk of poverty line in 2003. Increased female participation makes this the most likely outcome for pensioner couples in the long-term. This household type has benefited most in overall cash terms from the rise in separate individual rates. The NPPI recommendation of raising pensions to 34% of gross average industrial earnings would have moved the household further above the risk of poverty line. The pensioner couple with a qualified adult has fallen below the risk of poverty line, but this trend can be expected to reverse when the commitment in the Programme for Government to increase QAA rates to the level of the non-contributory pension rate is implemented (in tandem with the NPPI recommendation). The means-tested pensioner couple will be at or below the level of the risk of poverty line and it is not clear that existing commitments would change this situation. Single pensioners have fallen below the risk of poverty line over the period; the NPPI recommendation still leaves this group around the level of the risk of poverty line in 2001 and 2003.

### ***Consistent Poverty***

**2.42** Regarding consistent poverty, it should firstly be noted that the statistics emerging from EU-SILC are not comparable with those from the LIIS. For this reason, the following table presents readily comparable consistent poverty data from 1997 and 2001, taken from the LIIS.

**Table 9 – Percentage below 70% of median income and experiencing basic deprivation by Gender and Age, Adults , Living in Ireland Surveys 1997 and 2001**

	1997 %		2001 %	
	Men	Women	Men	Women
<b>All adults</b>	8.3	9.2	3.5	4.9
<b>Aged 18-64</b>	8.6	9.0	3.6	5.1
<b>Aged 65 or more</b>	6.1	10.2	3.1	4.4

Source: *Living in Ireland Survey, ESRI*

**2.43** The years since 1997 have seen a considerable decrease in the proportion of older people experiencing consistent poverty, mirroring reductions seen in the cases of other vulnerable groups. Overall, the percentage of older persons (aged over 65) who are in consistent poverty fell from 8.4% in 1997 to 3.9% in 2001. The reduction in consistent poverty was particularly marked for older women, becoming less at risk of consistent poverty than those in the 18-64 age group, although they still represented a slightly higher risk than older men.

**2.44** Most older people are extremely dependent on social welfare pensions for cash incomes, though, a growing proportion receives a significant amount from occupational pensions. Amongst this group, single people, those older people in rural areas, and particularly single older people in rural areas, are most likely to be found at the lower end of the income range. Recognising that those receiving widow's pensions were at a greatly increased risk, the Government's commitment to increasing the widow's (contributory) pension to bring this into line with the old age (contributory) pension rate was achieved in 2004. In achieving this, the widow's (contributory) pension has increased by almost 100 per cent since 1997.

### ***Social insurance and redistribution***

**2.45** The redistributive impact of the social insurance system is illustrated in Table 10 below. Using certain assumptions<sup>26</sup>, it is clear that those on higher earnings draw down less in retirement from the Fund as a multiple of their contributions than those on lower incomes.

<sup>26</sup> Examples given are for male/female entering insurance in 2004 at age 25 and retiring at 65; for the 'couple' example, the spouse has no separate pension entitlement and it is assumed that the woman outlives the man. Earnings rise by 3% per annum in nominal terms. The discount rate for future benefits and contributions is 3% per annum. Pensions are 34% of the previous year's GAIE, in line with National Pensions Policy Initiative recommendation. Pensions rise in line with earnings growth. QAAs are at the level of the non-contributory pension and also earnings-indexed. Current male and female life expectancy at age 25 is the basis for the projections (76 and 81 years), with a predicted 2 year life expectancy improvement for males and females over the period. The lowest wage level is slightly higher than the minimum wage for a 40-hour week. All social insurance bands, ceilings, etc., are earnings-indexed and rates are as for 2004.

**Table 10: Value for Money Index of social insurance claims in retirement (ratio of lifetime benefits to contributions)**

<b>Value for money index – full rate contributions</b>				
<b>Earnings level</b>	<b>50% GAIE</b>	<b>GAIE</b>	<b>Twice GAIE</b>	<b>3 times GAIE</b>
<b>Single male</b>	3.55	1.41	0.74	0.53
<b>Couple</b>	8.10	3.22	1.69	1.20
<b>Single female</b>	4.82	1.92	1.01	0.71
<b>Value for money index – employee contributions only</b>				
<b>Earnings level</b>	<b>50% GAIE</b>	<b>GAIE</b>	<b>Twice GAIE</b>	<b>3 times GAIE</b>
<b>Single male</b>	17.11	6.32	4.00	4.00
<b>Couple</b>	38.96	14.40	9.12	9.12
<b>Single female</b>	23.21	8.58	5.43	5.43
<b>Value for money index – self-employed contributions</b>				
<b>Earnings level</b>	<b>50% GAIE</b>	<b>GAIE</b>	<b>Twice GAIE</b>	<b>3 times GAIE</b>
<b>Single male</b>	7.51	3.85	1.93	1.28
<b>Couple</b>	17.12	8.77	4.39	2.92
<b>Single female</b>	10.20	5.23	2.61	1.74

*Note: VFM Index of 1 indicates break-even*

*Source : Dept of Social and Family Affairs (2005).*

### **Home ownership**

- 2.46** Levels of home ownership are particularly high in Ireland, especially so among older people. In 2001, 93% of those over 65 owned their own home. Moreover, in 93% of owner-occupied households where the head of household is aged over 65, the property is owned outright.<sup>27</sup> The income of older people and the benefits they derive from assets accumulated through their working lives, particularly their home, is therefore understated to a significant extent when their economic position is assessed purely in terms of disposable income. Those living in local authority housing, while a small proportion of older people, would nevertheless be in receipt of a benefit (vis-à-vis a person paying market levels of rent) that is not captured by the relative income approach alone.

<sup>27</sup> Eurostat, 2001

**Table 11: Housing tenure status of people aged 65+ and 75+**

	75+					65+				
	Owner occupied			rented	Rent-free	Owner occupied			Rented	Rent-free
	Tot	Mortg	No mortg.			Total	Mortg.	No.mortg		
BE	73	1	72	24	3	78	1	76	19	3
CZ										
DK										
DE	45	7	38	49	6	49	7	41	46	5
EE	91			9		93				
EL	89	4	85	5	6	91	4	87	4	4
ES	87	6	81	9	4	89	7	81	8	3
FR	69	3	66	22	9	75	4	71	19	6
<b>IE</b>	<b>88</b>	<b>4</b>	<b>84</b>	<b>10</b>	<b>2</b>	<b>93</b>	<b>7</b>	<b>85</b>	<b>6</b>	<b>1</b>
IT	77	4	74	17	5	81	4	76	16	4
CY										
LV	85			15		85			15	
LT										
LU	83	5	78	13	5	84	5	78	12	4
HU	97			3		97			3	
MT	73	3	70	27		70	1	68	30	
NL	28	9	18	71	2	38	20	19	61	1
AT	53	8	44	30	17	57	9	48	29	14
PL	82			17		82			18	
PT	68	3	65	26	6	69	3	66	25	6
SI	92			8		95			5	
SK										
FI	85	3	82	11	4	86	7	79	11	3
SE										
UK	63	6	57	35	2	70	7	62	29	1

Source: Eurostat, ECHP 2001 for most countries

### **General Trends and Considerations**

- 2.47** As already outlined, Government priorities in recent years have been to significantly increase social welfare payments for pensioners and to reduce the tax burden on employees through commitments in Programmes for Government and successive Partnership agreements.
- 2.48** In addition to this, unprecedented economic growth has led to huge increases in employment, with the unemployment rate held at around 4% for several years. This has led to a rapid and significant increase in household incomes, resulting in social welfare incomes lagging behind – despite payments increasing at a faster rate than both CPI and GAIE. The disparity between social welfare income growth and the rise in average household income explains, in large part, the recorded movements in relative incomes. In this regard, reaching the NPPI recommendation of 34% of GAIE would not, of itself, have made a decisive impact on risk of poverty levels for people on old age (contributory) pensions.
- 2.49** In addition to these issues, there is a need to take account of other considerations in interpreting the relative income position of pensioners in Ireland. Such considerations include the provision of non-cash benefits, the degree of home-ownership and local authority housing subsidies. Also, while relative income measures include income earned on household assets, such as rent, dividends or interest, money drawn down from the sale of an asset or earlier savings is not included as income. Disposal of

assets is considered to be an alternative method of retirement provision, and is included as part of retirement income under the NPPI replacement income target.

