Minister Outlines Progress of Pensions Review and Urges Radical Thinking in Tackling of Country's Serious Pensions Problem

The Minister for Social Affairs, Séamus Brennan T.D. today outlined details of the progress to date on the statutory review of the level and adequacy of pension coverage which he had requested the Pensions Board to undertake as a matter of urgency.

Minister Brennan welcomed the considerable progress that he said had been achieved in identifying new, alternative or enhanced pensions systems for closer scrutiny.

However, he also stressed that a significant amount of work remained to be done over the coming months if the completed review, which he is due to receive in October, was to deliver the structure for a pensions system that would guarantee, at the very least, adequate pensions on retirement for all of our citizens.

The Minister said: "In February I requested the Pensions Board to bring forward the statutory review of pensions strategy by more than one year because I felt that, despite the hard work of all involved, we are failing to mobilise the public at large and employees to start contributing to pensions in the numbers required. One startling statistic encapsulates the pensions dilemma we are facing. Out of a workforce of some 2 million, an estimated 900,000 do not have a private or occupational pension to boost their incomes in retirement. For women, in particular, the statistics on pensions are disturbing. Only one third of working women outside the public service have pensions and many of these have pensions that are far from adequate. The Board's review has made progress and has identified options but I want to again stress that if we are to decisively tackle the pensions problem then radical solutions will have to be seriously considered."

Minister Brennan was speaking in Dublin when launching the Pensions Board Annual Report 2004. It reports limited progress being made on overall Government targets for private and occupational pensions coverage. Figures show a marginal increase in coverage from 51.2% in 2002 to 52.4% in the first quarter on 2004. Coverage for the key target group, those over 30 years, rose from 57.4% to 59.1%.

The Minister said that in recent weeks he had called a comprehensive briefing session to examine the progress to date of the review of the pensions strategy. At that meeting members of the Board and their consultants outlined five systems that have been selected for assessment for the Board by consultants.

Minister Brennan said: "I am today making public details of those systems so as to stimulate further discussion and debate. In order to ensure that the final proposals presented to me later this year offer the best and most attractive pensions products, I have asked the Board to examine how best we can tap into the savings habit created by the SSIA's as one route to creating a pensions/savings scheme that would have widespread appeal. The issue of introducing more mandatory requirements is under close examination, and I have also asked that the Board explore innovative ways of encouraging and allowing people to work past official retirement dates and age restrictions, if they wish to do so."

The five pension systems selected for assessment are:

1. **Enhancement of current voluntary supplementary system**

    - Contributory old age pension of 34% of average industrial earnings (no change to current system).
    - Voluntary supplementary pension system.
    - Tax credit on employee contributions at 42%: equivalent benefit for non-taxpayers. Maximum qualifying income equal to current PRSA/RAC income limit.
    - Employer contributions allowable as a business expense up to the PRSA/RAC limits.
    - Investment income free of tax.
    - No change to the taxation of pension benefits.

2. **Mandatory supplementary private system**

    - Contributory old age pension of 34% of average industrial earnings (no change to current system).
    - Mandatory supplementary pension system, comprising 5% employer/5% employee contributory to a maximum of twice average industrial earnings. Earnings below the current PRSI minimum will be exempt.
    - Further voluntary employer and employee contributions permitted, and qualify for tax relief.
    - Tax credit on employee contributions at highest income tax rate: equivalent benefit for non-taxpayers. Maximum qualifying income equal to current PRSA/RAC income limit.
    - Employer contributions allowable as a business expense up to the PRSA/RAC limits.
    - Investment income free of tax.
    - No change to the taxation of pension benefits.

3. **Mandatory supplementary state defined contribution system**

    - Contributory old age pension of 34% of average industrial earnings (no change to current system).
    - Mandatory supplementary state defined contribution system, comprising 5% employer/5% employee contributory to a maximum of twice average industrial earnings. Earnings below the current PRSI minimum will be exempt.
    - Further voluntary employer and employee contributions permitted, and qualify for tax relief.
    - Tax credit on employee contributions at highest income tax rate: equivalent benefit for non-taxpayers. Maximum qualifying income equal to current PRSA/RAC income limit.
    - Employer contributions allowable as a business expense up to PRSA/RAC limits.
    - Investment income free of tax.
    - No change to the taxation of pension benefits.

4. Mandatory supplementary state earnings related system

- Contributory old age pension of 34% of average industrial earnings (no change to current system).
- Mandatory supplementary state earnings related system to a maximum of twice average industrial earnings. Earnings below the current PRSI minimum will be exempt. Benefits of 1% of revalued annual earnings for each year of contribution. The contribution rate would be calculated to be cost-neutral in the long-term, and would for projection purposes be divided equally between employees and employers.
- Further voluntary employer and employee contributions permitted, and qualify for tax relief.
- Tax credit on employee contributions at highest income tax rate: equivalent benefit for non-taxpayers. Maximum qualifying income equal to current PRSA/RAC income limit.
- Employer contributions allowable as a business expense up to the PRSA/RAC limits.
- Investment income free of tax.
- No change to the taxation of pension benefits.

5. Enhanced basic pension, voluntary supplementary provision.

- Contributory old age pension of 50% of average industrial earnings. The additional cost of this benefit would be met by a separately identifiable charge.
- Voluntary supplementary pension system.
- Tax relief on employee contributions at marginal income tax rate. Maximum qualifying income equal to current PRSA/RAC income limit.
- Employer contributions allowable as a business expense up to the PRSA/RAC limits.
- Investment income free of tax.
- No change to the taxation of pension benefits.

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