Regional Seminars

Models for reform

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The current pension system

- Social protection, poverty prevention, minimum incomes
  - Target 1; €300 per week for pensions in 2012
- Replacement income, maintenance of living standards
  - Target 2; 50% of pre-retirement income replaced on retirement
  - Target 3; 70% of people at work need private pensions to meet target 2
- Both objectives and the three targets are inter-related

Model 1: Enhanced social welfare

- Increase the SW pension to 50% of average earnings (c. €300 per week in 2007 terms)
- Deals with replacement income for half the workforce
- Could be (partly) financed via a gradual rise in the retirement age

Enhanced social welfare: Pros

- Near total labour market coverage
- Redistribution and care periods handled within social insurance
- Complements existing pension system
- Supports labour mobility
- No extra administrative cost to pensioners or workers

Enhanced social welfare: Cons

- Cost increases in line with ageing
- Social insurance will be in deficit by 2016
- Who pays?
  - Employee / Employer / Exchequer
- People may reduce private pension contributions and savings
- Increases to the retirement age may be unfair to lower income groups

Model 2: Enhanced voluntary

- SSIA style tax incentives for PRSAs
- ‘Level up’ employee tax relief for other pensions to the higher rate
- Reduced ‘red tape’ for PRSA sales
- Could be (partly) funded by reducing the reliefs available to high earners

Enhanced voluntary: Pros

- Straightforward to implement
- Would not damage existing provision
- Targeted at low/middle income groups
- Relatively low cost to Exchequer
- PRSAs support labour mobility

Enhanced voluntary: Cons

- Success depends on take-up
- Existing PRSAs not achieving the adequacy target
- Relatively high charges to members for personal contracts

Model 3: Soft-mandatory

- Automatic enrolment to a new scheme
- All beginning employment are enrolled and can ‘opt out’ after 3 months
- 5% employee, 2% employer and 2% State contributions (to a max of €750)
- Once-off access to funds possible before or at retirement

Soft-mandatory: Pros

- Reinforces individual responsibility
- Early results from a similar New Zealand scheme are encouraging
- Relatively low cost
- Inertia is a major reason for not taking out a pension (CSO coverage statistics)

Soft-mandatory: Cons

- May damage existing good pensions (levelling down, non-progression)
- High contribution rate is a disincentive to employees/employers (collusion)
- Do young people make decisions in their long term interest?
- Implementation issues and minimum role for State is compliance

Model 4: Mandatory

- Compulsory savings for all non-pension members
- 15% total contribution rate on earnings from €15-60k
- Including 5% State contribution
- Social welfare at 40% of average earnings

Mandatory: Pros

- Only guaranteed way to meet system targets (Pensions Board reports)
- Should increase National savings since people without pensions save
- 80% of people at work covered

Mandatory: Cons

- High cost option
- Competitiveness issues, especially in low wage sectors
- Major implementation issues
- Likely to take over existing provision
- Likely pressure for State involvement to keep charges down

Thank You

We look forward to hearing your views