

The background of the slide features a photograph of a tree with thin, light-colored branches against a pale sky. A semi-transparent teal band runs horizontally across the upper portion of the image, serving as a backdrop for the chapter title.

CHAPTER 07

SUPPLEMENTARY PENSIONS - INCENTIVES FOR RETIREMENT SAVINGS

Introduction

- 7.1** This section focuses on the tax regime for supplementary pension provision including a description of the current tax relief arrangements. It also deals with issues such as value for money and equity of the current arrangements and the challenges of various options for change.
- 7.2** The State encourages individuals to supplement the Social Welfare pension with private pension arrangements by offering tax reliefs on private pension provision. These tax relief arrangements have helped a significant proportion of the workforce to provide for supplementary pensions for their retirement. It is estimated that over half of those in employment are covered by supplementary pension arrangements.
- 7.3** Tax relief takes the form of relief on amounts contributed to the pension schemes and on the amount of profits and gains generated by the investments held by the schemes. Benefits payable on or after retirement are taxable subject to an entitlement to take a tax-free lump-sum cash benefit. Contributions to pension investments are tax relieved on the way in (subject to limits) and are allowed to grow tax free in the pension fund in the expectation that the pension benefit stream will be taxed on the way out¹⁰⁰. These tax arrangements are known as the EET system of pension taxation, i.e. exempt contribution, exempt fund growth and taxable benefits. Fourteen out of the fifteen “old” EU Member States operate either an EET system or ETT system (exempt contribution, taxed fund growth and taxable benefits) and the EET approach is the preferred system from the point of view of the European Commission.
- 7.4** One view of the EET tax arrangements is that they represent a deferral of income which is subject to taxation when pension benefits are taken. On the other hand, a generous proportion of the benefits are allowed to be taken as a tax-free “lump sum” while contributions by individuals to pension funds are relieved at their marginal tax rate (in many cases the top rate

of tax). Their lower levels of pension income as compared with pre-retirement income often mean that pensions income is taxed at a lower rate of tax. These can be viewed as additional tax benefits to investment in supplementary pension provision.

The Private Pension System

- 7.5** The private pension system comprises occupational pension schemes and personal pension arrangements. These occupational schemes are generally provided on a voluntary basis by employers for their employees— in the sense that there is no legal requirement for an employer to establish a scheme — and are funded either jointly by employers and employees or by the employer alone.
- 7.6** In the past, the most common form of occupational pension scheme was a *defined benefit* scheme. Under this type of scheme the pension and other benefits to be paid to members and/or their dependants are specified in the scheme rules and are generally linked to final salary. The aim of such schemes is to provide an earnings-related addition to the Social Welfare pension so as to enable scheme members to maintain in retirement a standard of living linked to their pre-retirement situation.
- 7.7** More and more occupational pension schemes are now *defined contribution* schemes. Under these schemes, the individual member’s benefit is determined solely by reference to the contributions paid into the scheme and the investment return earned on those contributions. A specified proportion of earnings is contributed to the fund by the employer and employee or employer alone and the value of the pension annuity at the end of the day depends, among other things, on (a) fund performance (b) interest rates at the time the pension annuity is purchased and (c) pension fund charges. In these schemes, in contrast to defined benefit type schemes, the scheme member takes the risk of poor investment performance by the fund. Statutory rules in relation to tax relief restrict the maximum benefits payable, under both defined benefit and defined contribution schemes, to a pension of two thirds of pre-retirement earnings taking

¹⁰⁰ Contributions to approved pension schemes by employers and employees are also exempt from PRSI

into account any benefits paid as lump sums, subject to an overall pension fund cap of €5 million (indexed from 2007) introduced in the 2006 Budget and Finance Act.

7.8 Personal pension arrangements consist essentially of Retirement Annuity Contracts (RACs) used by the self-employed and more recently Personal Retirement Savings Accounts (PRSAs) which were designed, among other things, to suit the needs of groups with low occupational coverage, such as women, low paid/part time workers and workers in sectors where occupational schemes are not traditionally offered. These contracts and accounts operate like defined contribution schemes in that the risk of underperformance lies solely with the individual taking out the contract or account.

7.9 In order to qualify for tax relief on contributions and fund investments, all private pension fund arrangements, whether occupational schemes, RACs or PRSAs, must have Revenue approval. Occupational pension schemes also encompass small self-administered pension schemes (SSAs). SSAs are typically single member schemes, with the member also normally being the owner of a business and a trustee of the scheme. Special Revenue rules apply in relation to their approval, operation and supervision.

Principal Features of Pensions Tax Arrangements

7.10 The principal features of the current pensions tax regime relate to contributions, the growth in pension funds and pension benefits. The details of each are set out in turn below for Occupational Pension Schemes, RACs and PRSAs.

Occupational Pension Schemes

7.11 *Employee Contributions* to occupational pension schemes are deductible for income tax and PRSI (including health levy) purposes and are tax relieved at the individual's marginal income tax rate. Age related percentage limits apply to contributions as follows:

Table 7.1: Contribution Limits

Age	Limit as % of remuneration
Under 30	15%
30-39	20%
40-49	25%
50-54	30%
55-59	35%
60 or over	40%

7.12 In addition, tax relievable contributions are subject to an earnings cap of €262,382 per annum for 2007 with the result that the maximum annual tax relieved employee contribution for 2007 is limited to €104,953 i.e. €262,382 x 40% for an employee aged 60 or over. The earnings cap is a single cap that applies across all pension contributions by or in respect of an individual including contributions to occupational pension schemes, additional voluntary contributions, retirement annuity contracts and personal retirement savings accounts. It does not, however, encompass employer contributions to occupational schemes on behalf of an employee – see paragraph 7.13 following.

7.13 *Employer Contributions* on behalf of employees are tax deductible in computing the profits for tax purposes of the employing business. Employer contributions are specifically exempted from being charged as remuneration of the employees concerned in the form of benefits-in-kind. One result of the tax exempt treatment of these benefits to employees is that the age and earnings-related restrictions on tax relief for pension contributions mentioned above do not apply.

7.14 *Pension Fund:* The investment income and capital gains of a pension scheme are exempt from income tax and capital gains tax.

7.15 *Pension benefits* arising from the pension fund at "normal retirement age" — any time between ages 60 and 70 — are taxable in the hands of the individual at his/her marginal tax rate with the exception of any benefit taken as a tax-free lump sum. The tax-free lump sum is limited to 1.5 times final salary or in certain cases 25% of the value of the individual's pension fund (subject to the limits introduced in the 2006 Budget

and Finance Act – see 7.24 below). Certain pension scheme members have the option of investing their matured fund (or part of it) in an Approved Retirement Fund or Approved Minimum Retirement Fund (see paragraphs 7.53 - 7.66).

