

Should Public or Private Pension Provision Be Enhanced in Ireland?



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Automatic enrolment: policy considerations

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Fundamental Choice for Pension Policy Posed in *Green Paper on Pensions* (2007):



“There is a fundamental choice to be considered in addressing the question of pension adequacy between, on the one hand, concentrating largely on enhanced Social Welfare payments and, on the other, focusing mainly on measures to encourage greater personal savings through supplementary pensions.” (par. 8.15)

- **But the choice was not based on comparison of costs and benefits for the two components of the pension system**

National Pensions Framework (2010): Extend Supplementary Pensions Via Auto-enrolment



Introduce three principal changes in the pension system:

- Auto-enrolment for employees to increase coverage & adequacy
- Employers, without pension arrangements, to enroll employees & contribute on a mandatory basis
- Auto-enrolment contributions: employee 4%, employer 2%, State 2%
 - State contribution equivalent to tax relief at 33%



... and Weaken Social Insurance Pensions

- *State Pension Age*: increase from 65 to 66 in 2014, to 67 in 2021, to 68 in 2028
- Will eventually reduce lifetime value by 16.5% for those born in 1960 or later
- *Contributions*: in 2020 introduce total contribution requirement of 10 years for min. & 30 years for max. pension
- will mean about half of pensioners will not qualify for full State pension (*Actuarial Review of Social Insurance Fund 2010*) most are likely to be women
- **Decision on auto-enrolment endorsed in 2017 by Minister for Social Protection (now Prime Minister) for implementation in 2021**