- 2.50** Relative income measures are assessed on the basis of disposable income. Thus, any imputed value of non-cash benefits (e.g. free travel, TV licence, electricity and telephone rental) is not included in the calculation of household income in the years covered. Older people over 70 years of age are also entitled, on a universal basis, to free medical and GP services. It is recognised that arriving at values for the free schemes is difficult and can lead to over-estimation. Research suggests, however, that non-cash benefits may have a significant effect on the rates of poverty at the 50% median income line.<sup>28</sup>

### ***Conclusion***

- 2.51** In seeking to ensure adequate replacement incomes for people in retirement, Ireland has undertaken reform of its pension system in recent years. On the social welfare side, pension rates have increased substantially and there has been a significant shift towards eligibility based on social insurance. In addition, periods spent out of work due to unemployment or ill health are covered through credited contributions.
- 2.52** Supplementary pensions have also seen a period of reform, with substantial tax relief used to encourage people to take out pensions and substantial regulatory reform to safeguard entitlements and ensure proper information disclosure. While supplementary pension coverage is increasing, developments such as the introduction of PRSAs are designed to increase coverage further and allow people easier access to more flexible products through which they can prepare for their retirements.
- 2.53** While older people remain at a relatively high risk of poverty, much of this trend can be explained through the uniquely rapid increase in household incomes over the last decade. The level of poverty among older people (as based on the official NAPS consistent poverty measure) is much lower.
- 2.54** Overall, Ireland continues to respond to the rapid social, economic and demographic changes that can impact on the adequacy of pensions both now and in the future. In this regard, providing access to quality pension products, providing adequate social welfare incomes, and increasing coverage generally are key to achieving our objectives.

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<sup>28</sup> National Council on Ageing and Older People, "Income, Deprivation and Well-Being Among Older Irish People", 1999

## Section 3

### FINANCIAL SUSTAINABILITY OF PENSION SYSTEMS

#### *Policy Objectives*

- 3.1 Ireland, along with other EU states, needs to face up to the future difficulties of financing pension systems. Demographic change, prompting a significant decrease in the economic dependency ratio, means Ireland will need to adopt the necessary reforms and policy objectives to ensure that our systems are sustainable. Increasing the size of the labour force (particularly in terms of increasing participation rates for groups currently underrepresented, including older workers), increasing pensions coverage, a sound regulatory environment, reform of the social insurance system and tackling future costs through the National Pensions Reserve Fund are channels through which Ireland is aiming to do this.

#### *Sustainability of Pensions and the Labour Market*

- 3.2 Ageing populations will pose a number of significant economic, budgetary and social challenges in the coming decades for all Member States. When considering questions relating to the financial sustainability of pensions, much of the focus is on questions of cost and funding arrangements. However, an equally important factor to be considered is the ratio of the active population to inactive persons – the so-called economic dependency ratio. In an Irish context, as already indicated, there are currently five persons in the active age groups (aged 20 to 64 years) for every pensioner. This ratio is projected to decline over the period to 2056 when there will be just two active people for every pensioner. In the circumstances, it is clear that focusing on improving the workforce participation of older people, and other groups with low participation rates at present, can make a significant contribution to the sustainability of our pensions system.

#### *Current Labour Market Situation*

- 3.3 The headline data regarding the Irish market as compared to the situation at the time of the last National Strategy Report are as follows (see 3.5 for comment):

*Table 12: Headline labour market figures, 2001 and 2005*

	<b>Quarter 1, 2005</b>	<b>Quarter 4, 2001</b>
<b>Labour force</b>	1,990,500 (8.7% increase)	1,831,600
<b>In employment</b>	1,908,300 (8.4% increase)	1,759,900
<b>Employment rate</b>	66.8%	65.6%
<b>Unemployed</b>	82,100	71,800
<b>Unemployment rate</b>	4.1%	3.9%
<b>Long-term unemployed</b>	27,800	21,400
<b>LTU rate</b>	1.4%	1.2%

*Source: Quarterly National Household Survey, CSO*

### ***Potential Labour Supply – unused employment potential***

- 3.4 When considering unused employment potential, one would initially look at the number of unemployed persons in the country. In Quarter 1, 2005, there were 82,100 unemployed persons in the labour force. To be defined as unemployed, and as such part of the labour force, a person must fulfil the criteria of being available for work and engaged in an active job search. Degree of attachment to the labour force is not uniform, some being closer than others in terms of active job searches and availability for work. The table below illustrates an estimated aggregate of potential labour supply, including those unemployed (ILO definition) as well as those inactive persons who could be considered closer to the labour force than the nominal stock of the inactive population. These estimates take no account of possible emerging trends regarding immigration which looks set to become a permanent feature of labour supply in Ireland.

**Table 13: Unused Employment Potential, Quarter 1, 2005**

<b>ILO Economic Status</b>	<b>Total</b>
<b><i>In labour force</i></b>	
Unemployed:	82,100
<b><i>Outside labour force - inactive</i></b>	
Marginally attached to the labour force:	12,100
Discouraged workers	9,300
Passive jobseekers	2,800
Persons not in education, who want work	56,500
Persons in education, who want work	29,400
Estimate of domestic potential	192,200

Source: *Quarterly National Household Survey, CSO*

### ***Targets***

- 3.5 In terms of targets at national level regarding employment and unemployment, the Government's economic policy, as expressed in successive Employment Action Plans, has been to promote full employment and economic and social inclusion through the elimination of long-term unemployment. Unemployment currently stands at 4.1%, which is slightly higher than the level at the time of the last National Strategy Report, but it is currently on a downward trend. Long-term unemployment is currently 1.4%, a level around which it has remained for the last five years. (These figures should be set in context of increases of over 8% in both the labour force and employment over the three-year period since the last National Strategy Report.) The Government's unemployment target has thus been met (in the sense that a rate of about 2.8% represents frictional unemployment in an economy experiencing de facto full employment) and in terms of long-term unemployment targets close to being met. Complementary to this long-term unemployment target is a National Anti-Poverty Strategy target of eliminating long-term unemployment as soon as circumstances permit.

### ***Demographic Challenge***

- 3.6 The demographic challenge facing mainland Europe is not as pronounced in Ireland with the share of the population in the working age groups being high and set to

continue to increase for some time. Compared to the current level of 5:1, however, the ratio of people of working age to every pensioner aged 65 and over is projected to fall to 2:1 by 2056. This ratio will still be higher than that expected to be experienced by other European countries at that time.

**Table 14: Current Population by Age Group in Ireland**

Age	Total (000s)	% of Total
0-14	843.2	20.9
15-24	639.5	15.8
25-34	650.2	16.1
35-44	583.6	14.4
45-54	495.8	12.3
55-64	380.6	9.4
65+	450.8	11.1
Total	4043.7	100

Source: CSO (Apr 2004): *Population and Migration Estimate*

### **Old-Age Dependency Ratio**

- 3.7 A recent study carried out by SEOR, Erasmus University Rotterdam, confirms that Ireland's old-age dependency ratio will decrease from a rate of 5:1 in 2000 to 2:1 in 2050. It would be expected that considerably higher tax rates would be required to pay for the increasing age-related expenses. This might result in a reduction in the incentives to work and could therefore reduce the participation rate and the number of hours worked. A second implication of higher dependency rates is that a larger share of the labour force would need to be employed in health care and related activities. This could have a negative effect on macroeconomic development if it occurred at the expense of high-productivity activities.

