

## **Submission by Bank of Ireland Life on the Pensions Green Paper**

### **SSIA-style Tax Bonus**

Bank of Ireland Life fundamentally believe that an SSIA-style tax bonus as opposed to the current system of tax relief could revolutionise the national take-up of pensions.

Bank of Ireland Life's own research with consumers reaffirms that the current tax relief system on pension contributions is not understood or valued by existing or potential pension savers. The research revealed that 71% of the population did not understand the tax benefits associated with a pension.

It is clear that the current tax relief system is not valued nor understood when it was revealed that most people could afford to contribute to a pension, but they chose not to. In fact, 60% of people surveyed who had no pension in place claimed that they could afford to contribute to a retirement plan every month, even though they had not started one as yet.

It appears that awareness and understanding of the pension tax benefits is now the main barrier to pension take-up and not affordability as previously thought. Over 1.1 million people in this country took out an SSIA, which offered a 25% Government bonus, yet a pension can offer almost double this incentive through tax relief.

A pension contribution of €488 per month would only cost a higher rate taxpayer, after tax relief, the equivalent of €254 - the same amount as the SSIA maximum contribution. This monthly contribution could produce an impressive retirement fund of over half a million euros or an annual retirement income of €28,545 for life.

\*NOTE: This figure is quoted for illustration purposes only. This figure is based on a 30-year old male making a pension contribution of €488 per month until retirement age of 65. Investment growth of 6% p.a. is assumed. Actual investment growth will depend on the performance of the underlying investments and may be more or less than illustrated. All figures are based on Bank of Ireland Life's Standard PRSA.

### **Mandatory Pensions**

Bank of Ireland Life believe that there are many more options to be explored before the introduction of mandatory pensions becomes necessary.

Bank of Ireland Life's biggest concern in relation to a mandatory pension system in Ireland is around adequacy. In particular the problems already faced by Australia's mandatory pension scheme where the minimum pension contribution has become the maximum for most participants.

As a leading life and pensions company, actively promoting the take-up of pensions nationwide, we accept that the efforts of both the industry and the Government may not achieve national targets for pension coverage, and a form of mandatory pension scheme may become necessary at some stage in the future. However, we believe

there are many more options to be explored before we go down the mandatory route such as our SSIA-style Pension proposal, which may capture the imagination of the Irish nation and help to initiate the required increase in pensions coverage.

### **Equitable Retirement Benefits**

Bank of Ireland Life believe that the Pensions Green Paper should introduce an equitable approach to retirement benefits for all retirees.

Company directors and the self-employed can keep control of their pensions when they stop working by rolling their money over into an approved retirement fund or ARF. The funds are then invested in a range of funds, depending on the client's attitude to risk, enabling the fund to continue to grow free of tax, while also providing an income in retirement.

However, most workers don't have this freedom, as the current system dictates that employees of occupational pension schemes must use the majority of their retirement fund after they have taken their tax-free lump sum, to purchase an annuity - which provides a guaranteed income for life.

This guaranteed income offers little flexibility to the retiree, with the annual income determined by the annuity rates at the time of retirement, which are in turn influenced by economic factors and the prevailing interest rates.

In addition the Approved Retirement Fund or ARF option is considered attractive by many retirees as it enables tax efficient succession planning for those who wish to pass on their fund to their dependents. Unfortunately for those that are obliged to purchase an annuity, this fund will invariably die with them unless they have included a special spouse's pension benefit at the time of purchase.

The decision as to whether the annuity or ARF option is the right choice for a retiree depends on various factors such as the size of the retirement fund, whether investment growth or security is more important during the retirement years, the health of the retiree and more.

However this decision should be that of the retiree and not the Government with the current system dictating which retirement options are available to each category of employee. There are about 300,000 employees in newer defined contribution pension plans who don't have this choice, yet they are asked to actively participate in their retirement by making investment fund choices, and additional voluntary contributions in order to fund a decent income in retirement.

Bank of Ireland Life believe there is a flaw in legislation that requires such involvement by an employee in funding for retirement but does not allow them to choose the retirement option that best suits their personal circumstances.

### **Extending the Normal Retirement Age beyond 65 years**

Bank of Ireland Life do not think that raising the NRA to age 70 is the answer to our National Pensions demographic crisis. Especially as time and time again, consumer research shows that we are a society that has clear preference to retire early.

Bank of Ireland Life believe that the right voluntary pension system can be made to work if it is easy-to-understand, provides a clear incentive to save, is easily accessible, and has the support of all industry bodies.

Bank of Ireland Life believe that the current trend of individuals aiming to retire early should be fostered while similarly encouraging consumers to start saving earlier to provide for this.

Bank of Ireland Life would like to promote the enjoyment of our retirement years, where we now have longer life expectancies with people fitter and healthier to enjoy it. At the same, however, we believe that people should not be penalised if they wish to work beyond age 65, as is currently the case depending on whether you are eligible for a contributory or non-contributory pension.