Personal pension arrangements

7.16 The two main products in the personal pensions area are Retirement Annuity Contracts (RACs) and Personal Retirement Savings Accounts (PRSAs) and these are explained below.

7.17 RACs are insurance policies taken out by an individual with an insurance company. In character, they are, effectively, defined contribution schemes:

- *Contributions*: All contributions are paid by the individual with usually no corresponding employer contribution. Contributions are deductible for income tax purposes and are tax relieved at the person's marginal income tax rate. The same age-related percentage limits apply to tax-relieved contributions as apply in relation to employees' contributions to occupational schemes;
- Tax-relieved contributions are also, in addition to the age-related percentage limits, subject to an annual net relevant earnings cap which for 2007 stands at €262,382. However, part of a contribution not allowed in one year may be carried forward and relief is allowed in subsequent years subject to the annual contribution limits and earnings cap;
- *Pension Fund*: the investment income and capital gains of investments used to back RACs are exempt from income tax and capital gains tax;
- *Pension benefits* from an RAC on maturity are taxable in the hands of the individual at his/her marginal tax rate with the exception of a tax-free "lump sum" of 25% of the value of the fund. The remainder may be used to purchase an annuity or to invest in an Approved Retirement Fund or Approved Minimum Retirement Fund (see paragraph 7.53 on "Flexible Options – Approved Retirement Funds"). Unlike occupational pension schemes, the concept of "normal retirement age" does not apply and benefits may be taken at any age between 60 and 75, whether the individual has actually retired from work or not.

Personal Retirement Savings Accounts (PRSAs)

7.18 PRSAs are a relatively new type of pension vehicle introduced in 2002 as a flexible low-cost portable pension product which can be used for long-term retirement provision by everyone – employees, self-employed or unemployed. PRSAs are mainly designed to act as a vehicle for retirement savings for those who are not members of occupational pension schemes. The tax treatment of PRSAs is similar to that given to RACs. In effect, a PRSA is a contract between an individual and a PRSA provider (insurer, credit institution or investment firm) in the form of an account that holds units in investment funds managed by PRSA providers. The PRSA contributor is the beneficial owner of the PRSA assets – unlike occupational schemes where the scheme trustees hold the assets on behalf of the scheme member(s):

- *Contributions* are deductible for income tax and PRSI purposes and are tax relieved at the individual's marginal income tax rate. Age-related percentage limits apply to contributions as per those outlined above in relation to occupational schemes and RACs;
- Tax-relieved contributions are subject to an earnings cap of €262,382 for 2007;
- Employers may also contribute - but are not obliged to - and, unlike the position for occupational pension schemes, such contributions are treated as benefits-in-kind (BIK) and included within the age-related percentage limits and within the overall €262,382 earnings cap for 2007, for the purposes of tax relief. Employer contributions which, together with employee contributions, exceed these limits result in an unrelieved BIK charge on the employee in respect of that excess;
- *Pension Fund*: the investment income and capital gains of a PRSA are exempt from income tax and capital gains tax;
- *Pension Benefits*: under a PRSA may, with some exceptions, be taken from age 60 to age 75. As with RACs, 25% of the fund can be taken as a tax free "lump sum" with the remainder used to provide a pension or invested in an Approved Retirement Fund or Approved Minimum Retirement Fund.

Differences in the tax relief arrangements for pension contributions

7.19 There are a number of differences in the tax treatment of pension contributions across the various pensions products. This is notwithstanding that some changes made in recent years were intended to standardise tax relief.

7.20 *Application of the age-related and earnings cap limits:* The wider range of age-related percentage limits, currently 15% to 40% of remuneration / net relevant earnings, and the earnings cap applying to contributions were first introduced in relation to RACs in 1999. The same limits were applied to PRSAs when they were introduced in 2002 and also to employee contributions to occupational schemes in Finance Act 2002. However, the age-related percentage limits and the earnings cap do not apply to employer contributions to occupational pension schemes on behalf of an employee.

7.21 The narrower application of the age-related percentage limits and earnings cap in the case of occupational pension schemes as compared with PRSAs is the result of the specific exemption from a benefit-in-kind (BIK) charge of employer contributions to such schemes - an exemption which does not apply to employer contributions to PRSAs.

7.22 The limits and cap apply to all contributions to RACs as employer contributions are not a feature of such contracts. Therefore, whilst there is a clear limit on tax-relieved contributions to RACs and PRSAs, that limit does not operate in relation to occupational pension schemes.

7.23 Prior to the 2006 Budget and Finance Act changes (see paragraph 7.24 below), which introduced a restriction on the capital value of a pension fund that can be built up with tax relieved contributions, the sole "control" in relation to occupational pension schemes was the statutory maximum benefit of two-thirds final remuneration that could be funded. For the majority of employees, the new pension fund limit and the maximum benefit rule is not an issue as the level of pension funding in defined contribution schemes is unlikely to be sufficient to provide a benefit of two-thirds final salary

or a fund near €5 million. Before the 2006 changes, however, the maximum benefits limit was defective in relation to certain categories of high-earning "employees" in the absence of an absolute monetary cap on:

- the salary figure on which the two-thirds maximum could be based, or
- the size of the fund to deliver pension benefits.

7.24 Changes were introduced in the Budget and Finance Act 2006 curbing the use of tax relief for pension provision by high-earners. The measures introduced included placing a cap of €5 million (indexed from 2007) on the maximum value of a pension fund that could be funded out of tax-relieved contributions. A cap of 25% of the maximum tax-relieved pension fund was also introduced on the amount that could be taken as a tax-free lump sum.

7.25 The various tax reliefs and rules relating to them make the tax incentive system for supplementary pension provision appear complex and difficult to understand. There may be a case for further simplifying these arrangements, where possible.

Current Rules for Funding Pension Benefits

7.26 Under current rules, the maximum benefit that an individual can receive from an occupational pension scheme at normal retirement age is a pension of two-thirds of final remuneration. The rules envisage this accruing over a period of 40 years' service with the same employer at the rate of 1/60th of final remuneration for each year of service – this is known as "the strict 1/60th basis". However, it is possible to qualify for this maximum benefit over a shorter period under what is known as the "uplifted scale". Under this approach an individual can, starting not less than 10 years from normal retirement age, fund for the maximum benefit of two-thirds of final remuneration.