**Table 15: Population Projections for the Active Age Categories, 2006-2036<sup>29</sup>**

Year	15-54	55-64	15-64	Older People as a % of those in the active age population
000s				
2004	2369.1	380.6	2749.7	16.4%
2006	2424.5	409.5	2834.0	16.4%
2011	2543.9	468.9	3012.8	17.6%
2016	2660.7	516.1	3176.8	19.8%
2021	2743.2	570.9	3314.1	22.3%
2026	2832.8	625.0	3457.8	25.0%
2031	2874.9	691.9	3566.8	28.1%
2036	2862.5	780.2	3642.7	31.4%

Source: CSO (Dec 2004): *Population and Labour Force Projections 2006-2036* and CSO (Apr 2004) *Population and Migration Estimate*

### **Employment Rates**

- 3.8 Ireland has experienced a significant rise in the employment of older workers aged 55-64 in the past ten years, with employment rates for this group rising by 10%. This rise was driven by an increase in the movement of non-employed people into jobs rather

<sup>29</sup> Assumptions are based on the M1F1 scenario. M1 assumes that net immigration falls from 30,000 per annum in 2003 to 20,000 per annum from 2016-2026 and to 15,000 from 2026. F1 assumes that fertility increases from 1.98 in 2003 to 2.0 by 2011 and stays at that level. Both assumptions are the highest used by the Central Statistics Office.

than by a delay in retirement. The increase was mainly due to women entering jobs from home duties but men entering from unemployment also made a significant contribution. Participation rates for older women increased by 8% between 2000 and 2004. The current employment rate for older workers (55-64) is 49.6%, compared to an EU(15) average of 39%.

*Table 16: Employment Rates (%) (ILO) for persons aged 15-64, classified by sex and age group*

	Age Group							Total
	15-19	20-24	25-34	35-44	45-54	55-59	60-64	15-64
<b>Males</b>								
Sep-Nov 2002	27.1	71.0	87.8	89.2	84.3	72.9	54.8	75.1
Dec-Feb 2005	24.9	71.0	88.0	90.0	85.7	72.4	56.4	76.0
<b>Females</b>								
Sep-Nov 2002	21.7	63.3	71.8	63.5	55.4	38.5	22.7	54.9
Dec-Feb 2005	20.3	64.5	74.2	64.2	60.9	43.8	25.6	57.5
<b>All Persons</b>								
Sep-Nov 2002	24.5	67.1	79.8	76.3	69.9	55.9	38.8	65.1
Dec-Feb 2005	22.7	67.8	81.2	77.1	73.3	58.2	41.0	66.8

Source: CSO, *Quarterly National Household Survey, Quarter 1 2005, (June 2005)*

- 3.9** Employment targets have been set under the Lisbon Agenda for 2010 with an overall employment rate of 70%, a female employment rate of 60% and an older workers' employment rate of 50%. The current rates for Ireland are 66.8%, 57.5% and 49.6% respectively. The European Commission expects Ireland to reach the 60% employment rate target for females and the 50% employment rate target for older people by 2010 and considers the possibility of reaching the 70% target as 'possible'.<sup>30</sup> Despite the high participation rates for older people, Ireland is committed to improving active ageing policies.
- 3.10** FÁS, Ireland's national training and employment authority, is participating in an OECD examination of the situation in Ireland and this should provide further analysis and proposals for policy development.
- 3.11** A National Economic and Social Forum (NESF) Report<sup>31</sup> on older workers noted that "... *there are very few options to encourage people back to work or to remain in work longer, using pensions as a policy option, apart from raising the low maximum age limits for retirement that apply to certain groups of workers in the public sector.*" The report concluded that early interventions such as retraining are the most cost-effective methods to prolong labour market participation.

#### ***Increasing the quality of the workforce***

- 3.12** Apart from increasing the numbers at work, increasing the quality of the workforce is crucial if the Irish economy is to achieve its full potential. In general, the emphasis of past labour market policy has been towards those outside the workforce, with less attention paid to those at work. In the light of future demographics and the decline in the traditional sectors, greater emphasis is now being put on increasing (i) the skill levels of low-skilled employees and (ii) in-company training. Investment in training by employers and the development of programmes to facilitate both the unemployed

<sup>30</sup> FÁS (2004), "Irish Labour Market Review 2004"

<sup>31</sup> NESF (2003), "Labour Market Issues for Older Workers", Report no.26

and employees adapt their skills through further training and re-skilling is critical to future employment growth.

**3.13** There are a wide variety of programmes/initiatives which aim to increase the number of persons in the labour force and avoid skills and labour shortages, including:

- The Competency Development Programmes (CDP) provides financial support for the training of employed persons and seeks to empower and equip individuals employed in the most vulnerable sectors of the economy with the knowledge and skills necessary to operate in a rapidly changing and increasingly competitive economic environment. Currently, CDP training programmes are being targeted at low-skilled, low qualifications operatives, with pilot initiatives introduced in a number of sectors in all FÁS regions.
- In addition, FÁS is proposing a series of initiatives, which respond to the One Step Up initiative, as well as particular concerns dealing with literacy and numeracy in the workforce. The One Step Up initiative, while it seeks to engage with the workforce as a whole, will pay particular attention to the people with low levels of qualification and in low-level occupations, which are least likely to receive sufficient access to learning opportunities.
- Skillnets Ltd is an independent company which operates the Training Networks Programme. This Programme is targeted at people in employment and funding is available to all business sectors, irrespective of company size. Skillnets helps businesses to identify what training is needed, as well as how, where and when it should be delivered.
- FÁS e-College provides supported e-learning services with 70 courses currently available. It continues to develop the provision of e-learning opportunities, putting particular emphasis on building partnerships with local access points. It seeks to enhance access to training for low-skilled unqualified employees in various sectors.
- In co-operation with the industrial development agencies and local organisations, FÁS has developed a process of engagement with redundant workers. Information sessions in conjunction with skills audits and subsequent training provision form the backbone of interventions.
- The three-year cap was removed for Community Employment (CE) participants aged over 55 years. This category of participants may now participate on CE for a maximum of six years.

**3.14** The National Centre for Partnership and Performance was established in 2001 to support and drive change in the Irish workplace. The Centre's remit is to enable organisations in the private and public sectors, through partnership, to respond to change, to build capability and to improve performance. The Centre recently launched its Report of the Forum on the Workplace of the Future. The Report outlines a national strategy with a comprehensive list of recommendations on areas that have a direct impact on organisations and on the lives of workers, including the development of work/life balance arrangements, training and lifelong learning,

childcare provision and choice, equal opportunities, and improved information and consultation. A High-Level Implementation Group will oversee the implementation of the National Workplace Strategy which aims to translate the Forum's vision of the Workplace of the Future into reality.

### ***Older Workers***

**3.15** As outlined in our National Employment Action Plan, Ireland is committed to a policy of active ageing which will address the following in the medium- to long-term:

- Changing the attitude of employers
- Up-skilling and re-skilling
- Flexible working arrangements
- Social security and tax provisions

**3.16** The Government intends to review how older people can extend their working lives without being financially or socially penalised and will seek to remove financial disincentives and the requirement on those aged 65 to retire in order to qualify for pensions.

**3.17** The Retirement Planning Council of Ireland, a voluntary organisation, will undertake a major research project with University College Cork in 2005 which will investigate the quality of life, social support, and the mental and physical health of a national sample of pre- and post-retirement employees.

### ***Early Retirement***

**3.18** None of the reviews of the pensions arrangements in Ireland to date have recommended an increase in pension age but rather that the issue should be considered regularly in the future, taking account of demographic and complex social and economic factors. It is recognised that we may need to look at innovative ways of encouraging and allowing people to work past official retirement dates and limits if they so wish. Indeed, given the projected significant improvements in life expectancy, many employers may see a later retirement age as a necessary step in order to provide current pension levels at an affordable cost.

**3.19** Research<sup>32</sup> has shown that early retirement is common in Ireland. A sample of people who had already retired found that two thirds had left employment before age 65. The most common reason, which accounted for one-third of early retirements, was illness or disability. Access to a voluntary redundancy package or pensions, which made early retirement affordable, accounted for the second highest proportion (27%) of early retirements. The research also found a preference for early retirement among those still at work, with 37% indicating that they would like to retire as soon as possible.

**3.20** In its Benefits Study, published in 2002, the Irish Association of Pension Funds found that in 47% of the pensions funds surveyed, it was estimated that less than 25% of those retiring voluntarily did so at their normal retirement age. It is considered that the social welfare system should not facilitate this process by giving entitlement to

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<sup>32</sup> National Council on Ageing and Older People (2001), "Older people's preferences for employment and retirement in Ireland"

pensions before age 65. In 2004, the Government decided to implement further recommendations of the Commission on Public Service Pensions<sup>33</sup>. The Public Service Superannuation (Miscellaneous Provisions) Act, 2004, increased the minimum pension age from 60 to 65 and removed the compulsory retirement age for most new entrants to the public service. In addition, the Government announced the introduction of changes affecting integration between social insurance and public service pensions to boost the aggregate retirement income of lower-paid public servants.

