

# **The World of Work**

**WRC, Dublin Castle, 6 February 2018**

## **Pensions Policy Developments**



# Pensions Goal – Adequacy & Sustainability

For men and women of all generations to be in a position to have a sustainable income which adequately meets their living needs for the duration of their retirement years.



# Multi-Pillar Pension System

- Reduce risk and improve total retirement income.
- Employees, Employers and the State each have a part to play
- (Redistributive) State pensions (1st pillar) - Adequate basic income to guard against poverty
- (Private) Supplementary occupational pensions (2nd pillar) & personal pensions (3rd pillar) – to supplement State pension & maintain living standards.



# State Pension - Performance

- Meets objective well - over 65s are 4 times less likely to experience poverty compared to the population as a whole

	0-17 years	18 - 64 years	65 years and over
At Risk of Poverty Rate	19.3%	16.6%	10.2%
Deprivation Rate	25.2%	20.9%	13.1%
Consistent Poverty Rate	11.1%	8.5%	2.1%



# Demographic and Fiscal Challenges

- State Pension cost > €7.5bn annually
- + 17,000 pensioners annually = + € 200m
- Those of pension age will double from 586K (2015) to 1,193,000 (2045)
- Working age/pensioner ratio 4.9/1 (2015) - 2.7/1 (2045)
- Pension life expectancy ↑.
  - 1970's 7 years male and 10 female. Today 17 (m) 20 (f)
- 'Modest' 2020 projected annual SIF shortfall of €0.2 billion to increase to €3.3b 2030 & to €22.2 b 2071.



# State Pension – Total Contributions Approach

- State pension is Employer/Employee PRSI SIF funded
- State Pension at approx. 34% average wages will remain bedrock of pension system
- Difficulties with current 'averaging' system
- A new 'Total Contributions Approach' (TCA) will replace the averaging approach for new State Pension (contributory) applicants – c.2020
- TCA more logical & clear - individual's lifetime contribution will more closely match the benefit received



# New Automatic Enrolment Retirement Savings System

- Voluntary approach not delivering required coverage/adequacy
  - 35% private sector workers with a pension
- Excessive decreases in living standards and/or increasing reliance on State supports
- Earnings related system for workers without adequate supplementary provision
- AE '*nudge*' maintains individual freedom of choice to 'opt-out'
- Increase individuals' financial retirement readiness & independence
- Consensus exists on the AE need....but not the how!
- 2022 begin enrolling



# New Automatic Enrolment Retirement Savings System

- For those employees without retirement savings
  - Accommodating self-employed, part-time workers & multiple job holders
- Sustainable political and social support/consensus required
- Economies of Scale required
- Institutional setup & infrastructure – Public V Private balance?
- Design Issues
  - Target membership
  - Contribution rates and collection mechanisms
  - Financial incentives
  - Opt-out conditionality
  - Default Investment and Income Drawdown
  - Admin-light, Cost-Competitive, Simple to Understand





# Other Reforms – Retirement Age & More Flexible Working

- Change 'cultural norm' of set retirement age – flexible working – support those who wish to work past “normal” retirement age
- Equality Act 2015 clarified 'objective justification' ✓
- WRC Code of Practice on Longer Working ✓
- Keep operation of these under review – consider legislative measures if required
- State Pension deferral options
- Awareness of financial incentives for over 65s