7.27 Part of the maximum pension benefit can also be commuted into a tax-free lump sum. The maximum lump-sum benefit that can be achieved at normal retirement age by

an employee is one and a half times final remuneration i.e. 3/80ths of final remuneration for each year of service over a 40 year period. Late entrants can commute part of their pension at a higher rate than this but, in that regard, the maximum lump sum commutation of one and a half times final remuneration can only be provided where the employee has 20 years' service with his or her current employer.

7.28 Practically all occupational pension schemes set up in the last 15 years have been defined contribution schemes with no specific "benefit promise" in terms of a guaranteed level of pension. Pension benefits are unlikely to come any where near the two-thirds maximum of final remuneration for the vast majority of scheme members. The exception, in this regard, relates to certain categories of employees, i.e. proprietary directors and top executives. These employees are able to negotiate their level of "final remuneration". Given the ability to adjust the remuneration component of the maximum benefit limit, the two-thirds rule was ineffective and never likely to be breached.

7.29 The limits put in place in the 2006 Budget and Finance Act on the maximum value of tax-relieved pension funds and tax free lump sum are designed to limit the cost to the Exchequer and to control the ability of high earning individuals in the categories mentioned to fund for their pensions.

Cost of Tax Reliefs

7.30 As part of the work on the Green Paper on Pensions, a review was carried out of the current regime of incentives for supplementary pension provision with a view to developing more comprehensive and reliable estimates of the cost of reliefs in this area. The review was carried out by an informal working group made up of officials of the Department of Finance, the Revenue Commissioners, the Department of Social and Family Affairs and the Pensions Board.

7.31 The working group examined, among other things, the current reliefs and incentives for investment in supplementary pensions and the data available on which to base reliable estimates of the costs in revenue foregone to the Exchequer. In particular, the availability of more reliable data for 2006 on contributions by employers and employees to pension schemes arising from the employers' P35 initiative (see paragraph 7.35 below) was important in this regard.

7.32 The total estimated cost of tax and PRSI (including health levy) relief for 2006 is €2.9 billion. A breakdown of this figure is set out in table 7.2 hereunder:

7.33 The breakdown and make-up of the estimated cost of reliefs set out in table 7.2 differ from previous presentations of costs in this area in the following respects:

Table 7.2: Estimate of the cost of tax and PRSI reliefs for private pension provision 2006

	Estimated costs €million
Employees' Contributions to approved Superannuation Schemes	540 ^a
Employers' Contributions to approved Superannuation Schemes	120 ^b
Estimated cost of exemption of employers' contributions from employee BIK	510 ^c
Exemption of investment income and gains of approved Superannuation Funds	1,200 ^d
Retirement Annuity Contracts (RACs)	380 ^e
Personal Retirement Savings Accounts (PRSAs)	120 ^f
Estimated cost of tax relief on "tax-free" lump sum payments	130 ^g
Estimated cost of PRSI and Health Levy relief on employee and employer contributions	220 ^h
Gross cost of tax relief	3,220
Estimated tax yield from payment of pension benefits	320 ⁱ
Net cost of tax relief	2,900

See Appendix C for footnotes to table 7.2

- The estimated 2006 costs of tax relief on employee and employer contributions to approved pension schemes are based on the aggregate data of such contributions obtained from employers' P35 returns for 2006. Previous estimates of costs in this area tended to over-estimate the level of pension contributions on behalf of employees and, in particular, by employers which also resulted in an over-estimate of the cost of tax relief involved.
- The investment income and gains of pension funds are exempt from income tax and capital gains tax and an estimate of the cost of this exemption is included in table 7.2. Previous estimates of the cost of tax relief for pension funds also included a notional charge to tax of the net cash flow income of pension funds (contributions less benefit pay-outs). The rationale for this notional charge was linked to the assumption for tax costing purposes that pension funds are separate taxable entities. However, since the (net) contributions income to which the notional charge applied has historically been exempt from tax in the hands of employees and employers, it is considered that the charge should not be ascribed to this income in the hands of the pension funds. No associated cost is therefore included as part of the cost of tax relief for pension funds in table 7.2.
- Estimates of the cost of benefit-in-kind (BIK) exemption of employers' contributions, the estimated cost of tax relief on lump sum payments, the cost of PRSI and health levy relief on employee and employer contributions and a tentative estimate of the tax yield from the payment of pension benefits have not been included in previous presentations of the Exchequer costs of supplementary pension provision but are included in the estimates of the 2006 cost in table 7.2.

7.34 The information imparted by the costing of tax and other reliefs in the pensions area as detailed above is, however, inherently limited. It may suggest a significant notional loss against an equally significant assumed yield in the counterfactual situation of tax reliefs for supplementary pension provision not being available. However, where tax relief

arrangements are of such significance, as in this instance, the removal of the reliefs would represent a fundamental adjustment to the current balance of the tax system and would have very significant implications in terms, among other things, of the economic and behavioural impacts which would ensue. These impacts would be difficult to model in advance. For these reasons, the real informational content of these costings of tax reliefs is limited and should be treated with some caution.

Employers P35 Initiative

7.35 While individuals are obliged to provide details annually in Form 11 to the Revenue Commissioners of their contributions to personal pension schemes such as RACs and PRSAs, in order to avail of tax relief on those contributions, employers have not been required until recently to provide details of the employer or employee contributions to the pension schemes operated by them. Provisions were included in Finance Act 2004 to improve data quality and transparency without over-burdening taxpayers. The Revenue Commissioners sought additional information on pension contributions by employees and employers to occupational pension schemes as well as to RACs and PRSAs in the P35 returns to be filed by employers from 2006 onwards. Revenue have extracted this data from the P35 returns for 2005 and 2006. While Revenue have concerns about the quality and reliability of the data for 2005, the data for 2006 are significantly more reliable at the aggregate level as the P35 returns for that year were filed via the Revenue Online System (ROS). Work is underway in Revenue to correct any flaws in the data insofar as they can be identified, with priority being given to the more substantial errors which occurred in the 2005 returns. The new P35 data is intended to yield additional information regarding the overall cost of tax relief on pension contributions. As the data is aggregated at employer level, however, it does not provide a basis for analysis at individual employee level.

Value for Money

7.36 In assessing whether tax incentives for private pension provision provide value for money, one

must consider their effectiveness (achieving the objective) as well as their efficiency (achieving the objective at the lowest cost). As outlined earlier, the role of private pension provision in Ireland is, inter alia, to supplement the pensions provided through the Social Welfare system to ensure that income in retirement is more closely related to the income received by a person when they were employed. The State encourages and promotes membership of occupational and personal pension schemes through a combination of a tax incentive regime and through regulation to safeguard entitlements.

