Tax, Inheritances & Generations

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Points of Discussion

- Life expectancy – Ireland and the European context.
- Tax treatment, history and more recent changes.
- What do the changes mean for the future?
- Pensions as just another financial asset in the future?

Life Expectancy

- Ireland now has the longest life expectancy is Europe at a range of ages.
- Increase is mainly driven by improvements for men.
- Unusual feature of Eurostat figures is the consistent improvement of small wealthy countries, Ireland, Denmark & Finland over CEE States and larger countries.

Improvements – 2011 to 2020

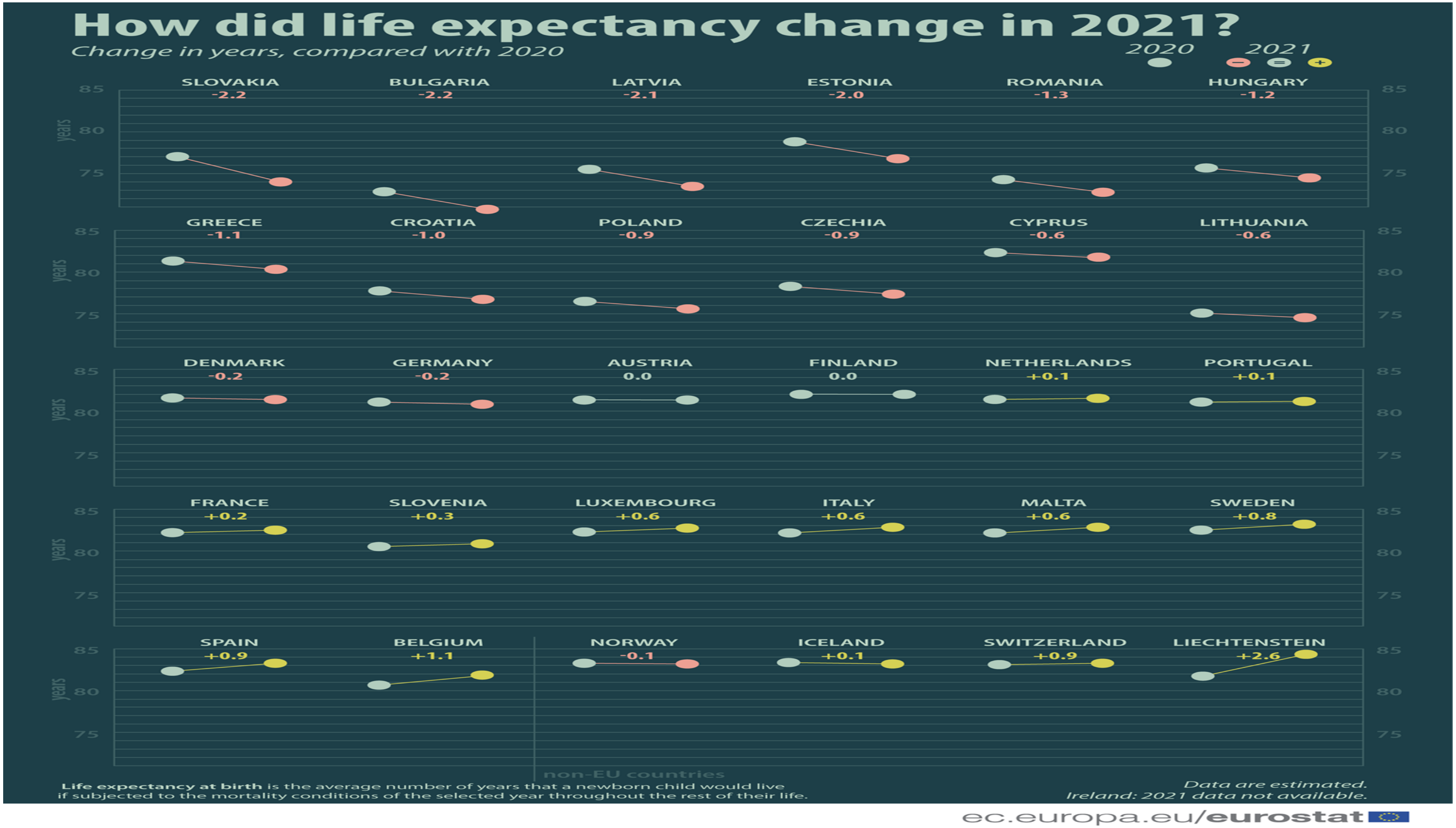
At Age	Men			Women		
	2011	2020	% increase	2011	2020	% increase
0	78.6	80.8	2.8%	83	84.4	1.69%
45	35.4	37.2	5.08%	39	40.3	3.33%
65	17.9	19.4	8.38%	20.9	21.9	4.78%
75	10.7	12	12.15%	13	13.9	6.92%

Future

- Covid had little effect on Irish mortality. Median age of those dying with Covid was 82.
- Death rates in 2020 & 2021 were broadly in line with previous years.
- Reasons for premature death unlikely to return, e.g. industrial accidents, road fatalities
- Will the improvements for men continue to significantly outstrip those for women?