- 3.21** The above findings in relation to early retirement need to be situated, however, in the context that Ireland has one of the higher effective retirement ages in the OECD and, indeed, in the EU. In this regard, an increase in workforce participation of older people is one of the more important measures identified at EU level as a means of ensuring the sustainability of pensions systems in the future. One of the main factors contributing to the projected problems for Pay-As-You-Go pensions systems is a reduction in the available workforce in the years ahead. Accordingly, it is important to maximise the workforce participation of all sectors, including older people.
- 3.22** The EU has set a target of 50% for workforce participation by those aged 55 to 64 and is also seeking an increase in the effective retirement age. Ireland is close to achieving the participation targets and, when compared to other Member States, has a higher than average effective retirement age.
- 3.23** While there are no plans to increase the statutory pension age, Ireland would, like other countries, consider:
- tightening the conditions for early retirement;
  - increasing the contributions required for full pensions;
  - providing for flexibility in the retirement age;
  - creating incentives for workers who want to remain in the labour market after age 65; and
  - facilitating a gradual move into retirement through changed working arrangements.

***Public spending on pensions - Current Situation***

- 3.24** The two main areas of public spending on pensions are social welfare pension spending (which includes both social insurance pensions and means-assessed social assistance pensions for people without the necessary social insurance record) and public service occupational pensions.
- 3.25** Expenditure on occupational public service pensions relates to the payment of pensions, lump sums and spouses' pensions to members of the various public service occupational pension schemes. In 2004, the total cost of occupational pensions in the public service was €1.7 billion which was equivalent to 1.4% of GNP. This cost was financed by general taxation.
- 3.26** In 2003, expenditure on social welfare old age pensions (Old Age Contributory and Non-Contributory and Retirement Pension which are payable from age 66 and 65

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<sup>33</sup> Commission on Public Service Pensions (2000), Final Report

respectively) amounted to €2.4 billion. Expenditure on Widow/er's Contributory and Non-Contributory Pensions amounted to an additional €943million<sup>34</sup>.

- 3.27** As stated earlier, for the full year of 2000/01, the Revenue Commissioners estimated the gross cost of tax relief for private pension funding at €2.6 billion. This cost covers tax relief on contributions by employers, employees and self-employed and the exemption from income and gains in the pension fund.
- 3.28** A full review of certain tax reliefs and exemptions is being undertaken with a view to introducing measures that balance the benefit and value of such reliefs and the extent to which such incentives and exemptions are used by high earners to reduce their tax bill. The review will also examine tax reliefs on pensions.

### **Future Prospects and Policy Challenges**

- 3.29** The Ageing Working Group (AWG) of the EPC is currently preparing a budgetary projection exercise on the long-term implications of pension and other ageing-related items. However, it is not expected that this work will be completed in advance of this report. Pending the completion of this work, the long-term pensions-related expenditure projections that were set out in the First National Strategy Report remain the most recent long-term projections for Ireland though as already indicated these may well understate the current position.
- 3.30** The baseline projections for Ireland showed that pension spending as a percentage of GNP would rise from 4.6% in 2000 to 9% in 2050. However, as already indicated it is expected that forthcoming projections will indicate a significant increase in this expenditure. For this baseline projection, an ambitious participation rate of 80% was assumed,

### **Strategies for tackling the financing gaps**

#### ***Social Insurance Fund***

- 3.31** An actuarial review of the Social Insurance Fund was carried out as at 31 December 2000. This review is important in the consideration of the cost and financing the cost of pensions in the medium- to long-term for the following reasons:
- It encompasses the cost of social insurance pensions which is presently the dominant component of social welfare expenditure on pensions, and, as social insurance coverage is now very comprehensive, will become even more so;
  - The actuarial review not only considered the expenditure implications of pensions but also made projections for social insurance contribution income (indeed, the main purpose of the review was to consider the adequacy of the rates of contribution to the Fund into the future).
- 3.32** However, it is also important to note the following in the context of this actuarial review. Firstly, it does not encompass the cost of the means-tested social assistance old age pension (which, as stated above, is expected to decline in importance in the

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<sup>34</sup> This includes expenditure on widow/ers who are under 65 years of age. This group comprises 40% of those in receipt of widow/ers pensions.

overall social welfare pension system) or the cost of public service occupational pensions, both of which are financed from general taxation. Secondly, the Social Insurance Fund also meets the cost of non-old-age-related contingencies (such as unemployment, invalidity, sickness, survivors and maternity).

- 3.33** The main conclusion to emerge from the review is that, if benefit rates are indexed to prices out to 2056, the pay-as-you-go contribution rates required to balance income and expenditure would not need to be significantly adjusted from their present levels. However, if benefits are to be indexed to earnings, it is projected that contributions will, by 2056, have to rise by almost 140% if income and expenditure is to be maintained in balance. In the earnings up-rating scenario, however, the Fund's surplus would be exhausted by 2015. However, the scenarios did not factor in the effects of any Exchequer subvention nor the reduction in costs associated with the part pre-funding of pensions through the National Pensions Reserve Fund.
- 3.34** The Review was based on life expectancies at birth of 78 years for men and 84 years for women in 2031, compared with 73 years and 79 years respectively in 1996. However, there was a noticeable increase in life expectancy of about 2 years for males and 1.7 years for females between 1996 and 2002. The assumptions underlying the most recent CSO population projections based on these data would have resulted in male/female life expectancies at birth of 82.5 years and 87 years in 2036. Life expectancy at age 65 also improved significantly between the two Censuses (by 1.7 years for males and 1.3 years for females, to 15.4 and 18.7 years in 2001-2003 respectively). These mortality improvements will lead to a significant increase in pensions expenditure.
- 3.35** The next actuarial review of the Social Insurance Fund will be carried out in 2007 and it will be necessary in that context to take account of the most recent demographic and economic data and projections. In addition, it should be noted that, since 2000, social welfare benefit rates have, on average, increased at a higher rate than the increase in average earnings and well ahead of the increase in prices. An actuarial review of total state pensions expenditure is being undertaken as part of the current pensions review, being undertaken by the Pensions Board.

#### ***National Pensions Reserve Fund***

- 3.36** A key component of Ireland's strategy to tackle the future cost of pensions is the National Pensions Reserve Fund. The Fund was established under the National Pensions Reserve Fund Act, 2000, with the objective to meet as much of the cost as possible of social welfare and public service pensions from 2025 onwards. The legislation commits the Government to invest the equivalent of 1% of GNP each year in the Fund. The Fund is intended to reduce and smooth the Exchequer burden arising from Ireland's additional pension commitments over the long-term. The Fund is controlled, managed and invested by a seven-person Commission which is independent of Government in the exercise of its functions. The Commission is required to operate the Fund on a commercial basis so as to secure the best possible financial return subject to prudent risk management.
- 3.37** The total market value of the Fund at end-2004 (comprising accumulated annual capital investment and returns) was € 11.689 billion. This was equivalent to 9.6% of GNP. The 2005 contribution, representing 1% of GNP, will be €1.32billion.

**3.38** The overall return to date on the Fund is equivalent to 8.9% and in 2004, it was 9.3%. The end-2004 Fund holding by asset class was:

<b>Asset</b>	<b>€ million</b>	<b>% of Fund</b>
Large Cap Equities	8,662	74.1
Small Cap Equities	231	2.0
Bonds	1,485	12.7
Property	12	0.1
Cash	1,299	11.1
<b>Total</b>	<b>11,689</b>	<b>100.0</b>

*Source: National Treasury Management Agency*

### ***Financing Social Welfare Pensions – Projections for the Social Insurance Fund***

**3.39** State pension schemes are financed from two sources, general taxation and the Social Insurance Fund. In general, the Social Insurance Fund has been financed on a pay-as-you-go basis, though in recent years, contribution income has exceeded expenditure, giving rise to accumulated short-term surpluses.

**3.40** The 1998 Social Welfare Act requires regular actuarial reviews of the financial condition of the Social Insurance Fund. The first such review was published in 2002 and dealt with the position as at 31 December 2000, covering the period 2001 to 2056. The main purpose of the review was to consider the adequacy of the current rates of contribution to the Fund, both now and in the future.