7.37 It is also necessary to look at the equity of tax relief. It is generally agreed that the object of tax relief must be to incentivise and support those less able to make adequate pension provision and not necessarily to subsidise those who are in the strongest position to do so.

7.38 The present taxation treatment of supplementary pensions is long-standing. It has encouraged a significant portion of the labour market to fund private supplementary pensions. It is considered that well over half of those in employment (about 2.1 million people in the second quarter of this year) are currently covered by pension arrangements beyond the State pension and, while this proportion has increased modestly, the absolute numbers covered have been increasing relatively rapidly in recent years. The Quarterly National Household Survey (QNHS) for the 4th quarter of 2005 (published by the CSO) shows that pension coverage for all persons in employment between the ages of 20 and 69 had increased to 55% in Quarter 4 of 2005 representing an increase of nearly 7.5 % on the 51.2% recorded in the first quarter of 2002. This has also occurred in the context of a growing labour force.

7.39 For the group aged between 30 and 65, the coverage level in Q4 of 2005 is estimated (per the QNHS) at close to 62%. This compares to the 70% target which NPPI recommended should be met sometime after 2013.

7.40 Increasing pension coverage considerably has proved difficult, notwithstanding the tax incentives on offer. There are several reasons for this including inertia, the profile of many of those entering the workforce in recent years, education

and awareness, marketing, regulation, the existence of other forms of retirement provision (e.g. ownership of rental property or business) and the capacity of individuals to make the contributions required. With people marrying later and facing significant mortgage costs, and also child care, education and other costs throughout these years, the capacity of many individuals to divert the levels of income required into a pension product may be limited. A combination of these factors is undoubtedly at work.

7.41 Notwithstanding these factors, it is still the case that the absolute numbers of those with supplementary pension provision increased in the period 1995 to 2004 from over a half-million to one million supported by the current incentives.

Considerations of Equity

7.42 The case is made that tax relief for pension provision is not “vertically equitable” i.e. that the better off are benefiting most and that more support should be directed towards those on lower incomes.

7.43 In this regard, comparisons have been drawn in this debate between the levels of expenditure on Social Welfare pension payments and pensions related tax relief in any given year. However, these are not like-for-like comparisons. In the first instance, the “expenditures” are targeted at different populations for different purposes.

7.44 Social Welfare pension expenditure represents the liability of the State to provide an income to those who have *already retired*. The tax relief arrangements for voluntary private pension provision represent an effort by the State to encourage people currently at work to provide *future income* for themselves by establishing or contributing to a pension fund.

7.45 There is no data available to the Revenue Commissioners (for reasons already explained) which would provide a breakdown across income levels of the tax relief to members of occupational pension schemes. Such information is available, however, in respect of tax relief allowed for contributions to Retirement Annuity Contracts (RACs) for the tax year 2003. The breakdown across income levels

for tax relief on contributions to RACs is detailed in the table at Appendix D.

7.46 There have been calls for the incentives to be better targeted in a cost-effective manner that enhances the attractiveness of private pension provision to lower income groups. Some proposals suggest that this could be achieved through a form of a “matching contribution” which would be the same for all taxpayers and which could also be availed of by those who do not have access to tax relief at any given time due to unemployment or non-participation in the workforce. Another option is to consider moving towards a system of tapered matching contributions to private pensions. However, even under such a matching arrangement, the take-up issues of the current regime may continue. Depending on the structure of the matching contribution, the additional costs could be considerable and would have to have regard to the sustainability issues raised elsewhere in the Green Paper.

7.47 Other proposals suggest that tax relief at the top tax rate for higher earners be reduced and used to pay for greater tax relief for those on lower incomes as a means of incentivising supplementary pension provision among lower income groups. Such proposals would need to be considered in the context of tax as well as pension policy. While such a move would add to the progressivity of the tax system, it would also have a negative effect overall on pension coverage by discouraging higher income earners from pension investment without necessarily guaranteeing an increase in coverage at lower income levels.

7.48 The *Pensions Incentive Tax Credits scheme* introduced in the 2006 Finance Act is an example of an attempt to bring greater equity into the system for incentivising private pension coverage. This scheme provides an incentive for eligible SSIA holders on lower incomes to reinvest all or part of their net SSIA proceeds, after maturity, into an approved pension product (including Additional Voluntary Contributions (AVCs), RACs and PRSAs).

7.49 The incentives under the scheme involve a tax credit of €1 for every €3 of SSIA proceeds reinvested, up to a maximum of €2,500 credit (i.e. €7,500 invested). There is also an additional

tax credit available under the scheme relating to the exit tax payable on the investment return accrued in the matured SSIA. The amount of this additional credit is based on the proportion of funds transferred to an approved pension product from the SSIA on maturity. Where an SSIA holder avails of the Pensions Incentive Tax Credits scheme, it is not possible to claim any further tax relief for the amounts invested under the scheme.

7.50 Take-up of the scheme, the final date for availing of which was 31 July 2007, was low with about 1% of all holders of matured SSIA's availing of the scheme (although, among other conditions, only account holders whose gross income was less than €50,000 in the tax year before the year in which their SSIA matured would have qualified for the scheme in the first instance).

7.51 The potential reasons for the low take-up of the scheme include:

- (i) SSIA holders may already have made decisions, before the introduction of the incentive, about what they were going to do with their matured funds, including alternative investments (e.g. property), house improvements, cars, holidays etc.
- (ii) The recent CSO Quarterly National Household Survey for Q4 of 2005 indicated that less than a quarter (about 23%) of SSIA holders in employment aged between 20 and 69 had no pension arrangements. This would mean that the potential market for the Pensions Incentive Tax Credit scheme among SSIA holders may be smaller than might have been expected and that individuals not engaged in pension saving were less likely to have an SSIA account in the first place.
- (iii) The incentive was specifically targeted at lower earners who may be less likely to be willing or in a position to invest in pensions.
- (iv) Pension fund administrators appeared slow to register with the Revenue Commissioners in order to operate the scheme and there seemed to be delays among the administrators in setting up systems and in advertising the availability of the scheme.
- (v) As a result, in part, of (iv) above there may have been a general ignorance among many SSIA holders about the existence of the scheme

7.52 While the Pensions Incentive Tax Credits scheme meets the criteria of being simple and easy to understand (in concept, at least) as compared to tax relief, these features did not prove sufficient to ensure its success as a pension incentive measure.