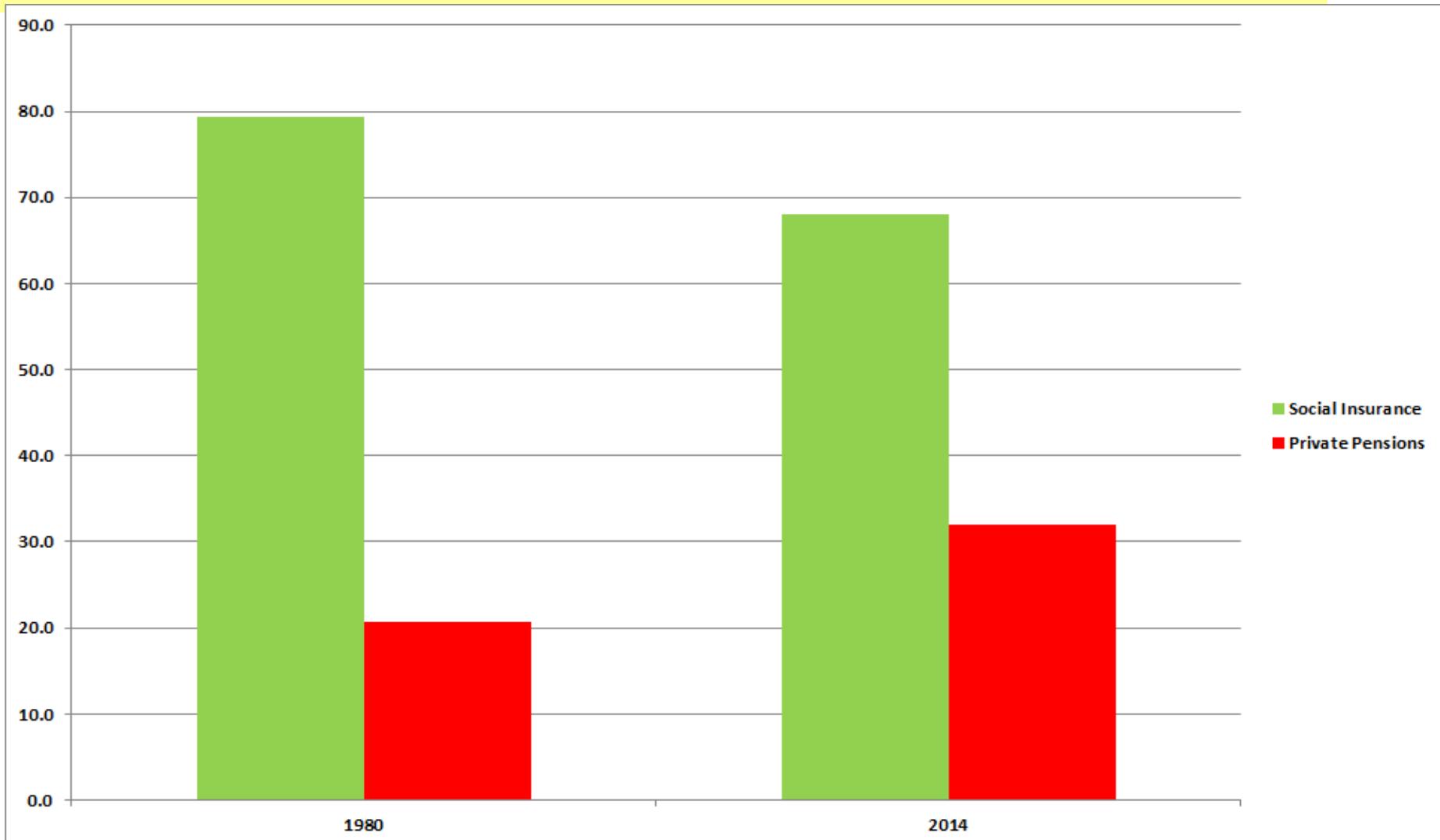


Overview of Presentation

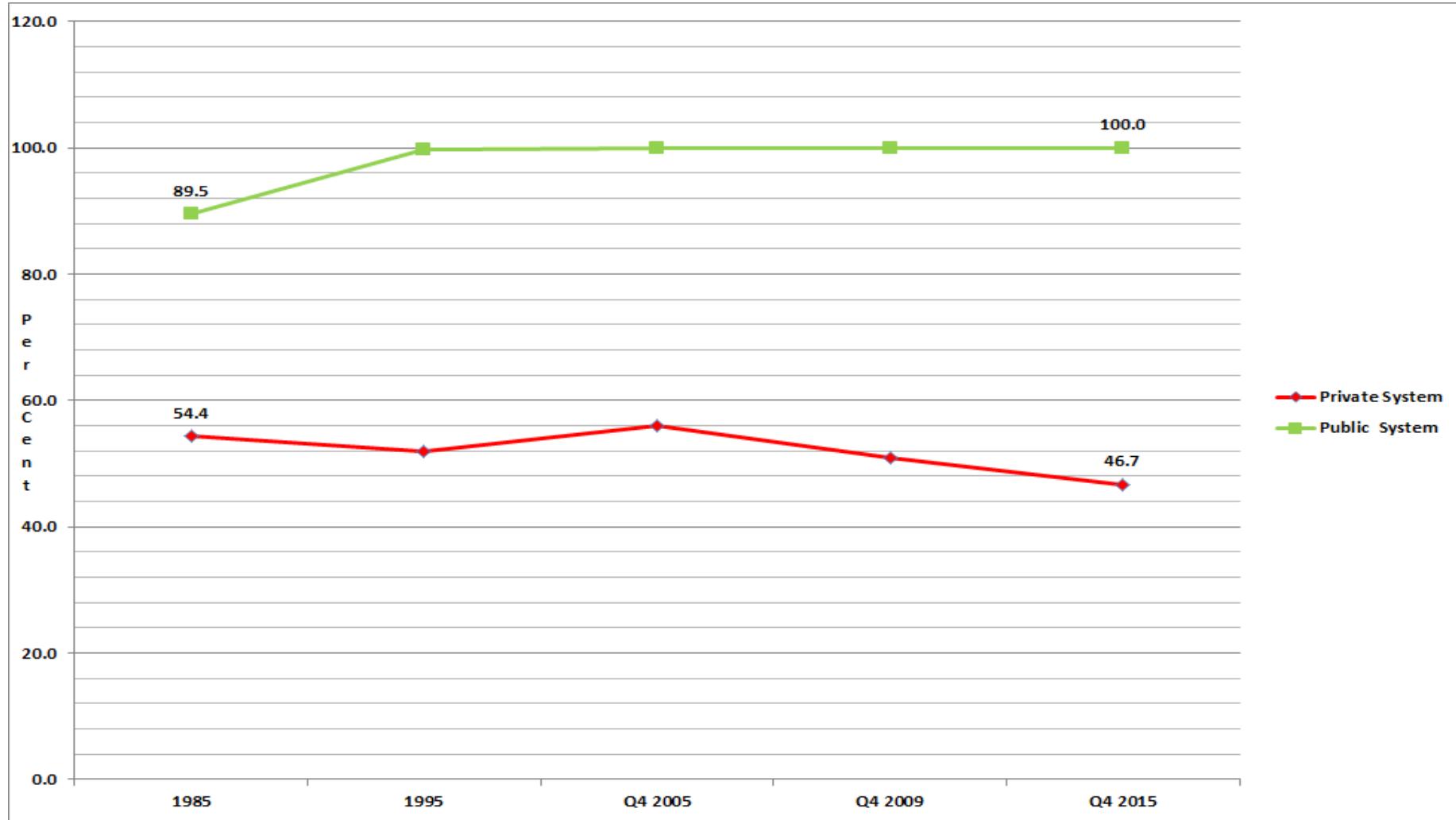
- **Key question: Who is best at delivering cost effective pensions for employees & self-employed?**
- **Shift of resources to private pensions**
- **Coverage of public & private pension systems**
- **Percentage benefiting from public & private pensions**
- **Cost of direct expenditure on public pensions & tax expenditure on private pensions**
- **Summary & conclusions**



