

Summary of the Green Paper on Pensions

Robert Wolfe

Society of Actuaries in Ireland PRSA Forum

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Green Paper on Pensions

⌘ Introduction

⌘ Demography

⌘ Coverage and Adequacy

⌘ Options for Change

⌘ Regulation



Green Paper on Pensions

⌘ Originated in “Towards 2016” Agreement

⌘ Published 17 October 2007

⌘ 14 Chapters

⌘ 44 questions

⌘ Submissions requested



Green Paper on Pensions

⌘ Additional Publications

☐ Actuarial Review of Social Insurance Fund

☐ Review of the Irish Annuity Market



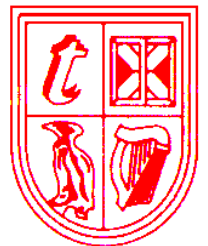
Green Paper on Pensions

- ⌘ 1. The Current System and its Overall Philosophy
- ⌘ 2. The Demographic Challenge
- ⌘ 3. A Modern and Sustainable Pensions System
- ⌘ 4. Maintaining Income Adequacy in Retirement
- ⌘ 5. The Social Welfare Pension in Ireland
- ⌘ 6. The Social Welfare Pension: Reform Options
- ⌘ 7. Supplementary Pensions
 - Incentives for Retirement Saving



Green Paper on Pensions

- ⌘ 8. Possible Approaches to Pension Development
- ⌘ 9. Issues Regarding DB and DC Pension Schemes
- ⌘ 10. The Funding Standard
- ⌘ 11. Annuities and Related Issues
- ⌘ 12. The Role of Regulation
- ⌘ 13. Public Service Pensions
- ⌘ 14. Work Flexibility in Older Age:
 - A New Approach to Retirement



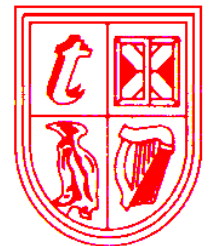
Pensions System Objectives

- ⌘ "The overall objective of the pensions system ... is to ensure that people have an adequate income in retirement."
- ⌘ Social Welfare pensions should provide "an adequate basic standard of living"
- ⌘ Voluntary supplementary pension arrangements



Demography

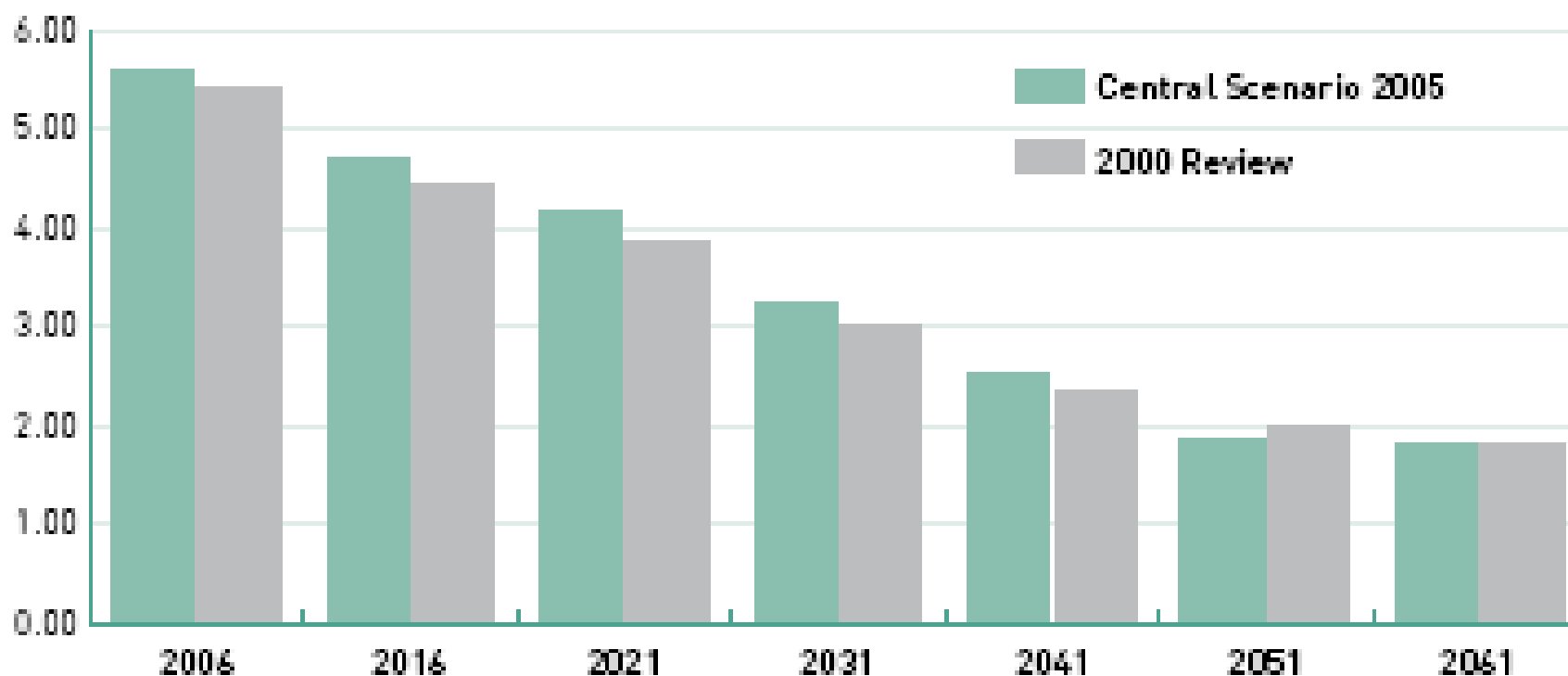
Life Expectancy from Age 65	2006	2036	2061
Male	15.9	20.6	22.3
Female	19.3	23.8	25.6