**3.41** The review considered illustrative scenarios for how benefit rates and earnings limits might increase in the future, for example:

- Price up-rating, i.e. benefit rates and earnings limits are increased in line with prices;
- Earnings up-rating, i.e. benefit rates and earnings limits are increased in line with earnings.

**3.42** The following table shows, for each scenario, the pay-as-you-go contribution rates required to balance income and expenditure (ignoring the existing assets), expressed as a percentage of the 2000 rates of contribution. The table also shows the period after which the Fund's existing assets would be exhausted if those contribution rates were continued.

*Table 17: Projected Contribution rates as percentages of 2000 contributions*

<b>Year</b>	<b>Price up-rating</b>	<b>Earnings up-rating</b>
<b>2001</b>	86.3	86.3
<b>2011</b>	78.4	102.8
<b>2021</b>	80.2	129.3
<b>2031</b>	82.9	159.3
<b>2041</b>	85.6	194.5
<b>2056</b>	82.4	239.9
<b>Period after which the existing assets are exhausted</b>	After 2056	2015

*Source: Actuarial Review of the Financial Condition of the Social Insurance Fund as at 31<sup>st</sup> December 2000, Government Actuary's Department, UK (2002)*

- 3.43** It is therefore clear that, under the earnings up-rating scenario, the contribution rates would need to increase significantly if they are to be sufficient to provide the benefits. Although the position is more favourable with price up-rating of benefits, it should be appreciated that, under such an approach, benefits would fall significantly as a percentage of average earnings (reflecting the assumption that earnings are expected to grow more quickly than prices).

***Adequate Pensions and the Future Burden on the Active Population***

- 3.44** As already outlined, Ireland does not have a formal system of indexing pensions. Payments are set having regard to periodic targets set in Programmes for Government and/or agreements with the social partners which aim to strike a balance between the provision of an adequate income for pensioners and the need to ensure that the working population is not overburdened by employment/income taxes. The National Pensions Reserve Fund (which includes provision for public service as well as social welfare pensions) is specifically designed to facilitate an equitable balance between the active and the retired and to ensure the financial sustainability of the pension system. It recognises that the current “pay as you go” pension system is not necessarily sustainable in the long-term due to demographic change. If nothing is done to anticipate that development now, the consequence would be either that taxes would have to rise dramatically when that time arrives or else the value of pension in real terms would need to be reduced.
- 3.45** The Fund moves from complete reliance on pay-as-you-go and introduces part-funding of our future state pension liabilities. It will ease the impact of this burden on future taxpayers and increase future Governments’ capacity to respond to the other needs which will arise. It does this by distributing the pensions burden across the generations so that some of it falls on the current active generation rather than expecting future generations to meet all of the escalating costs of pensions for the current active generation upon retirement. It will be a matter for future Governments to determine the balance between pensions and taxation having regard to the resources which have accumulated in the National Pensions Reserve Fund.

## **Regulatory Framework and Management of Pension Schemes**

### ***Measures to ensure schemes are managed in a safe and sustainable way***

- 3.46** Since the implementation of the Pensions Act, 1990, all “private” occupational pension schemes approved by the Revenue Commissioners must be funded. In this context, “private” includes occupational pension schemes for the private sector and some occupational pension schemes for commercial State bodies. Other occupational pension schemes for the public sector, including the Civil Service and non-commercial state bodies, are operated on a pay-as-you-go basis. Retirement Annuity Contracts, which provide personal pensions, must be established with a life assurance company and supported by an underlying insurance policy. The newer PRSAs must also be supported by underlying funds. The first pillar social welfare pension arrangement operates on a pay-as-you-go basis but the National Pensions Reserve Fund, as already explained, was established for the purpose of partially pre-funding the cost of social welfare old age pensions and public sector pensions.
- 3.47** In Ireland, occupational pension schemes are almost invariably established under Trust. The trustee’s legal obligations in respect of the sound management of the scheme are established in the jurisprudence of the national superior courts and codified in legislation such as the Trustee Act, 1893, as reinforced by the Pensions Act, 1990. The legal duty, which the trustee owes to the members and/or beneficiaries of an occupational pension scheme, may be summarised as a duty to act in the best interests of the members/beneficiaries. Where a trustee breaches the fiduciary duty owed to members/beneficiaries, recourse may be had by aggrieved parties to the national courts to enforce all the duties and obligations owed by the trustee.
- 3.48** Central to sound management of Irish occupational pension schemes is the legal requirement that the assets of schemes are held in trust for the members and beneficiaries. Irish law requires that the scheme assets are kept separate from the employer’s business. The law also requires that scheme assets cannot be used for any purposes other than those set out in the trust documents, which generally consist of the formal trust deed and rules governing the scheme.
- 3.49** Irish pension funds are supervised having regard to qualitative investment criteria in accordance with the “prudent person” principle where the trustees, subject to prescriptive legal requirement, have primary responsibility for the sound administration of the scheme which may culminate in personal liability of the trustees where they breach their duty of care.
- 3.50** The supervisory framework, which specifies the legislative requirements to guarantee the key objectives of security, portability and accountability for occupational schemes was established in Ireland under the Pensions Act, 1990. The Act, as amended, provides a regulatory framework for defined benefit and defined contribution schemes and more recently PRSAs. For the purpose of regulatory supervision, a statutory body, the Pensions Board, was established which comprises representatives of the social partners, trustees, pensioners, consumers, the pensions industry and Government.

### ***Pensions Board***

- 3.51** The primary function of the Pensions Board is to monitor and promote the security and protection of members of occupational pension schemes and contributors to PRSAs and, where necessary, to enforce compliance through the Courts. As part of this function, it issues guidelines and booklets on the duties of trustees and employers and codes of practice on specific aspects of their responsibilities. The Board also encourages and monitors the provision of appropriate training for trustees. In addition, the Board has a statutory function to advise the Minister for Social and Family Affairs on all operational and policy matters relating to pensions.

### ***Pre-funding of social welfare and public service pensions***

- 3.52** As already stated, the National Pensions Reserve Fund is the main instrument for the partial pre-funding of social welfare and public service pensions. In relation to the private occupational pension schemes, pre-funding has been the accepted method of funding for such arrangements over a long period. Since implementation of the Pensions Act, 1990, it is a requirement for Revenue-approved pension arrangements.
- 3.53** In this context, Ireland has had freedom of investment (i.e., while there are no investment rules, trustees operate on the ‘prudent person’ rule) and a growing proportion of pension fund assets have been invested outside of Ireland. The funds have also been seen as a substantial contributor to Irish capital markets and to the development of Irish industry. The sound investment of Irish pension funds, in accordance with the “prudent person” principle, has resulted in good returns and security for pension scheme members over the long term. In this context, Ireland has not seen the same level of shift from Defined Benefit to Defined Contribution pension provision as has been seen elsewhere. Overall, Ireland believes it is essential for future liabilities to be backed with real assets that are set aside as the pension entitlements accrue. As already outlined, in order to encourage continued provision of DB arrangements and safeguard members’ accrued benefits, a review of the Funding Standard was conducted by the Pensions Board in 2004. The Board’s recommendation was to continue the current Funding Standard, including the current provision for an extended funding period in some circumstances, together with a modification of the calculation of the Standard for active and deferred members.

### ***Administrative Costs***

- 3.54** The cost of administering all Social Welfare contributory old age pensions represents approximately 1.5%-2% of the total cost of these payments. The administrative costs of occupational schemes vary greatly depending on the type, structure and size of a scheme/arrangement and the level of contributions being made. Data in this area are not readily available. The ESRI estimated the administrative costs of funded occupational schemes to be around 5% of contributions in 1994<sup>35</sup>. However, it is considered (albeit from anecdotal evidence) that there is significant variation around this estimate.
- 3.55** The framework for PRSAs imposes a cap on charges at 5% of contributions and 1% of assets per annum in respect of Standard PRSAs. Some PRSA providers set their

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<sup>35</sup> ESRI (1996), “Occupational and Personal Pension Coverage 1995”

fees below the legal cap and it is hoped that competition will lead, in time, to lower charges both for PRSAs and other forms of pension provision.