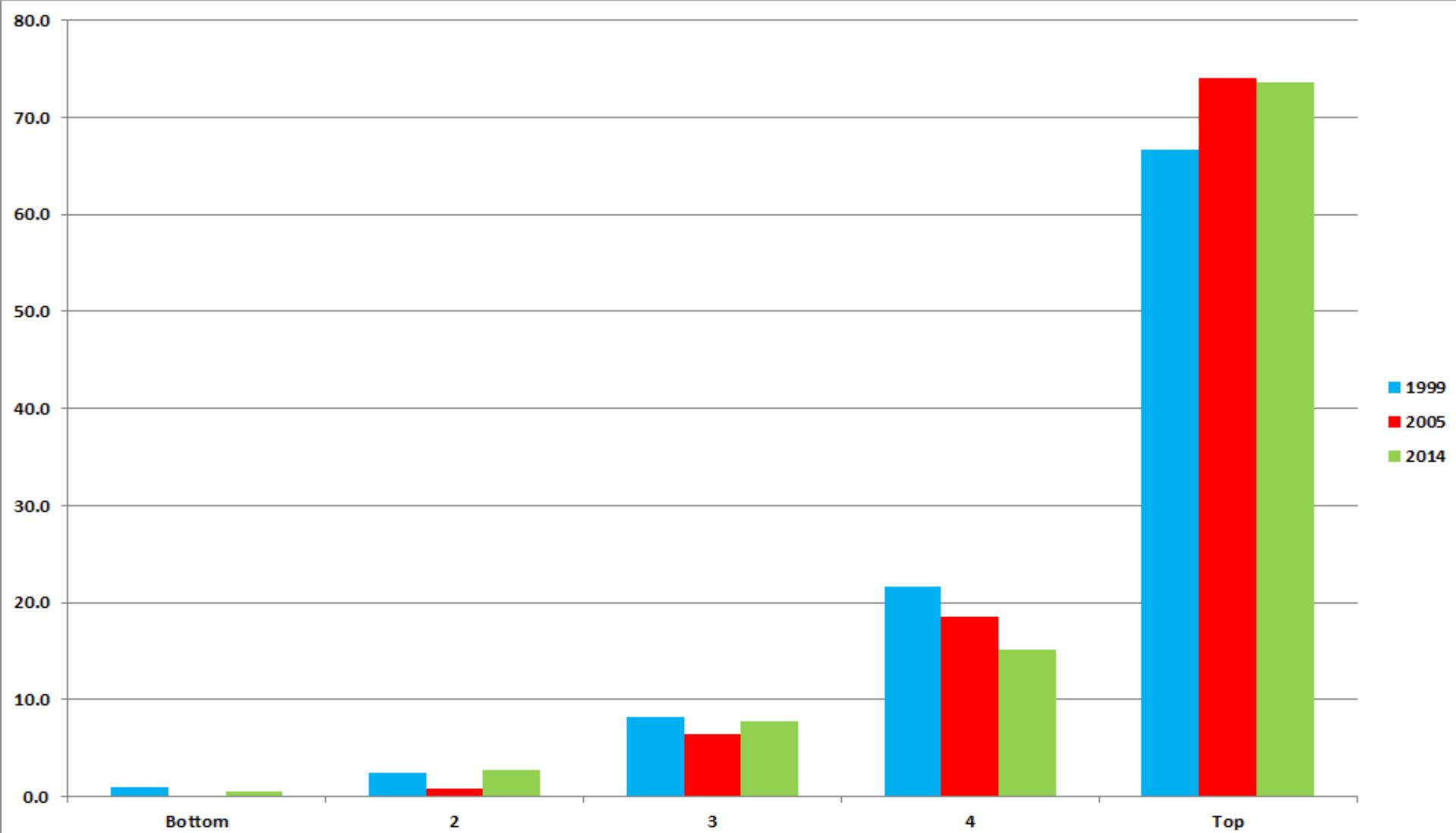
Since 1980 Resources Shifted to Private Pensions: Percentage of Total Resources Going to Public & Private Pensions , 1980 & 2014 (%)



