Society of Actuaries in Ireland

Invitation to submit views on gender gaps arising within supplementary pensions in Ireland

Response to Pensions Council

June 2021

Preface

The Society of Actuaries in Ireland ("Society") is the professional body representing the actuarial profession in Ireland.

This is the Society's response to the invitation from the Pensions Council to submit views on gender gaps arising within supplementary pensions in Ireland. We have structured our response by considering the seven policy guidelines in the OECD report "Towards improved retirement savings outcomes for women", issued in March 2021, as referenced in the Council's invitation.

We would be happy to respond to any questions on this response. Please contact Philip Shier, Head of Actuarial Practice, at philip.shier@actuaries.ie.

Introduction

The Society welcomes the initiative of the Pensions Council to explore ways in which the pensions gap between men and women can be addressed.

Before commenting on the seven policy guidelines set out in the OECD report, we would make three general remarks:

- Issues designed to improve education, access, coverage, and levels of contribution made apply also to males, although we agree that some of these are more prevalent amongst females, and proposals to improve these shortcomings should not be focussed exclusively on females.
- The gender gap in pension provision is directly linked to the lower pay and service gaps in the female population, and these cannot be fully resolved within the pensions framework.
- Some of the issues discussed below, such as education and access, will be at least partly addressed by the introduction of an automatic enrolment (AE) system. In addition to taking account of replacement rates and affordability issues, the earnings trigger for AE should be set having regard to gender differences and should not disproportionately impact on any group. For example, females in employment are twice as likely as males to be earning the minimum wage. Setting the AE earnings trigger at €20,000 will begin to address this gender-based coverage gap and extend greater retirement savings coverage to women in their own right as opposed to them being (more typically than men) classed as a dependant on their spouse/partner's cover. Cognisant of the above, further consideration may need to be given to those earning below €20,000 (a group which would include a relatively greater proportion of women).

OECD policy guidelines

1. Promote women's access to pensions

An effort is required to ensure that all women regardless of their employment status have access to a pension plan and understand the long term benefits as well as the tax incentives available.

A useful starting point would be to focus on industries that predominantly employ women such as the childcare sector.

- Where a pension plan is already in place efforts must be made to promote this plan and encourage take up. Such steps are addressed in the next section below.
- Where a pension plan is not in place, access to a personal pension plan should be promoted by educating the workforce on the benefits of investing for retirement, no matter how small the contribution. This education can come in the form of an annual pensions information day where Government offers access to webinars or one to one consultations.
- Pension plan access should be a mandatory part of contracts of employment at outset by requesting employees to indicate the contribution they wish to make to their pension plan. Anyone who opts out should be encouraged to reconsider their decision. In effect it is a soft way of encouraging take up without making it mandatory.

Another category to consider is the women that are not in employment.

- A suggestion would be to enable non earners to make contributions to a personal pension plan and to receive a top up from the State in the form of a tax credit. This is to make up for the tax relief they do not receive on their contributions given they are not in employment.
- The spouse of a woman not in employment should be able to make contributions to a pension plan on behalf of their partner and receive tax relief at the marginal rate.
- Use incentives to encourage women to return to the workforce by greater flexibility in working hours, subsidised child care costs and by doing so, giving them an opportunity to contribute to a pension plan.

For women who are already in a pension plan or who have access to a pension plan, efforts should be made to encourage early take up and to maintain regular contributions throughout their employment.

- Eligibility requirements to join the plan should be relaxed by reducing or eliminating waiting periods.
- Those who leave employment within two years should be encouraged to maintain their pension pot in a plan rather than opt for a refund of their own contributions.
- The plan should be promoted for part timers and contract workers who are typically female. This can be encouraged by ensuring there are no minimum contribution requirements and by promoting flexibility (by amount and frequency) regarding the payment of contributions.
- AVCs should be encouraged, particularly before the 31 October deadline each year to enable lump sum contributions to be paid in respect of the previous tax year to help make up any shortfalls.
- Where bonuses are paid, a communication to encourage partial or full payment into the pension plan should be made.