Flexible Options - Approved Retirement Funds

7.53 Prior to the Finance Act 1999, any person taking a pension under a defined contribution scheme or an RAC was required to purchase an annuity with the pension fund moneys remaining after the drawdown of the appropriate tax-free lump sum. The Finance Act 1999 introduced significant changes which gave a considerable degree of control, flexibility and personal choice to certain categories of individual in relation to the drawing down of benefits from their pension plans. These choices include the options to purchase an annuity, receive the balance of the fund in cash (subject to tax, as appropriate), to invest in an Approved Retirement Fund (ARF) or Approved Minimum Retirement Fund (AMRF), as appropriate, or a combination of these.

7.54 ARFs and AMRFs are not pension schemes per se. They are investment options into which the proceeds of certain pension arrangements can be invested on retirement. Individuals are entitled to take their tax-free lump sum option as part of the election for an ARF. Beneficial ownership of the assets in an ARF/AMRF vests in the individual. The ARF/AMRF is managed by a Qualifying Fund Manager and tax is not payable on its investment income or capital gains while the funds are invested in it.

7.55 The option to have all or part of an individual's accumulated pension fund placed in an ARF must be exercised not later than the date on which the annuity or pension would otherwise become payable. The option is open to a qualified person¹⁰¹ who is either over 75 years of age or who has a guaranteed pension income

(specified income) actually in payment for life of at least €12,700 per annum.

7.56 Where the minimum specified income test is not met, then an AMRF must be chosen into which the first €63,500 of the pension fund or the whole of the fund, if less than this amount, must be invested (alternatively an annuity can be purchased with the first €63,500 of the pension fund and the balance placed in an ARF). The capital in an AMRF is not available to an individual until he or she reaches 75 years though any income generated by the fund can be drawn down subject to tax. The purpose of an AMRF is to ensure a capital or income "safety net" for certain individuals throughout the period of their retirement.

7.57 Sums withdrawn from the ARF/AMRF are subject to tax at the individual's marginal tax rate, other than when they are transferred to another ARF which is also beneficially owned by that individual. The 2006 Budget and Finance Act introduced an imputed or notional distribution of 3% of the value of the assets of an ARF (but not an AMRF) on 31 December each year, which notional amount will be taxed at the ARF owner's marginal income tax rate.

7.58 The notional distribution from ARFs is being phased in over a three year period commencing in 2007. This measure was introduced because the internal review of tax relief for pensions provision undertaken by the Department of Finance and the Revenue Commissioners in 2005 found that the ARF option was largely not being used, as intended, to fund an income stream in retirement and, in certain cases, was being used to build up substantial funds in a tax-free environment over the long-term. The imputed distribution measure will encourage the use of ARFs as intended, as funds actually drawn down by ARF owners will be credited against the imputed distribution to arrive at a net imputed amount, if any.

7.59 *Availability of ARF option to AVCs and PRSAs:* While the flexible options for drawing down pension benefits described above are not available to members of defined contribution or defined benefit schemes (who are outside of the categories of individual described above) in respect of benefits derived from standard

¹⁰¹ Proprietary directors, self-employed individuals and certain employees/directors in non-pensionable employment represent the categories of individual who can exercise these options in relation to their pension plans.

contributions to the schemes, the option is available in a limited fashion in respect of Additional Voluntary Contributions (AVCs) made by such members either to their main schemes or to separate AVC schemes.

7.60 The Pensions (Amendment) Act 2002 introduced Personal Retirement Savings Accounts (PRSAs) the aim of which was to create an attractive alternative pension product which is flexible, portable and user-friendly. The flexible options relating to the drawing down of pension benefits also apply to PRSAs i.e. the benefits of the PRSA can be paid into an ARF.

7.61 *Further extension of the ARF option:* It has been suggested that ARFs should be offered as an alternative to annuities to members of occupational pension schemes in respect of their main benefits from such schemes. There have also been calls for the existing arrangements for ARFs and AMRFs to be extended in other circumstances e.g. to allow for joint-life ARFs and to permit a surviving spouse to avail of the ARF option in circumstances where the beneficiary of a pension fund had indicated an intention to exercise that option but had died before the transaction could take place. These and other possible scenarios form part of the wider debate for the extension of the flexible options introduced in 1999.

7.62 The arguments in favour of an extension of the ARF option broadly surround the issues of a perceived lack of value in the current options (the cost of and value in annuities – dealt with in Chapter 11) and the question of equitable treatment of all pensioners.

7.63 The following arguments can be made in support of the case for extending the availability of the ARF/AMRF option:

- All members of a pension arrangement would be in a position to avail of an ARF/AMRF so it would create a level playing field and simplification for all pension provision;
- It may make retirement provision more attractive as more options would be available;
- The entire pension fund will not necessarily be used up with the requirement to purchase

an annuity thus providing more flexibility to the pension fund holder;

- DC scheme members would not be forced to select a current annuity rate which may appear to be poor value;
- The residual fund after death of a member can be passed to family members.

7.64 The following arguments can be made against a general extension of the ARF/AMRF option:-

- There would be costs in tax terms attaching to any extension of these options (which would have to be weighed against the above benefits);
- The investment risk attaching to ARFs/AMRFs will continue indefinitely and, as longevity can only be estimated, the funds of many retired individuals may be depleted prior to death. This could involve demands for income support;
- Ongoing reviews of ARF investments would be required, possibly on an annual basis, thus incurring more charges and more monitoring;
- A general extension of the ARF/AMRF option could reduce the liquidity and depth of the annuity market.

7.65 As part of the debate on extending the ARF option, the issue of reviewing the conditions currently in place to access an ARF arises. These conditions have not been reviewed since the introduction of the ARF option in 1999. A qualifying individual under 75 whose guaranteed income for life is under €12,700 must invest a minimum of €63,500 of their pension fund (or the value of the fund if less) in an AMRF until they reach age 75 or otherwise purchase an equivalent annuity. The argument is made that there is little correlation between these various requirements. For example, if €63,500 was used to purchase an annuity at current prices, it would not provide an annual income close to €12,700. One approach could involve increasing the current specified income limit in line with indexation while dispensing with the requirement regarding the alternative uses of the €63,500.