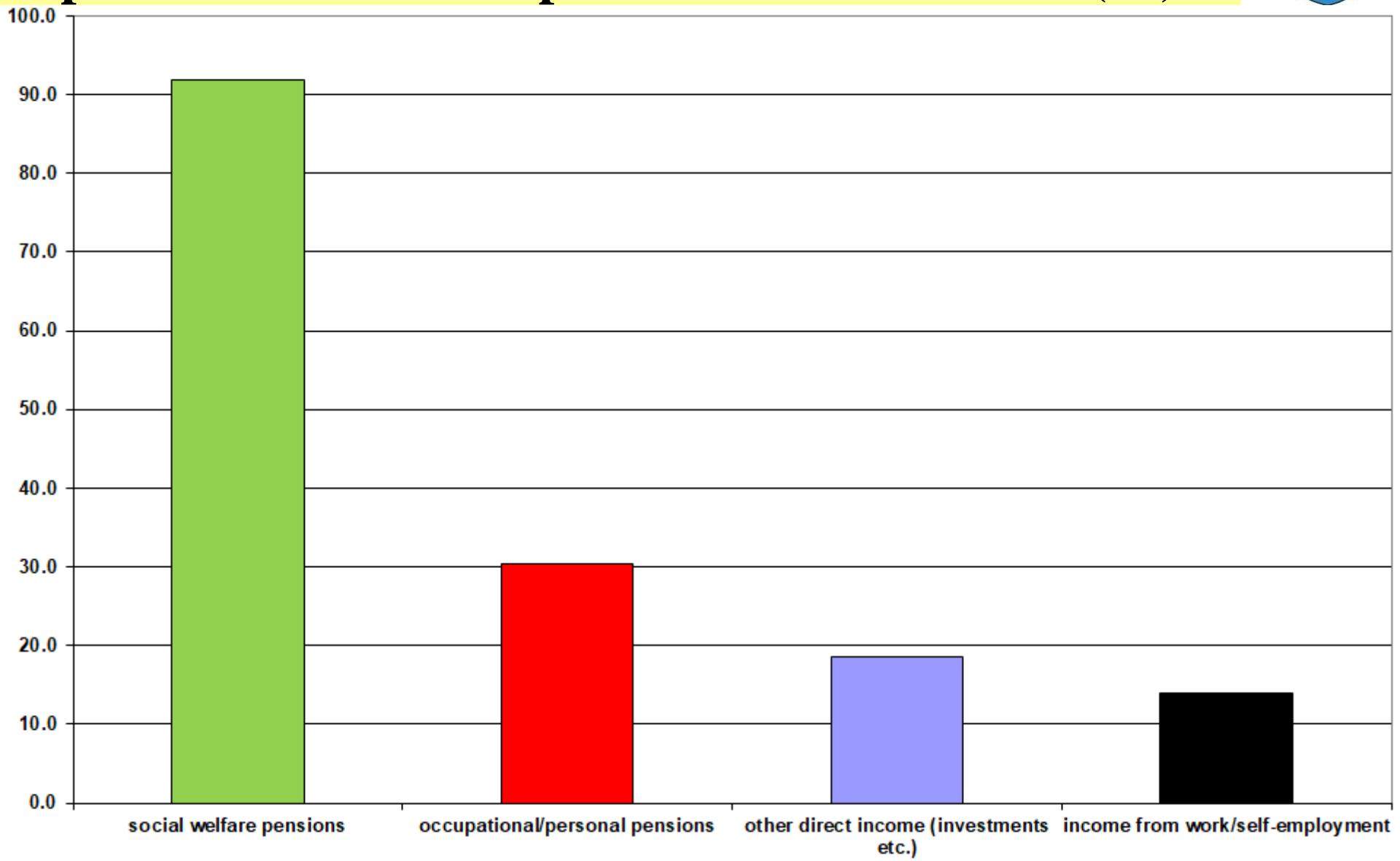
Coverage is Universal in Public System, Less Than Half in Private System & Fell Between 1985-2015