Efforts should be made to address the concerns many women have regarding pensions. Such concerns include the impact of investment market falls, having reduced access to funds for immediate spending, the affordability of paying contributions, the lack of understanding of the benefits at retirement. Ireland's annual pensions week would be a good way to help improve understanding of pensions by offering advice, media coverage etc.

2. Encourage women's participation

The most effective way to encourage participation (by men as well as women) is to introduce some level of compulsion. In some cases, membership of the employer-provided pension scheme is a condition of the employment contract, and we support the retention of this right as the most effective way of ensuring participation. Employers who do make pension scheme membership compulsory should, in designing their pay and benefits packages, have regard to the needs of all categories and levels of employee, and should ensure that the value of pension provision is understood, by encouraging take up initially and by continuous efforts to persuade those who do not join at outset to do so later. This could include:

- Auto-enrolment where individual must opt out if they do not wish to join the plan.
- Soft compulsion by offering additional benefits to those who join and remain in the scheme.
- Offer employer matching contributions as part of scheme design.

- Pay full time equivalent contributions for those who work part-time due to family/caring responsibilities or those on maternity, paternity, parent's or parental leave. [Note this includes males as well as females, although the large majority are likely to be female.]

As mentioned above education on the benefits of having a personal or occupational pension plan is required.

- Understanding the downfalls of over reliance on the State pension. Explaining the likely level this will be at their future retirement date and when it will commence.
- Understanding the tax incentives for both employer and employee of paying pension contributions.
- Providing access and encouraging the use of projection tools to enable understanding of their likely retirement income.
- Education on the benefit options on retirement such as the access to a tax free lump sum, annuity vs ARF.
- Education on the investment choices available and the risk vs return concept.

For many years now, car insurance for women is regularly advertised. They are generally charged lower premiums as they are expected to make fewer claims. Such coverage can also be done for pensions. Media campaigns highlighting the pension gap are required to increase awareness of this issue. Women are more likely to have small pension pots at retirement but yet are expected to live five years longer than men.

- Use Pensions Week to promote the importance of retirement planning.
- Encourage part-timers and those on maternity, parental and carer's leave to keep up their regular contributions in monetary terms. This could be subsidised fully or partially by employer.

3. Improve the level and frequency of women's contributions to retirement savings arrangements

with contributions from employers or spouses, financial incentives that target groups with large female representation (e.g. low-income groups), subsidies for maternity and caretaking, contribution limits that can be carried forward, and targeted communication to educate women on the importance of regular contributions.

- The vesting period in Ireland is currently two years. This means that, even where the employer provides an occupational pension scheme, individuals could be in employment for 2 years (and possibly up to 2.5 years where there is a waiting period of 6 months) without accruing any right to pension benefits. This rule may disproportionately disadvantage females who may take up part-time or shorter-term employments. Consideration should be given to removing the vesting period and should be a key consideration for the design of AE. This will effectively increase employer contributions.

- Related to the point re the vesting period, currently where individuals do not have a right to a preserved benefit on leaving service, they can opt for a refund of their own contributions (taxed at the lower rate of 20%). Whilst this can be attractive to individuals – immediate access to cash and potentially tax efficient – this does mean that pension benefits aren't being built up, and the benefit of the employer's contributions is lost. At a minimum, there should be improved communication around the implications of taking a refund, possibly supporting by the Disclosure Regulations. For example, the benefit of transferring member contributions to a new employer's pension arrangements is often not appreciated (i.e. the ability to link the service for vesting purposes). Also, the practice of automatically refunding contributions should be discouraged – schemes seek to do this for a number of reasons including the cost of administering small funds.
- The tax relief available on employee contributions is a key incentive for individuals to save for their retirement. The earnings for females can be very variable due to periods of absence (e.g. maternity leave, caring responsibilities, etc) and having the ability to carry forward contribution relief would encourage more pension saving. For example, a seven year look back period for pensionable earnings for tax-relief purposes would assist in making up contributions for periods of absence.
- Similar to the above, consideration should be given to amending the age-related limits on contributions which are eligible for tax relief; there is already a precedent for certain occupations (30% for below age 50) and this could be extended to all.
- The overall contribution restriction on PRSAs based on both employer and employee contributions for tax relief purposes, which differs from other forms of pension provision, should be addressed. This would enable females to contribute more in circumstances where they return to work after a period of absence, for example.
- Pensions are often viewed as complex and, in many instances, the rules can be very complicated. How they are communicated can have a material impact on the level of contributions made by individuals. For example, according to a 2017 Irish Life survey 67% of females were savers compared to 59% of males. Therefore, focusing on the savings aspect of pension contributions rather than the investment options could lead to more member engagement. Lack of confidence in 'investing' and pensions can deter people from planning for retirement.