***Conclusion***

- 3.55** Ireland is facing the same challenges of financial sustainability to its pension system that is being experienced in other Member States. While the demographic challenge is not yet as pronounced in Ireland, the old age dependency ratio will increase significantly in the years to come. In facing up to this challenge, Ireland is concentrating on maintaining low unemployment levels, increasing employment rates and increasing the quality of the workforce.
- 3.56** In tackling financing gaps, the National Pensions Reserve Fund will play a significant role in part pre-funding social welfare and public service pensions.
- 3.57** Furthermore, regulatory protection is an effective tool for ensuring that pension schemes are managed in a safe and sustainable way.

## Section 4

### MODERNISATION OF PENSION SYSTEMS

#### *Social Welfare System*

- 4.1** As already outlined the Irish social welfare pension system is based on a pay-as-you go arrangement with a social insurance system and a non-contributory pension available to those who do not qualify for the contributory payment and who satisfy a means test. Approximately 88% of the population aged over 65 are in receipt of some form of social welfare support either in their own right or as a qualified adult on their spouse/partner's pension. It is anticipated that the role of contributory payments will increase in the future.
- 4.2** The current system is intended to act as an income support system to cover insured workers for a variety of contingencies, such as retirement. In addition, the system has a role in relation to the avoidance of poverty. As discussed in Section 2, the Government is committed to providing an adequate income for all retired people.
- 4.3** The qualifying conditions for the old age (contributory) pension have also been eased considerably in recent years. Qualification for contributory pensions is, amongst other things, based on the average number of contributions which a person accumulates each year from the time they first enter insurance until they reach the qualifying age. An average of 48 contributions is required for a full rate pension. Until 1997, the minimum yearly average required for a basic payment was 20 contributions but this was reduced to 10. These measures are designed to benefit those with social insurance records that are less than complete due to the non-comprehensive nature of the social insurance system in the past.
- 4.4** The existing social welfare structure could be considered restrictive in a number of ways as:
- There is a requirement for people to retire and give up employment in order to claim pension at the normal retirement age of 65 years (see 4.5 below);
  - There is no facility available for people who have reached 66 years of age with a less than complete insurance record to improve on their record through further employment and qualify for a better pension; and
  - There is no provision within the system to allow for someone who wishes to retire earlier than the statutory age. However, it is considered that developments in this area would not be appropriate given the overall objectives to increase workforce participation amongst older people.
- 4.5** While there are no plans to increase the normal retirement age beyond 65, it is nevertheless important that we encourage and facilitate those who wish to extend their working lives. With regard to the social welfare system, the Government is already committed to removing the retirement condition associated with the retirement pension. The retirement pension was introduced in 1970 and was intended to bridge the gap between retirement at 65 and the pension age for social welfare purposes, which at the time was 70 years of age. The qualifying age for old age pension was subsequently reduced over time to 66 years of age.

4.6 The Department of Social and Family Affairs is also considering a number of measures in the context of an overall review of the qualifying conditions for old age (contributory) and retirement pensions. These include allowing people to defer receiving their pension and to receive an actuarially enhanced payment when they decide to claim.

#### ***Personal Retirement Savings Accounts (PRSAs)***

4.7 Personal Retirement Savings Accounts (PRSAs) were introduced by the Pensions (Amendment) Act 2002. A PRSA is an investment vehicle used for long-term retirement provision by employees, self-employed, homemakers, carers, unemployed and any other category of person. A PRSA is a contract between an individual and an authorised PRSA provider in the form of an investment account and the PRSA benefits will be determined by the contributions paid by and on behalf of the contributor and the investment return on those contributions.

4.8 All employers are required to enter a contract with a PRSA provider so that access to at least one Standard PRSA is available for all employees without access to an occupational scheme. The Pensions Board monitors employer compliance in this area. The requirements to provide PRSA access came into force in September 2003. To date<sup>36</sup>, over 51,000 PRSAs have been taken out with a total asset value of €224 million. The objective of policy in this area is to increase overall pensions coverage through any of the various vehicles available. PRSAs are intended to make it easier for people without access to standard occupational schemes to start a pension. It is a more flexible and accessible pensions vehicle intended to cater for a more flexible and mobile workforce.

4.9 Regarding professional and geographical mobility, PRSAs, as outlined above, are designed with flexibility and mobility in mind and are not linked solely to any particular employer. Employees can continue to pay into the same PRSA account when they move to another employer or terminate employment.

#### ***Protection of entitlements***

4.10 Part III of the Pensions Act is designed to reflect a now widespread recognition that the pension entitlements built up by employees should be as fully protected as possible if they change jobs. Subject to certain conditions, the Pensions Act, 1990, ensured that the entitlements earned by members in respect of service in their pension scheme after 1 January 1991 can be:

- preserved in the scheme they are now leaving; or
- transferred to their new employer's scheme; or
- transferred to a policy or contract with an insurance company.

4.11 The Pensions (Amendment) Act, 2002, for those who leave employment after June 2002, extended the application of preservation of benefits earned in respect of service in a pension scheme prior to 1 January 1991. It also reduces the period of scheme membership needed to qualify for a preserved benefit from 5 to 2 years. All occupational pension schemes, except certain public sector schemes, are required under the Pensions Act to provide for preservation of benefits. Public sector

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<sup>36</sup> Pensions Board, May 2005

schemes are exempt from these requirements subject to the condition that the benefits they provide for early leavers are no less favourable than those required by the Pensions Act.

#### ***Flexibility and Occupational Pensions***

- 4.12** Apart from the flexibility of PRSAs, Ireland's occupational pension scheme system also includes a large degree of flexibility for workers who change jobs or who have atypical work patterns. Workers are protected under the Protection of Employees (Part-Time Work) Act, 2001, which provides that part-time workers shall not be treated less favourably than full-time workers.
- 4.13** Employees who are changing jobs have a number of options depending on their status with their existing employer and the pension arrangements made by their prospective employer. Where the prospective employer has a pension scheme for the employees, they may transfer their fund to that scheme. Alternatively, they may opt to retain deferred pension rights with the existing employer or, subject to certain limitations, transfer their fund to a PRSA or a Buy-Out Bond. Employees who have not completed the statutory two-year vesting period for their pension scheme can receive a refund of the value of their contributions.

#### ***Approved Retirement Funds***

- 4.14** Significant changes to pension arrangements for the self-employed and proprietary directors were made in the Finance Act, 1999. On retirement, 25% of their pension fund may be taken as a tax free lump sum. Options relating to the balance now include:
- purchasing an annuity; and
  - receiving the balance of the fund in cash; or
  - investing in an Approved Retirement Fund (ARF).
- 4.15** An ARF allows individuals control over how the pension fund is utilised during their retirement and also allows individuals to retain ownership of the fund and to pass on any balance remaining after their death.
- 4.16** Where individuals do not have a guaranteed income (pensions, annuities, social welfare pensions) of at least €12,700 per year, they are obliged to invest at least €63,500 of the balance in an Approved Minimum Retirement Fund (AMRF) or an annuity (instead of investing in an ARF or taking the fund in cash). The sum invested in an AMRF cannot be withdrawn until one reaches 75 years.
- 4.17** These measures were extended in the Finance Act, 2000, to the Additional Voluntary Contribution (AVC) element of a person's pension fund. In addition, directors holding 5% or more of the share capital of the company (rather than the previous 20% rule) may now qualify as proprietary directors.
- 4.18** As long as income and gains are held within an ARF/AMRF, it is exempt from tax. However, any payments out of the fund – whether of capital, income or gains – are subject to tax in the same way as a payment of a normal pension.

## Gender Equality and the Gender Impact of Pension Systems

4.19 Problems with using relative income alone as a poverty measure were outlined in Section 2. However, the use of income lines is useful in determining those who are at risk of poverty. The table below shows that, with the exception of children, the risk of poverty for women is generally higher than that for men when including all social transfers. However, this risk becomes more pronounced over retirement age.