Comparison of Distribution of Tax Relief on Employee & Self Emp. Contribution 1999, 2005 + Individual Cont. by Quintile in 2014



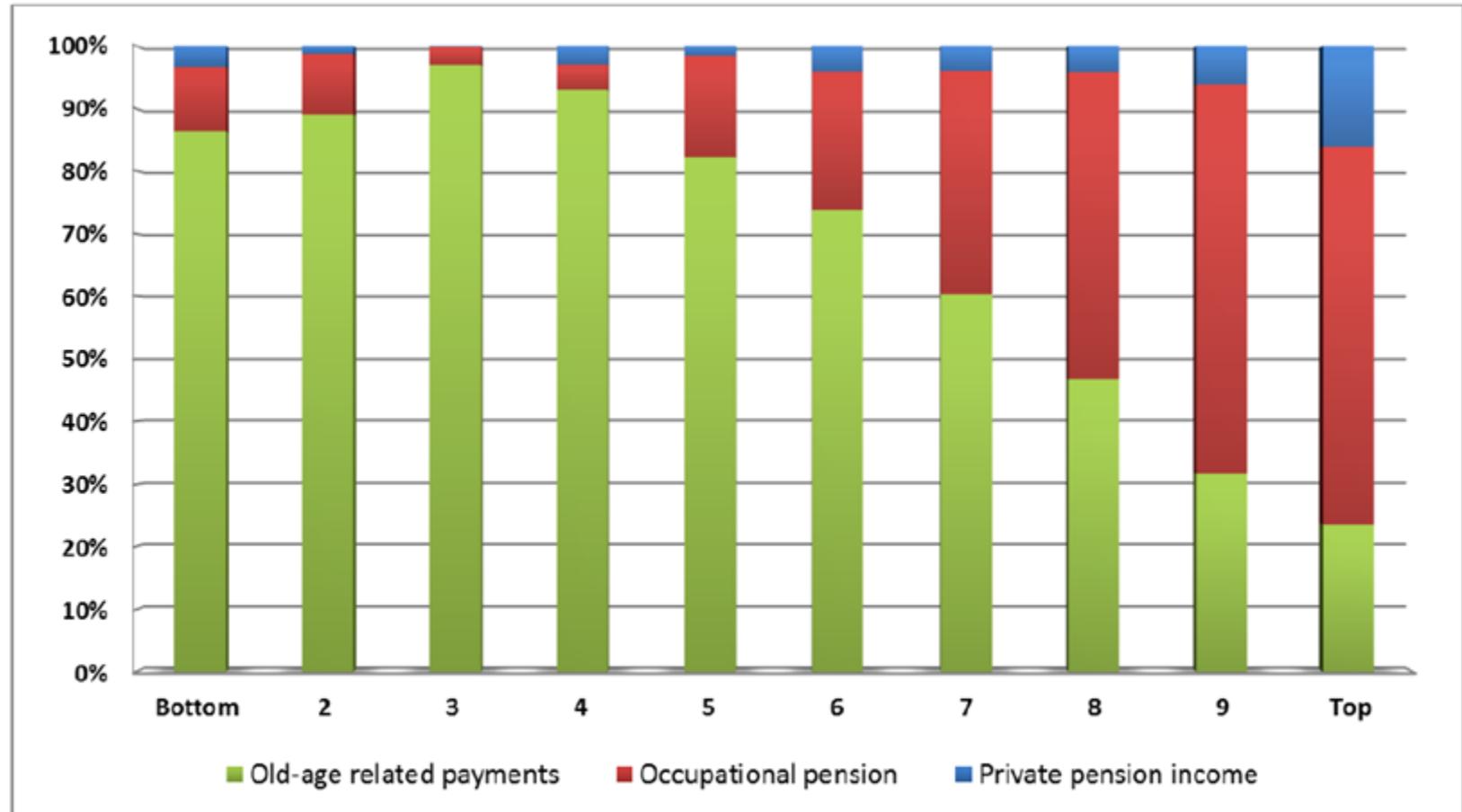
Performance of Social Welfare & Private Pensions: Public pensions provided income for 91%, private pensions for 30% of pensioner units in 2005 (%)