4. **Adapt the design of retirement savings arrangements to the career patterns of women** by allowing more flexibility with respect to contributions, improving the portability of plans, and adapting the fee structures to small account balances.
    - Actions which promote greater cost transparency, flexibility and portability will be of benefit to all pension savers.
    - This should be a particular focus for AE. In particular, we support the "pot follows member" approach which will make saving easier and more efficient for those who move job frequently and might not otherwise build up meaningful pension rights.

5. **Improve investment returns on women's retirement savings** by implementing non-conservative default investment options and offering objective assessments of their risk tolerance to inform their investment decisions.

    We do not think this is be a major issue in Ireland given the trust-based pension system which provides a default investment strategy which should be appropriate for all members, and which is chosen by the vast majority of members of DC schemes. Pension savers are provided with information on risk and reward and in many cases are provided with advice in relation to the selection of their investment option.

6. **Increase women's own retirement benefit entitlements**

The ideas here would be to allow spouses to share pension rights with each other in an equal way.

- Married couples are treated jointly for tax purposes in a number of ways, but for pension purposes are treated separately. This leads to the lower paid partner (which in the majority of cases is the woman) forgoing pension provision with more contributions going into the male pension, and getting the full tax relief. We would suggest a joint pension tax relief that can be split between both spouses, and encourage both parties to save in their own name.
- The courts are required, in divorce proceedings in Ireland, to take account of the accrued supplementary pension entitlements of both parties in deciding on the apportionment of assets. It is important that the value placed on the pensions of both parties is appropriate for this purpose. In cases where one of the parties (most usually the husband) is entitled to a defined benefit pension linked to future salary increases (which includes most public sector pensions), the value placed on this benefit, and the amount available for transfer in the event that the other party wishes to take this, is likely to significantly understate its true long-term value. Such an understated value is frequently given immediate effect when it is set against the value of a family home. In many cases there is a marked disparity in the future ability of the parties to accumulate pension entitlements in the time after the divorce but prior to retirement. However, the courts have no requirement to recognise this or provide for this disparity in appropriate cases e.g. by including a pensionable element to future spousal maintenance payments.

7. Increase the level of retirement income that women receive

It is important to consider defined benefit (DB) schemes and defined contribution (DC) arrangements separately.

- Pensions from DB schemes are generally paid from the scheme's resources, although they may be "bought-out" with an insurance company. The level of the pension paid is determined by the scheme rules, usually based on service and salary, and the rules must abide by the equal treatment requirements of the Pensions Act, and so a man and a woman with identical service and salary will receive the same pension. The pension is not directly impacted by the expectation that the woman will live longer than the man.
- Retirement income from a DC arrangement (after the tax-free lump sum) is taken either via purchase of an annuity or using ARF drawdown. It is a legal requirement that annuity pricing does not differentiate by gender, and hence for the same retirement fund, a man and a woman who opt for the annuity approach will receive the same retirement income. However, retirement income taken from an ARF will be impacted by the longevity of the ARF holder; the longer the ARF holder lives, the more likely that the fund will be extinguished before they die ("bomb-out") and hence a woman, who is expected to live longer than a man of the same age with the same retirement fund, may elect a lower level of annual drawdown to avoid "bomb-out". This can only be addressed by the woman building up a higher retirement fund to enable her to draw down the same level of retirement income with the same level of risk of "bomb-out".

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