*Table 18: At-risk-of-poverty rate (Equivalised total disposable income including all social transfers - 60% threshold) classified by age and gender<sup>37</sup>*

	Age 15-64	Age 65+	Overall
<b>Males</b>	19.6	30.6	22.0
<b>Females</b>	20.6	40.7	23.4
<b>Total</b>	20.1	36.4	22.7

Source: EU-SILC 2003, CSO

4.20 Recent research<sup>38</sup> shows that the average income of women in retirement is lower than that of men. The difference between gender incomes is due to the differences in supplementary provision. Women tend to have lower earnings than men over their working lives and have consequently lower private pension coverage rates. The research showed that income derived from state pension schemes was approximately equal for men and women. The following table, taken from the same report, shows the sources and levels of income for single men and women in retirement.

*Table 19: The Average Incomes of Single Pensioners by Gender, 2000*

Source of Income	% receiving income from this source	Average incomes in € per week	As % of gross income
<b>Single male pensioners</b>			
Benefit Income	91	107	60
Occupational/personal pension	41	44	24
Investment income	23	3	2
Earnings	16	25	14
Other income	0	0	0
Gross income	100	179	100
<b>Single Female Pensioners</b>			
Benefit Income	96	112	73
Occupational/personal pension	18	26	17
Investment income	22	10	7
Earnings	2	4	3
Other income	2	1	0
Gross income	100	154	100

Source: 'Pensioners' Incomes and Replacement Rates', ESRI

4.21 The report (p.32-33) concludes that: "As women perform a disproportionate share of household labour and caring for the family their employment is frequently disrupted. Hence, they are less likely to be included in occupational pension plans which favour long-serving male employees. ... Because of the irregular nature of many women's participation in the labour force women are more likely to be found in the secondary

<sup>37</sup> National equivalence scale (1/0.66/0.33) used.

<sup>38</sup> ESRI (2005), "Pensioners' Income and Replacement Rates in 2000"

sector, more likely to be part-time, and less likely to be employed on incremental salary scales ... Consequently, women are far less likely to benefit from an occupational pension scheme.”

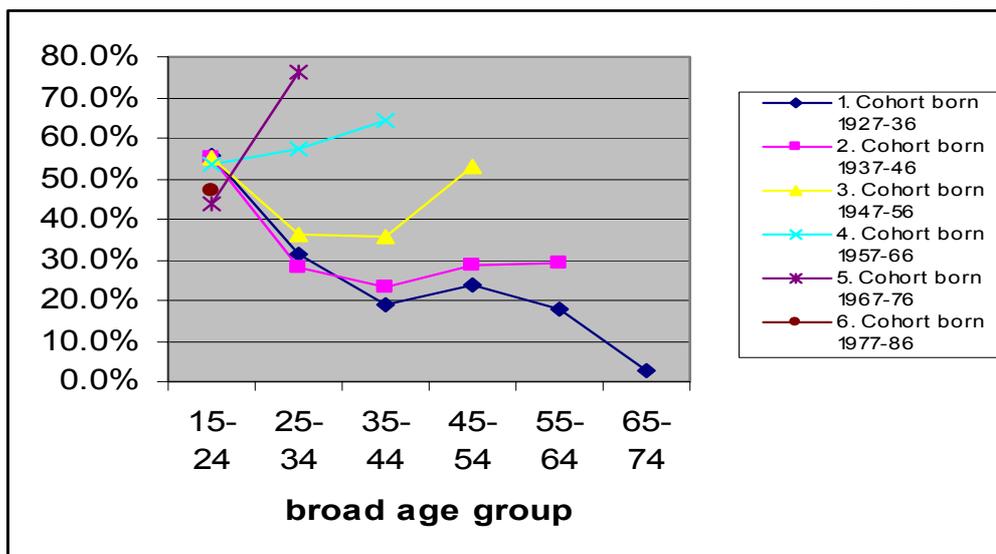
**Women’s labour force participation**

**4.22** The above needs to be set in the context, however, of increasing female participation in the labour market. This is likely to lessen the differential between male and female retirement incomes in the longer term. The female labour force participation rate has increased from 34.4% in 1988 to over 50% in 2004. In addition to this, it should be noted that labour market attachment is not required for PRSAs.

**4.23** Women’s participation has been rising rapidly as younger women with higher participation profiles enter the workforce. The rise in participation rates partly reflects an increase in participation over the life cycle. While the cohorts born from the mid-1920s to 1940 married early and left employment, some did return to work after child-bearing was complete. This tendency to return to work accelerated strongly in the cohort born in the ten years after WW2 so that, by 2001, over half of that cohort (now in middle age) was in the labour force. An early fall in participation of the cohort born from 1957 to 1966 did not occur, partly because of postponement of marriage/family and partly because they did not leave work upon marriage/family with the result that this cohort now aged 35-44 now exceed the participation rate of the previous cohort a that age by 21 percentage points.

**4.24** This trend is even further observed in the cohort born from the mid-1960s to the mid-1970s. it should be noted that the participation rate for the 15-24-year-old age band fell for this cohort and our last cohort (those born between 1977-1986) mainly because of higher participation in education. It is likely that this higher level of education will serve to underpin higher participation rates in this cohort as they become older. We must conclude that dynamic processes could lead to a considerable increase in labour force participation among women, provided that policies support this trend, and ultimately an improvement in female retirement incomes.

Table 20; Female labour force participation of ten-year birth cohort by broad age group



### ***Equal Treatment in State Pensions***

- 4.25** The Irish State pension system is compliant with EU law in the equality area with standard qualifying conditions, including qualifying ages, applying to all schemes. Old age and survivorship pensions are available equally to both men and women who can satisfy the qualifying conditions.
- 4.26** There are approximately 247,000 women of pension age in the State<sup>39</sup> with about 208,000 or 84%, receiving financial support through the social welfare system. Of those receiving financial support, about 88% are receiving payments in their own right and 40% of these are receiving survivor's benefits. The remaining 12% are receiving support as dependants on the pension of their spouse or partner. About 33% of those receiving social insurance based old age pensions (Old Age (Contributory) Pension and Retirement Pension) are women against 58% of those receiving the Old Age (Non-Contributory) Pension. The latter can, to some extent, be explained by the manner in which household income is assessed for old age pension purposes. In the context of the means test, one half of overall household income is attributed to each spouse. This means that in the case of a couple, both receive a means-tested pension (of the same value) in their own right. In contrast, where someone is in receipt of a contributory pension, the spouse is paid by way of a Qualified Adult Allowance.
- 4.27** Increased workforce participation will, in time, ensure that women will qualify for pensions in their own right. The fact that many women do not, at present, qualify for contributory old age pensions in their own right can be attributed, in the main, to social norms which applied in Ireland up until the 1970s. Until then, it was customary for women to retire upon marriage and, in many public sector employments and some large firms and financial institutions, such retirement was compulsory. As a result, a significant number of older women do not have an individual pension entitlement. The so-called "marriage bar" was abolished in 1973. A number of other factors contribute to women's relatively low social welfare pensions coverage. These include the fact that, until 1995, public sector workers were generally not insured for contributory-based pensions and that, until 1994<sup>40</sup>, no allowance was made in the social insurance system for time spent out of the workforce on caring duties.
- 4.28** In the social welfare context, the introduction of pro-rata pensions for cases of mixed insurance and a special pension based on pre-1953 insurance are helping to address the situation in some cases. In 2002, as outlined below, a voluntary facility was introduced to allow those being paid as qualified adults on the pension of their spouse or partner to receive a personal payment. Further development of this facility is being considered.
- 4.29** In recent years, a number of measures have been introduced which will ensure that more people will qualify for insurance-based payments in the future, including:
- Extension of social insurance to self-employed (1988), part-time workers (1991) and public servants (1995);

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<sup>39</sup> Central Statistics Office (2003), Census 2002

<sup>40</sup> The Homemaker's Scheme was introduced in 1994 and allows time spent out of the workforce caring for children or sick relatives to be disregarded when a person's insurance record is being averaged for pensions purposes.

- Introduction of the Homemaker's Scheme (1994) which allows people who leave the workforce to care for children or sick relatives to have up to 20 years disregarded when their contribution record is being averaged for pension purposes.
- The average yearly number of contributions required for a minimum pension was reduced from 20 to 10 in 1997.

**4.30** With regard to female employment participation and the reforms outlined above, it will take some time before these developments feed into increased contributory pension eligibility for women. However, as already indicated, the number of contributory payments as a percentage of overall pension awards has grown significantly in recent years and will comprise up to 86% of all state pension payments by 2016.