7.66 As already mentioned, ARFs/AMRFs are not pensions. Extending the ARF option is unlikely of itself to significantly improve pension

coverage or adequacy. On the coverage issue, anyone who does not already have supplementary pension provision can begin contributions to a PRSA or, where the individual is self-employed, to an RAC both of which pension products are eligible for the ARF option. Anyone currently in an occupational pension scheme and not eligible for the ARF option but wishing to make additional pension savings (e.g. who wants to improve the adequacy of their pension) can do so through contributions to a PRSA or an AVC both of which again qualify for the ARF option.

Options for Change

7.67 In its National Pensions Review report published by the Minister for Social and Family Affairs, the Pensions Board proposed changes to the taxation arrangements for voluntary private pension provision. In its report “Special Savings for Retirement”, the Pensions Board considered various forms of mandatory pension schemes, including a “soft” mandatory and “hybrid” scheme. These various options for change are detailed hereunder:

- a) The Board recommended that the State incentive for personal contributions to Personal Retirement Savings Accounts (PRSAs) be granted by means of a matching contribution of €1 for each € 1 invested (subject to a maximum amount). The Board also recommended that PRSA contributors be allowed a limited access to their funds before the age of 45.
- b) For other forms of supplementary pension provision, tax relief at the higher (41%) rate for all personal contributions was recommended whether through the current method of granting relief at source or by means of a refundable tax credit. As a contribution towards the cost of providing incentives to the lower paid at the same rate as top-rate payers, the Pension Board supported a cap on incomes for pension contribution and benefit purposes but only if the derived savings are used to improve incentives for lower rate taxpayers and non-taxpayers.

c) The Board recommended that incentives be introduced to encourage the proceeds of SSIAAs to be saved for retirement. It recommended that these incentives be targeted at those who would not otherwise qualify for tax relief or who have not fully availed of their tax relief entitlement as follows:

- (i) once –off increase in pension contribution limits for those who had not fully used their pension contribution allowances in the past
- (ii) exemption from SSIA exit tax on transfer to pensions where no income tax relief is being claimed on the transferred amount.

d) The Pensions Board examined the following options, among others, for mandatory pension schemes (suggesting that the “hybrid” model was the most appropriate):

- a “soft” mandatory / automatic enrolment scheme with opt-out (9% contribution rate); and
- a “hybrid” model combining an increase in the State Pension to 40% of Gross Average Industrial Earnings (GAIE) and a mandatory supplementary system for those at work who are not making supplementary provision (15% contribution rate including 5% Exchequer contribution).

e) Although not an option “for change”, the retention of tax relief arrangements on the current lines is also an option for consideration.

7.68 These various policy options are considered in the following paragraphs. In terms of the costs of these options, these must be put within the context of the significant sustainability challenges an ageing population already poses. In addition, the estimated costs for each of the various options for change are presented on a stand-alone basis and not as a package which would involve a different and altogether more complex costing exercise.

(a) A matching contribution from the Exchequer for each € paid by way of personal contribution to PRSAs

7.69 This proposal is based on the success of the structure of the SSIA scheme and on the premise that people find this incentive easier to understand and more transparent than the current regime of tax reliefs albeit with a much higher rate of Exchequer contribution than for SSIA's. The Pensions Board model is very specific in relation to the matching contribution it has suggested in the National Pensions Review. However, this should not exclude consideration of other models on this general theme in the context of the Green Paper consultation process. For instance, an alternative suggestion could involve the use of tapered matching contributions which could have the effect of reducing the overall cost of such a measure and providing a more targeted approach to supplementary pension incentives. The design of any such scheme would, of course, require very careful consideration.

7.70 PRSA contributions, under the proposed €1 for €1 scheme, would come from after-tax income (individual contributors would receive no tax or PRSI relief). The proposal suggests that employer contributions to PRSAs (where made) would continue to be treated as an allowable expense for tax purposes but employers would lose the PRSI saving they currently make on such contributions.

7.71 While an incentive of this nature may be easier to understand than the current system of tax relief, its success in tempting people without private pension cover to invest will depend, not only on their understanding of the value of the concession relative to the value of the existing tax and PRSI relief incentive, but also on being convinced of the economic value of investing in a pension in the first instance having regard to their own circumstances.

7.72 There are a number of advantages to this approach. Firstly, a direct Exchequer contribution of €1 for every personal contribution of €1 to a PRSA would be considerably greater in financial effect than the equivalent relief under the existing relief incentives for a standard (20%) rate taxpayer in respect of tax, PRSI and health levy.

A matching contribution equating to the value of 20% income tax relief, 4% employee PRSI relief, 10.75% employer PRSI relief and 2% health levy would amount to just over 58 cent¹⁰².

7.73 Secondly, it would be more equitable insofar as an Exchequer contribution of €1 would be lower than the monetary equivalent of the various reliefs paid as a direct contribution for the higher rate tax payer. In these cases, the income tax, employer PRSI relief and the health levy relief would equate to a direct payment of slightly over €1.16¹⁰³.

7.74 Thirdly, at €1 for €1, the proposed incentive represents a much better incentive than tax relief for the standard rate tax payer. However, it remains uncertain as to whether it would be sufficiently attractive to improve pension coverage rates among those on lower incomes. The proposal makes reference to the incentive being subject to a cap but does not specify the level of the cap.

7.75 However, the proposal also has the following disadvantages:

- a) If the intention is that a matching €1 contribution is made by the Exchequer for every €1 personal contribution made to a PRSA and that this would replace the existing tax relief incentive for investment in this product, then PRSAs will not be as attractive a vehicle for pension investment as compared with other products for those currently without pension cover whose rising income may eventually fall to be taxed at the higher tax rate. This could significantly reduce the attractiveness of PRSAs in the longer term.
- b) Age-related concessions currently given by way of graduated increases in tax relief related to the age of the contributor will be lost to this scheme in the absence of a workable alternative.

102 The sum of these various percentage reliefs - 36.75% - divided by the difference between that sum and 100. (Source: National Pensions Review p.74)

103 Many higher rate taxpayers will not be receiving PRSI relief on their pension contributions as their earnings would exceed the PRSI income ceiling. This example therefore excludes employee PRSI relief.

- c) Removal of the relief on employer PRSI attaching to employee contributions may add to labour costs.
- d) In the absence of a general move from tax relief to direct subsidy in terms of incentivising private pension coverage, this proposal would add another layer of administrative complexity to the system of supplementary pension administration.