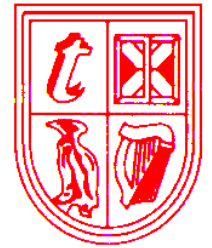
Demography

⌘ Pensioner Support Ratio



Source: Green Paper on Pensions (2007)

Supplementary Pension Coverage



	1995 ESRI	2002 CSO	2005 CSO	NPPI 5 Year Target	NPPI Ultimate Target
All Workforce	46%	51%	55%	53%	60%
Aged <30	28%	36%	39%	34%	35%
Aged 30-65	54%	58%	62%	62%	70%
Self-Employed	27%	44%	44%	36%	44%
Employees	51%	53%	57%	58%	64%

Source: Green Paper on Pensions (2007)

SAI Recommended Contribution Rates (2006)



Annual Salary	Target Pension (in today's money)	Age you start saving				
		25	30	35	40	45
€20,000	€10,000	0%	0%	0%	0%	0%
€30,000	€15,000	6%	7%	9%	11%	14%
€30,784	€15,392	6%	7%	9%	11%	15%
€40,000	€20,000	9%	11%	13%	17%	22%
€50,000	€25,000	11%	13%	16%	20%	26%
€60,000	€30,000	12%	14%	18%	22%	29%



PRSA Contribution Rates

⌘ PRSA Contribution Rates 2005 / Income

Income 2004	23-27	28-32	33-37	38-42	43-47
€15,000-€24,999	5.1%	6.8%	7.7%	8.6%	9.2%
€25,000-€34,999	5.9%	6.0%	7.1%	7.7%	10.3%
€35,000-€44,999	6.6%	6.8%	7.7%	9.1%	9.8%
€45,000-€54,999	7.6%	7.2%	8.7%	10.3%	12.9%
€55,000-€64,999	6.0%	7.8%	9.6%	12.0%	14.6%

Source: Green Paper on Pensions (2007)

Cost of Tax Reliefs

⌘ PRSAs

☒ Individual Contributions:

$$€300M * 38\% = €114M$$

☒ Employer Contributions:

$$€30M * 12.5\% = €4M$$

☒ Plus relief on PRSI and Health Levy

☒ Plus relief on investment income and gains

⌘ Total Gross Cost = €3,220M

Source: Green Paper on Pensions (2007)



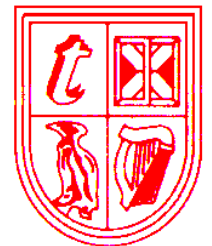
National Pensions Review - Options for Change