**4.31** In addition, changes in the manner in which payments are made in respect of dependent adults and partners have been introduced. Since October 2002, a dependent spouse or partner can directly receive the portion of the pension paid in respect of them. Under the arrangements introduced, the qualified adult allowance rate of pension may be paid directly to a spouse with the personal rate of pension paid to the main beneficiary. The splitting of payments is on a consensual basis and both the applicant and their spouse are required to indicate their consent. The existence of people outside of the social welfare system is an historical element and, in the future, social welfare coverage will be comprehensive.

#### ***Equal Treatment and Occupational Pensions***

**4.32** Equal treatment between men and women in the context of occupational pensions was introduced under Part VII of the Pensions Act 1990. Changes are made when necessary to comply with EU Directives and Court Judgments from time to time. Legislation permits the different treatment of men and women in schemes, based on actuarial factors to enable the achievement of equality of outcomes. The transposition of two Directives – 2000/78/EC and 2000/43/EC – in 2004 expanded the principle of equal treatment (now called the principle of equal pension treatment) to include prohibition of discrimination on the grounds of sex, religion, age, race and disability. In addition, discrimination has been outlawed on the grounds of marital and family status and membership of the traveller community.

#### ***Divorce/Separation and pensions***

**4.33** The Family Law Act, 1995, sets out the treatment of pension in cases of judicial separation, and the Family Law (Divorce) Act, 1996, makes similar provisions in relation to divorce proceedings. The Family Law Acts require pension benefits to be taken into account in arriving at a financial settlement in the case of a judicial separation or divorce. Allowance can be made in one of two ways:

(i) by a Pensions Adjustment Order; or

(ii) by making orders in relation to some other assets, e.g. family home, savings, which the court considers provides a fair distribution of the total assets overall.

- 4.34** A Pensions Adjustment Order “designates” part of the benefits which will be paid from the scheme to a non-member spouse or person representing a dependent child. The part of the pension that is so designated is determined by the court.
- 4.35** With regard to payment of spouses’ pensions on the death of the member, this depends very much on the rules of the particular scheme. For example, the Trustees may be required to pay a pension to the legal spouse of the member on their death, or the Trustees might have discretion to pay the spouse’s pension to someone other than the legal spouse.

***Office of the Pensions Ombudsman***

- 4.36** In September 2003 the Office of the Pensions Ombudsman began operations. The Pensions Ombudsman has the power to investigate and determine complaints made by or on behalf of beneficiaries of occupational pension schemes or PRSAs who allege that they have suffered financial loss as a result of maladministration by those charged with managing these arrangements. He may also investigate any dispute of fact or law brought to his attention that arise from the actions of those administering occupational pension schemes or PRSAs. The Pensions Ombudsman is independent and is able to give such directions as he considers necessary or expedient to resolve a dispute.

***National Pensions Review***

- 4.37** In 2002, when legislation was being enacted to provide the framework for PRSAs, a provision was included that required a review of the overall pensions strategy and related issues to be undertaken in 2006. For various reasons, the Minister for Social and Family Affairs decided to bring this review forward and it is now underway.
- 4.38** The Pensions Board commenced work on this comprehensive review of Ireland’s overall pensions strategy in February 2005. The review is wide-ranging and includes:
- an examination of the appropriateness of the original targets and main strategic recommendations of the National Pensions Policy Initiative;
  - a review of issues relating to supplementary pension provision, structures, coverage, costs and adequacy, including trends to date and future outlook; and
  - an examination of specific areas such as longevity, female coverage, retirement options and post-retirement provision, and governance (insofar as it affects coverage and adequacy).
- 4.39** The review is examining major issues around scheme management, aspects of funding, incentives available to encourage pensions take-up and possible alternatives to present arrangements. It encompasses the overall strategy, the role to be played by various elements of the system in ensuring retired people enjoy an adequate income in retirement and the various targets and benchmarks deployed to monitor the progress being made. The Pensions Board will produce a report on these issues later this year.

## **Information, Consensus and Arrangements for Monitoring Reforms and Policies**

### ***Information***

- 4.40** Information on social welfare pension provision covering eligibility criteria and benefits paid is widely available. For those paying social insurance contributions, the facility exists, from age 60, to obtain an assessment of their overall insurance record and the pension benefits for which they can expect to qualify.
- 4.41** Regarding supplementary pensions, the Pensions Board, in exercising its statutory function, requires a wide range of information on members' rights to be made available to scheme members and other interested parties. In addition, the Board encourages members to use their rights to assist in safeguarding their entitlements. This includes a requirement that annual reports are prepared for schemes and made available to the members and copied to trade unions. Benefit statements must also be provided to members of DC schemes. The new PRSA arrangements require that contributors receive regular updates on the current and projected value of the benefits they can expect from their investments.
- 4.42** The Retirement Planning Council of Ireland promotes the concept of early preparation for retirement to eliminate the problems and remove the fears, anxieties and uncertainties during this period of life after work. It runs retirement planning courses designed to help participants cope with the changes that take place from mid-life to post retirement.

### ***Consensus***

- 4.43** There has been an ongoing debate in Ireland for many years on the direction that pensions policy should take. The National Pensions Policy Initiative was launched in 1996 to facilitate national debate on how to achieve a fully developed national pensions system and to formulate a strategy and make recommendations for actions needed to achieve this system. The Initiative was progressed in two stages, the first of which involved the publication of a consultation document in 1997 to provoke discussion by setting out background information and listing the main issues and possible ways forward. There was a very wide response to the initiative and a National Pensions Conference was held to discuss the various submissions received. This process culminated in the Pensions Board's publication in 1998 of the "National Pensions Policy Initiative – Securing Retirement Income" and this has broadly underpinned pensions policy since then. The recommendations formed the basis of the current pensions strategy, which was also supported through the national social partnership agreements. Many of the recommendations of the Initiative were reflected in the Pensions (Amendment) Act, 2002.
- 4.44** The development of pensions policy through this broad partnership approach is seen as crucial to both the acceptability and ultimately the success of the overall strategy. The buy-in of all the partners and major players is seen as essential in order to meet the overall objectives. Given its composition, the Pensions Board is one forum which facilitates this process.

### ***Monitoring Progress***

- 4.45** A significant increase in private pension cover through the PRSA system and other types of pension provision, which would supplement the flat rate social security pension provided by the State, is one of the main components of Ireland's pension strategy. The Quarterly National Household Survey, undertaken by the Central Statistics Office, benchmarks existing coverage and tracks improvements. Under legislation, progress in this regard must be reviewed by 2006. However, as outlined in detail previously, this review has been brought forward and a comprehensive report on the main issues is due to be submitted by the Pensions Board to the Minister for Social and Family Affairs later this year.

### ***National Anti-Poverty Strategy***

- 4.46** Given that they are a group at particular risk of poverty, specific targets have also been set in relation to older people in the National Anti-Poverty Strategy. Poverty rates among older people are measured on an ongoing basis in the context of this Strategy.

### ***National Pensions Reserve Fund***

- 4.47** The National Pensions Reserve Fund Act, 2001, provides for the assessment of the State's long-term pension liabilities and of the capacity of the Fund to meet these liabilities. In addition, actuarial reviews of the Social Insurance Fund, which will be the source of an increasing proportion of social welfare pensions paid, are statutorily required every five years. The next actuarial review will be carried out as at 31 December 2005. The current pensions review will also include such an examination of pension costs.

### ***Pensions Board***

- 4.48** The Pensions Board will continue to supervise occupational pension schemes and PRSAs, to ensure compliance with the various statutes designed to secure the rights of pension scheme members and to advise the Minister for Social and Family Affairs on issues which arise and legislative improvements required.

### ***Conclusion***

- 4.49** Overall, the Government considers that its pension strategy is focused on the key areas of adequacy, sustainability and modernisation and strikes a reasonable balance between these. Policy analysis and development in this area is undertaken in an open and inclusive way, facilitating consensus building and achievement of the main objective of an income in retirement that is adequate and bears a reasonable relationship to a person's pre-retirement pension.
- 4.50** The National Pensions Review (as described at section 1.21), currently underway, will again examine the key issues and challenges facing Ireland's pensions system in the coming years and will put forward the further reforms it considers should be undertaken to modernise the system in response to ongoing demographic, social and economic developments.