European Context

- Many EU States were already seeing very slow improvements in Life Expectancy.
- The PIGS are showing little improvement over time.
- Ireland has signficantly better life expectancy than any region of the UK.



How did life expectancy change in 2021?
Change in years, compared with 2020
2020
2021
SLOVAKIA -2.2
BULGARIA -2.2
LATVIA -2.1
ESTONIA -2.0
ROMANIA -1.3
HUNGARY -1.2
GREECE -1.1
CROATIA -1.0
POLAND -0.9
CZECHIA -0.9
CYPRUS -0.6
LITHUANIA -0.6
DENMARK -0.2
GERMANY -0.2
AUSTRIA 0.0
FINLAND 0.0
NETHERLANDS +0.1
PORTUGAL +0.1
FRANCE +0.2
SLOVENIA +0.3
LUXEMBOURG +0.6
ITALY +0.6
MALTA +0.6
SWEDEN +0.8
SPAIN +0.9
BELGIUM +1.1
NORWAY -0.1
ICELAND +0.1
SWITZERLAND +0.9
LIECHTENSTEIN +2.6
years
85
80
75
non-EU countries
Life expectancy at birth is the average number of years that a newborn child would live if subjected to the mortality conditions of the selected year throughout the rest of their life.
Data are estimated.
Ireland: 2021 data not available.
ec.europa.eu/eurostat

Provisional 2021 figures

- Not available for Ireland, but
- 2020 trends continued, with CEE States not recovering Covid losses.
- Some significant improvements noted over 2020, Italy, Sweden,Spain & Belgium, all of which had significant Covid losses.
- CEE States continuing to do badly across the income divide, Czech Rep & Poland both down 0.9 of a year.

Summing up

- Vast majority reaching retirement age
- And then drawing their pensions for far longer.
- Small, wealthy EU States doing far better than the rest.

History of Tax Relief

- Section 54, Finance Act 1853 introduced tax relief for Life Assurance contributions – assumption saver would purchase annuity, or his widow would.
- Purpose was to assist individuals to save towards their old age and/or provide for their family.
- Pre-dates the creation of occupational schemes.
- Relief for Life Insurance premiums finally withdrawn in Ireland by Section 4, Finance Act 1992.

Superannuation schemes

- Finance Act 1921, a UK Act, introduced most of the modern tax reliefs around superannuation schemes.
- Tax relief on employee contributions, exemption from tax on superannuation funds.
- Schemes had been managed through friendly societies prior to then or employer funded on an ex-gratia basis. The trust model first used in 1899.

Early Schemes

- Initial employer sponsored schemes were for clerical, managerial & professional staff only.
- Used to retain key workers and keep those handling money honest, “pensioning the workforce”.
- But by far the largest scheme in UK in early 20th century was run through a friendly society, with 140,000 members.
- Early Irish schemes include, Guinness, Arnotts & the various railway companies.

Expansion in Pension Cover

- DB schemes became the norm in larger industrial companies.
- Cover moved from the office to the factory floor.
- Poor life expectancy, little real improvement at age 65. Male life expectancy at age 65, 1927 was 12.8 years (Irish Life tables 1), fell consistently until 1992 (Irish Life tables 12) made pension promises comparatively cheap.

McCreevey changes

- By late 1990s, there was a problem – many people had massively overfunded their retirement – their pension funds had become mini-family offices.
- Owner/managers & senior staff had overfunded pension funds to avoid/defer income tax
- This group had no wish to buy annuities.
- Finance Act 1999 was the beginning to be the solution to their problems

Initial changes

- Section 19, Finance Act 1999
- No need to buy annuity -
- "'***a lump sum not exceeding 25 per cent of the value of the pension which would otherwise be payable'***." could be taken tax free – no relation to previous income.
- Money to be transferred into Approved Retirement Funds.
- Initially no limit to size of fund

Subsequent changes

- Residual value of fund no longer taxable on the deceased and then liable to CAT.
- Now exempt to CAT and a flat 20% income tax charge when transferred to child over 21.
- Minimum imputed withdrawals
- Introduction of maximum fund size, initially €5M.
- Upper limit on tax free lump sum/redundancy of €200,000
- Revised method for valuing pensions from DB scheme, based on age pension taken.