- ⌘ (a) Exchequer matching for personal contributions to PRSAs
- ⌘ (b) Increase tax relief on personal contributions
- ⌘ (c) Encourage the saving of SSIA proceeds for retirement purposes
- ⌘ (d) Mandatory pension schemes



Possible Approaches

- ⌘ A. Current System
- ⌘ B. Enhanced Social Welfare Benefits
- ⌘ C. Enhancements in respect of voluntary pension provision
 - ☑ State matching PRSA contributions
 - ☑ Increase tax relief on personal contributions
 - ☑ Eliminate fact-finds for Standard PRSAs
 - ☑ Income cap for pension purposes
- ⌘ D. Soft mandatory pensions
- ⌘ E. Mandatory pensions



Possible Approaches

⌘ Assessed against NPR Criteria

- ☑ Coverage
- ☑ Adequacy
- ☑ Cost
- ☑ Competitiveness
- ☑ Continuity
- ☑ Modernisation
- ☑ Redistribution



Possible Approaches

⌘ SAI is on record as of the view that if any further mandatory provision is considered necessary this should be achieved by raising the State pension (rather than mandatory or “soft mandatory” DC top-up)

⌘ Pros:

- ☑ Administratively simple and cost-effective
- ☑ DB (most suitable for lower – paid workers)
- ☑ Redistributive
- ☑ Benefits those already retired or close to retirement as well as younger workers

⌘ Cons

- ☑ PAYG (even if pre-funded, benefits are within political gift)
- ☑ DB (rigidity re retirement age)



Increasing Coverage – Lessons From SSIAAs

- ⌘ Easily understood incentives
- ⌘ Importance of having some access to funds
- ⌘ Manufacture a Deadline
- ⌘ "IAPF research found that 86% of those with no pension would start one under an SSIA type structure whereas 60% of those surveyed have little or no knowledge of how current tax incentives work."
- IAPF Press Release March 2008



Pension Guarantees?

- ⌘ Possible State guarantee for holders of small Standard PRSAs
- ⌘ Example of €1 p.a. per €15 contributed
- ⌘ Investment and longevity risks



Regulation

- ⌘ Revenue Commissioners (Tax issues)
- ⌘ Financial Regulator (RACs, Buy-out bonds, annuities)
- ⌘ Pensions Board (Occupational pensions, PRSAs)
- ⌘ Equality Tribunal



Regulation

⌘ Regulatory Objectives

- ☑ Savers receive benefits to which they are entitled
- ☑ Avoid misappropriation
- ☑ Avoid abuse of tax reliefs
- ☑ Provide information to savers to assist in
 - choice of pension vehicle (e.g. value for money)
 - assessing adequacy
 - making investment choices
 - making choices on retirement or leaving service



PRSA Regulation

- ⌘ Pensions Board role is proactive at approval stage, reactive thereafter
- ⌘ Balance between burden of sales regulation and risk of unsuitable sales
- ⌘ Pensions Board does not see risk of unsuitable sales as significant



Regulation - Charges

⌘ Regulation of charges only applies to PRSAs

⌘ Comparison with UK Stakeholder Pensions

☑ Projected PRSA fund is approx 97% of UK Stakeholder fund

⌘ RIY increased if transfer taken early

⌘ Sales remuneration may be one-third of total charges



Regulation - Charges

- ⌘ Low maximum charge can make business unprofitable
- ⌘ Maximum charge can become the norm
- ⌘ Price controls may be impractical, and can cause anomalies
- ⌘ Increased disclosure of charges may be better than setting maxima



Regulation - Competition

- ⌘ Competition should lead to downward pressure on charges, but no hard information
- ⌘ Life assurance market dominated by a small number of companies
 - ☐ Distribution
 - ☐ Scale / Expertise
 - ☐ Complexity of Regulation
 - ☐ Currency



See also ...

⌘ Pensionsgreenpaper.ie

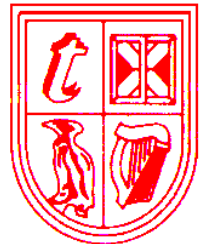
☐ Green Paper on Pensions


☐ Additional Publications

☐ Submissions

⌘ Presentation to IAPF - 13 November 2007

⌘ SAI Evening Meeting - 2 April 2008





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