Public Pensions Most Important Source of Income in 2014 for Nearly 80% of Pensioners

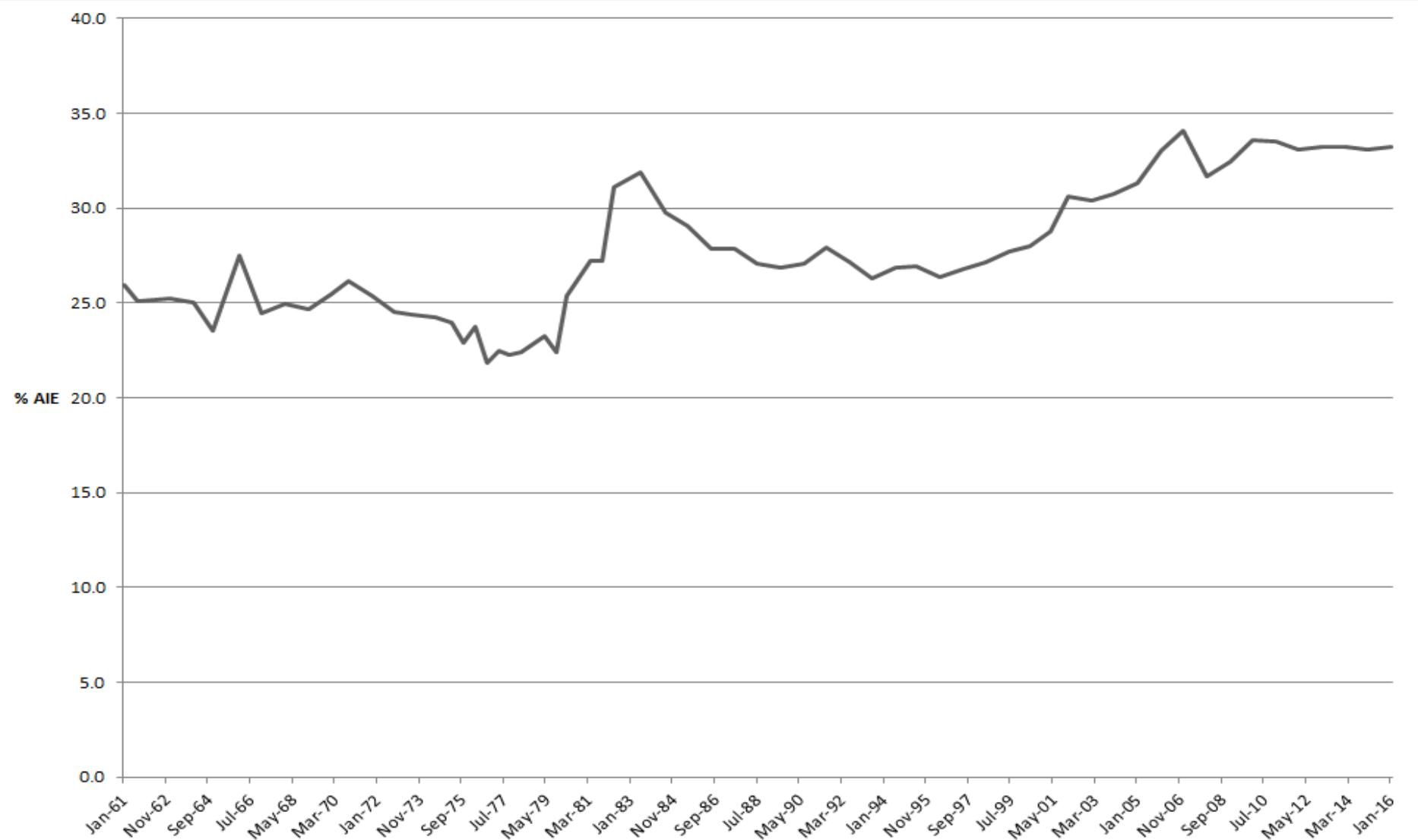


Figure 1: The Importance of various Pension Incomes across the Income Distribution, 2014