7.76 The cost to the Exchequer (and ultimately the taxpayer) of the proposed incentive would depend on the take-up among those currently without private pension arrangements and the extent to which the incentive encouraged those at the standard tax rate to switch from the current tax relief incentive regime to the direct subsidy incentive. Any costing on this basis is bound to be tentative. The estimated average gross earnings for 2007 of all income earners earning between €15,000 and €60,000 per annum (based on Revenue Commissioners' estimated data projected from actual data for the tax year 2003) is about €33,000. On the working assumption that 25% of those currently without supplementary pension cover (close to 240,000 income earners) contributed 5% of gross annual earnings averaging €33,000 to PRSAs to take advantage of the proposed incentive, the cost to the Exchequer on a matching € for € basis would be about €400m in a full year. This would increase by a further €160m per annum for each 10% increase in coverage and would also vary depending on the accuracy of the assumptions regarding income, contribution rate and increased coverage rates. However, as indicated at 7.69, other, and less costly, models of matching contributions could be considered.

(b) Increase the level of tax relief to the higher (41%) rate for personal contributions to all forms of supplementary pension provision

7.77 This proposal assumes that those on lower incomes without supplementary pension arrangements do not invest in pensions not because they do not have the funds to do so or because it is complex but because the perceived return on the investment at the current level of (tax) incentive is insufficient. The success or failure of this proposal, in terms of increasing

pension coverage further towards the National Pension Policy Initiative targets, would depend on the reliability of this assumption. It would also depend on the relative merits for new contributors to supplementary pensions of this proposed incentive as compared with the proposed matching contribution incentive for PRSAs.

7.78 For those taxpayers whose income is below the exemption thresholds for income tax or who pay tax at the standard rate and are already investing in supplementary pensions, this incentive would be seen as improving the equity of the current tax relief system. However, this would carry some "deadweight" cost (i.e. the cost of giving the additional incentive relief to those who are already investing in pensions). No overall breakdown is available of the tax-status (e.g. higher rate, standard rate or exempt) of those already contributing to supplementary pension arrangements. The level of cost would also depend on the extent to which lower rate taxpayers currently contributing to supplementary pension arrangements other than PRSAs switched or were able to switch to PRSAs to avail of the proposed €1 for €1 matching credit proposal which is the other part of this Pensions Board proposal.

7.79 If an assumption were made, for example, that only 20% of those contributing to supplementary pension arrangements paid income tax below the top rate and that only 10% of those were tax exempt, then the additional cost of providing relief at 41% to those existing tax-exempt and standard rate pension contributors is estimated at about €80m in a full year. The cost would be greater if an equally valid assumption were made that the proportion of existing contributors paying tax below the top rate is higher than 20%. (Among the general population of taxpayers, the Revenue Commissioners indicate that some 38% are tax exempt, while 42% pay at the standard income tax rate or less and about 20% pay tax at a higher rate than the standard tax rate).

7.80 In terms of the cost of any additional take-up of this incentive, this can only be illustrative. If 10% of those currently without supplementary pension cover and earning the projected average industrial wage for 2007 of €33,000 per annum

commenced to invest 5% of their earnings in a pension as a result of higher tax relief, the cost to the Exchequer would be about €65 million in a full year in income tax foregone. This cost would be in addition to the €80 million cost referred to at paragraph 7.79 above.

7.81 There would be additional costs and challenges insofar as the proposed changes gave rise to “refundable tax credits” payable to individuals’ pension funds where those individuals would be due a net refund.

7.82 The Pensions Board’s recommendation for relief at the higher tax rate is accompanied with a statement supporting “a cap on incomes for pension contribution and benefit purposes but only if the derived savings are used to improve incentives for lower rate taxpayers and non-taxpayers”. The level of any cap for these purposes is not specified.

(c) Encourage the saving of SSIA proceeds for retirement purposes

7.83 The Pensions Incentive Tax Credits scheme was introduced in the Finance Act 2006 for the purpose of encouraging SSIA holders on low incomes to invest some or all of their matured SSIA funds into approved pension products. See paragraphs 7.48 to 7.52 above in relation to the “Pension Incentive Tax Credit scheme”.

d) Mandatory pension schemes

7.84 The Pensions Board considered a number of options relating to mandatory supplementary pension schemes, including “hard” mandatory, “soft” (opt-out) mandatory and a “hybrid” scheme. The principles agreed by the Pension Board at the outset of its examination of these various options specified that “changes must not damage existing pension provision or worsen the existing position of any pension scheme”. Accordingly, the estimated Exchequer costs of introducing the various options (below) are based, among other things, on the mandatory options applying to those currently in the labour force who do not have supplementary cover. The wider economic costs of the mandatory options are dealt with separately in the Green Paper.

7.85 The soft mandatory scheme considered by the Pensions Board has the following features:

(a) Eligibility	All those beginning employment on or after the date of introduction of the scheme who do not become members of occupational schemes immediately on beginning employment. There would be no obligation for those who are self-employed to join, but those who wished could. Those in employment at the date of introduction of the scheme would also have the option of joining.
(b) Employee contribution	5% of income
(c) Employer contribution	2% of income
(d) Exchequer contribution	2% of income, to a maximum contribution of €750 p.a.
(e) Opt-out	Contributors could cease contributions after three months’ contributions had been made. No immediate refund of contributions would be allowed in the first year. Where a refund is given, employer and Exchequer contributions are returned. All employees who would be eligible to join on beginning employment would be allowed to recommence contributions at any time on one month’s notice.
(f) Access to funds	Contributors would be allowed to access 25% of their funds tax-free on one occasion before or at retirement.

7.86 The costs of a “soft” mandatory system depend on the take-up. As an illustration of the potential cost, if it were assumed that 100,000 joined the scheme on earnings at the projected average industrial wage for 2007 of €33,000, then the cost in a full year in terms of:

- direct Exchequer contributions to the scheme;
- the tax foregone on employers contributions (including BIK tax foregone); and
- the cost of exemption of the investment income and capital gains of the pension fund

is estimated at €95 million. This cost would rise if the numbers joining the scheme rose beyond 100,000 all other things being equal. (These estimates assume no “opt-outs” from the scheme).

7.87 The “soft” mandatory proposal includes access to pension funds before retirement as a feature. The long-term nature of pension savings is cited as a reason why many choose not to save for retirement or fail to avail of the tax supports for pension savings. There is a view that if individuals were allowed to access some of their pensions savings, the remaining amount that they would save for retirement would nonetheless be greater than it would otherwise have been, i.e. than if they had not saved at all.