Defined Benefit Statistics

Year	Active	Pensioner
2021		
2020	69959	104196
2019	73146	101063
2018	77356	99458
2017	106954	102971
2016	111397	102015
2015	121995	100585
2014	137357	97868

Death of DB Schemes

- Open ended hard to quantify financial risk to sponsoring employers.
- Increasing life expectancy, far greater than assumed.
- Increased number of female members, added substantially to liabilities, without higher employee contributions.
- Reluctance of employees to contribute more to cover risk.
- Lifetime employment ending.
- End of paternalistic employer practices.
- Administrative ease.
- Flexible pay models, e.g. use of shares, flexible benefits.

Pensions & Family Assets

- Slow death of Defined Benefit schemes and McCreevey changes, no longer obliging a person to buy annuity, revolutionise pension provision.
- A DC scheme is little more than a “tax-wrap” for long term collective saving.
- Draw down minimised to maximise CAT exemption.

Incentive to minimise withdrawals

- Changes incentivise hoarding, drawing down minimum to maximise long term inter-generational transfer.
- Gaming of tax system, tax relief at 40% on contributions, exempt income inside scheme and remaining about taxable at just 20%, when given to child over 21, exempt to spouse.
- No longer a stream of income, rather a block of assets.
- Risk moves to individual/family to plan.

Public Sector & AVCs

- Substantial (excessive?) use of AVCs by existing Public Sector employees to top up DB pensions.
- It is likely the number of AVCs will grow because of
  - Career averaging for more recent recruits
  - Later retirement age
  - Recruitment of staff at older ages
  - Large amounts of job sharing, career breaks etc.

Summing up

- 19th century - Personal saving encouraged to buy an annuity
- Later expansion of Defined Benefit schemes
- Aided by provision of tax relief.
- Legislation changed so as purchase of annuity no longer obligatory at the same time switch to DC from DB occuring
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Four generation society

- Niamh, born 2021 to Siobhán, aged 31
- Siobhán, born 1990 to Máire, aged 29
- Máire, born 1961 to Síle aged 24
- Síle born 1937
- Using Irish Life Tables 17, Síle's life expectancy is 90 (she was 79 in 2016, 10 years plus one year in subsequent improvement)

Hey presto! A live example from twitter!

Over 65s in Population

Year	Over 65s	Total population	Over 65s as %
1926	271680	2971992	**9.14%**
1936	286684	2968420	9.66%
1946	314322	2955107	10.64%
1961	315063	2818341	10.69%
1966	323007	2884002	11.20%
1979	361375	3368217	10.73%
1986	384355	3540643	10.86%
1996	413882	3626087	11.41%
2006	467926	4239848	11.04%
2016	637567	4761865	**13.39%**

2021 Population estimates

- Over 65s now 14.81% of total population, over 70s 10.24% and over 75s (the Italian age for “old”), 6.36%
- But of over 25s, the figures jump to 21.96% (over 65), 15.18% (over 70) and a significant 9.43% (over 75). By 2025, this increases to 24.22% (over 65), 17.10% (over 70) & 11.00% (over 75)

Summing up

- Rapidly increasing number of older people, in real terms and as a proportion of adults.
- Churning of wealth among the over 60s.
- No clear idea of cost of pension promises made in the past.
- A general tax model, which encourages hoarding of assets, by promoting excessive saving and discouraging drawdown/spending.
- A political en passe, blocking minorities for all sensible changes.

Finally what does it mean?

- Concentration – CSO and other research suggests those in pensionable employment, marry others in pensionable employment.
- Equally applies to those in high status professions.
- Pension concentration

Group at Risk

- Foreign born workers
- Unlikely to inherit much/anything – low levels of asset accumulation in CEE countries.
- Less likely to be in a position to build up significant savings – likely to be permanent renters.
- No inter-generational transfers restricts ability to improve family's economic position.

Rotha móra an tSaoil

- Are we returning to a Gladstonian era of personal/family responsibility for post work income?
- DB schemes in reality only ever covered a minority, but significant because of link to better paid mainly male full-time employees. (H-of-H)
- As in 19^{th} century, just Government employees can look forward to a guaranteed income in retirement.