Source: Calculated from SILC 2014

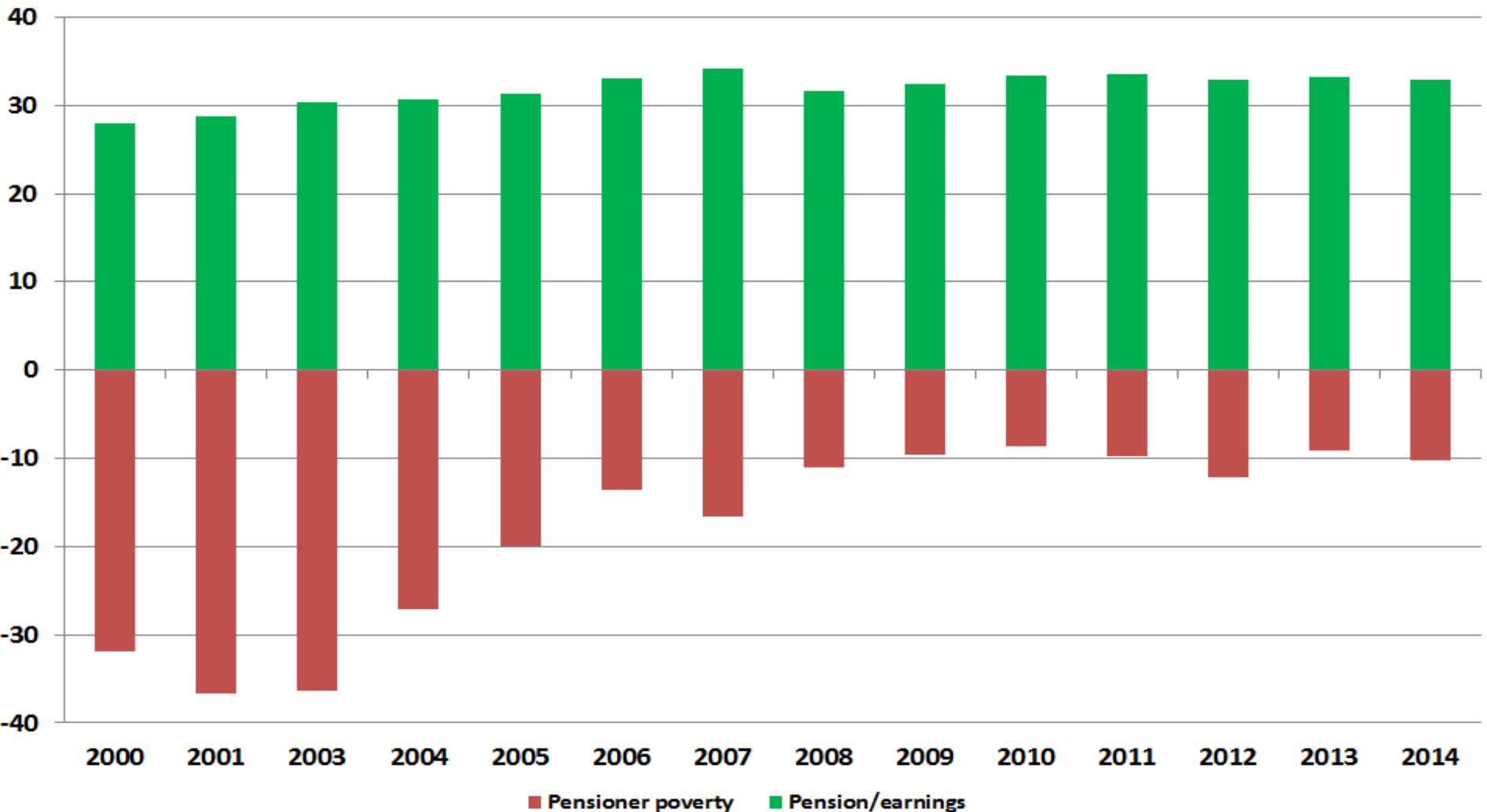
Implicit Indexation of State Pension to AIE or Above Ensures Pensioners Share in Rising Living Standards, 1961-2016