7.88 The following arguments are put forward in support of access to pension funds:-

- The commitment required to pension savings would be viewed as less onerous and people could begin and continue pension saving in the knowledge that if their circumstances changed in the future they could access at least part of their assets;
- From an individual’s point of view, an access facility would make savings more efficient as there would be less need to separate retirement savings from other shorter term savings;
- There is a view that the advantage of this facility is more to do with perception than actual usage, and that the positive effects in terms of saving would outweigh the negative effects of actual withdrawals.

7.89 Access to funds is seen to have the following drawbacks:-

- The risk is that many individuals who are already contributing towards a pension will take advantage of this facility with the effect of reducing their retirement provision: this would be an issue particularly for those in compulsory schemes;
- There is a trade-off which may not be acceptable between coverage – new savers attracted by more flexible arrangements – and adequacy – existing savers reducing what may already be inadequate pension provision;
- Given the possibility of undermining the adequacy of existing pension savings,

any change in this area would need to be justified on the basis that it would lead to a net increase in pensions savings. This is an unlikely scenario;

- Depending on the taxation treatment of withdrawals and the impact of access arrangements, there could be additional costs to the Exchequer.

7.90 The “hybrid” mandatory scheme considered by the Pensions Board has the following features:

Eligibility	All employees and self-employed
Eligible income	All earned income between 125% and 500% of the increased State pension (between approximately €15,000 and €60,000 as at June 2006)
Benefit type	Defined contribution
Contribution rate	15% of eligible income
Exchequer contribution	5% (included in the 15% above). This would be in lieu of any employer and employee PRSI relief and of any employee tax relief on contributions
Pre-retirement access	None

7.91 In order to assess the cost of the mandatory supplementary element of the hybrid scheme, the following assumptions have been made:

- That the annual earnings on which contributions, including the Exchequer contribution, would be made would be in the range €15,000 to €60,000 and that the average gross earnings of relevant income earners in this range is €28,500 per annum for 2007 (based on results of the CSO’s latest EU-SILC survey – Survey of Income and Living Conditions);
- The Exchequer contribution (5%) would be in lieu of PRSI relief on employer/employee contributions and in lieu of employee tax relief on contributions which would be paid out of after-tax income;
- No mention is made about tax relief on employers’ contributions to the scheme and it is assumed that such contributions would be considered a business expense and a tax cost to the Exchequer under the proposed scheme;

- That the scheme would be mandatory for those currently without supplementary pension coverage.

7.92 The cost to the Exchequer on the basis set out above (in addition to the cost of higher Social Welfare pensions under this proposal) in terms of its direct contributions to the scheme, the tax foregone on employers contributions (including BIK tax foregone) and the cost of exemption of investment growth on contributions to pension funds is estimated at about €1.4 billion¹⁰⁴ in a full year. The full year cost of the “hybrid” scheme if fully operational and including the cost of higher Social Welfare pensions (about €1.1 billion) together with the cost of the mandatory supplementary scheme is estimated at €2.5 billion. The cost of higher Social Welfare pensions excludes the effects of claims for increases in all other Social Welfare weekly schemes. Such a cost would have to be funded from relatively lower spending elsewhere or from higher taxes with consequent impacts on growth and employment. This would pose significant problems and difficult policy decisions within the wider Government Sector. The estimated costs for either the “soft” or “hybrid” mandatory scheme would be additional to the Exchequer costs in terms of tax and PRSI relief under the existing scheme of incentives for supplementary pension provision.

7.93 Reports prepared by the Pensions Board have highlighted significant issues around the economic and financial sustainability of mandatory pension systems. The ESRI have estimated that the “hybrid” mandatory scheme considered by the Board would have the impact

of reducing real GDP by close to 0.3% in the first year and by about 0.6% in the second year.

7.94 An obvious practical disadvantage of a mandatory supplementary (direct subvention) scheme existing side by side with the current (tax relief) incentive scheme is that it will place additional cost and administrative burdens on employers, employees and the Revenue Commissioners. For employers, payroll systems currently cater for employees with supplementary pension arrangements under the existing (tax relief) scheme by ignoring pension contributions from gross pay for tax and PRSI purposes. Under a mandatory scheme as described under either option above, payroll systems will either have to be adjusted to tax pension contributions for mandatory scheme members or a reliable alternative system would have to be put in place to capture the tax and PRSI due on such contributions. A move in the latter direction would also increase compliance and administrative burdens on employees and the Revenue Commissioners.

¹⁰⁴ This cost assumes that the rates of contribution to the mandatory scheme would apply to the full earnings of those currently without supplementary pension cover and required to join the scheme. The Pensions Board had envisaged that the first €15,000 of income of contributors under the scheme would be disregarded for the purposes of pension contributions (replacement income for earnings up to €15,000 being taken care of by the Social Welfare pension). As this would mean a lower effective rate of contribution to the scheme, the cost to the Exchequer on this basis would be lower than €1.4 billion in a full year. There could, however, be practical difficulties in implementing the scheme on this basis so that €1.4 billion may be considered a more prudent estimate.

Supplementary Pensions – Incentives for Retirement Saving

This Chapter details the current tax arrangements for investment in supplementary pensions. These arrangements involve tax relief on amounts contributed by employers and employees to approved pension schemes and on the investment income and capital gains of the pension funds. Pension benefits payable on or after retirement are taxable subject to an entitlement to a tax-free lump-sum cash benefit.

The Chapter also discusses issues surrounding the estimated cost of these tax incentives. It also discusses value for money and equity issues relating to the current tax relief arrangements. In this context, the potential factors militating against an improvement in supplementary pension coverage are outlined, notwithstanding the tax incentives on offer. The arguments made for tax incentives to be better targeted for those on lower incomes in a cost effective way are considered.

Changes made since 1999 introduced more flexibility and control for certain individuals in relation to their pension arrangements, including the option of investing pension funds in an Approved Retirement Fund (ARF). The Chapter considers the case being made for a general extension of the availability of these flexible options including the arguments for and against such an extension.

Finally, the Chapter discusses various options for change to the existing tax incentive regime and for some forms of mandatory pension schemes for those without supplementary pensions which were previously raised by the Pensions Board. The advantages and disadvantages of these various options are considered, including estimates of the costs involved.

Questions for consideration

1. Can tax incentives be better targeted to encourage improved coverage in a cost-effective way?
2. Should the over-riding principle be coverage or equity and should incentives be offered at the marginal, standard or a hybrid rate?
3. Should pension arrangements (e.g. the ARF option) differentiate between individuals or be open to all on the same basis? Where is the proper balance to be struck between the competing calls for equitable treatment of all pensioners, appropriate protection for vulnerable pensioners and the costs involved?