Outcome of State Pension Replacement Rate Policy & Pensioner Poverty, 1997-2014



Relationship Between Pension/Earnings Rate and Pensioner Poverty, 2000-2014



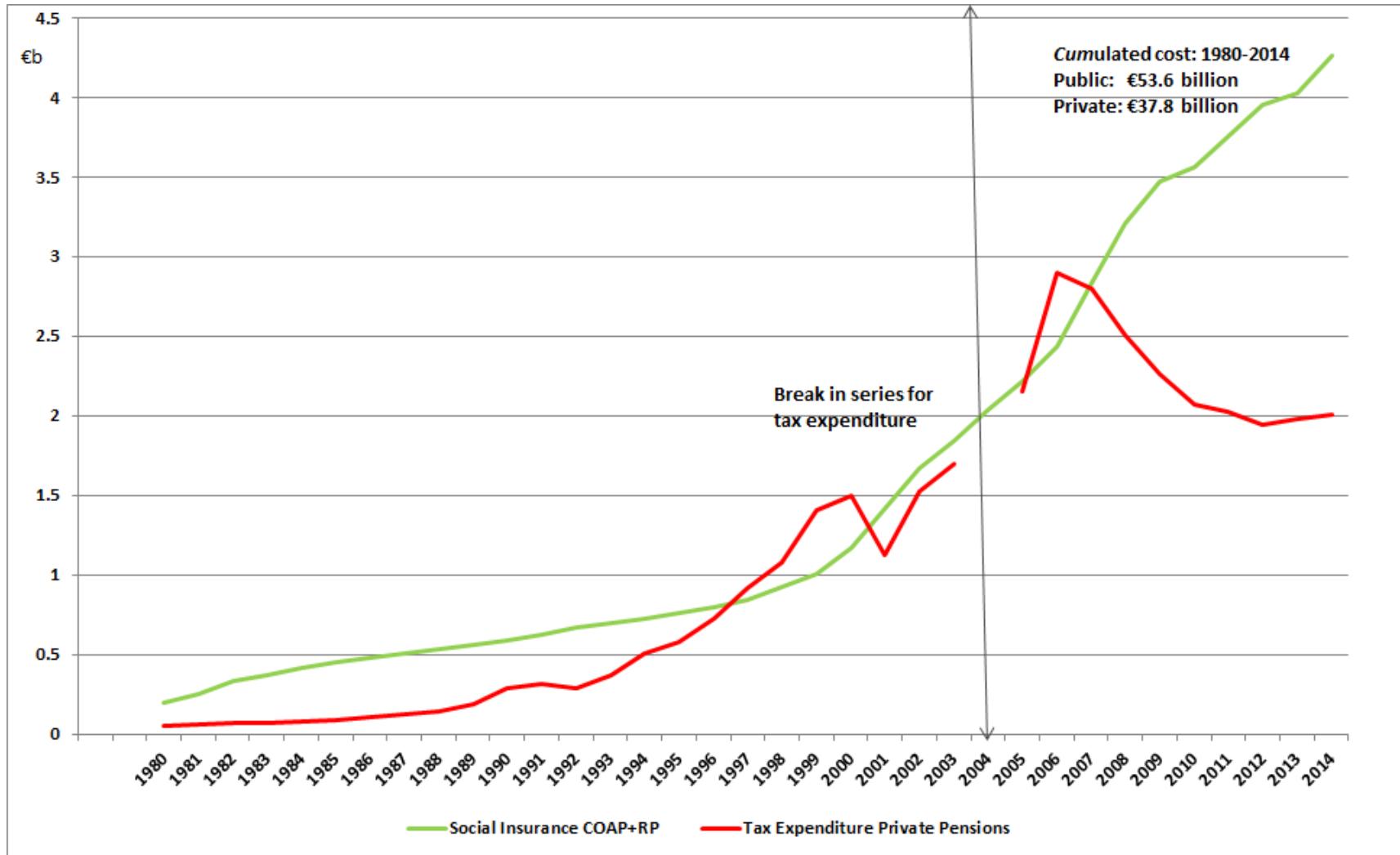
Current Cost of State Expenditure on Public & Private Pensions, 2014



Cost	Public Pensions	Private Pensions
Gross cost	Direct Exp. €4.3 billion	Tax Exp. €2.4 billion
No. participants	2,219,990	602,100
Per participant cost	€ 1,914	€ 3,986



Annual & Cumulated Nominal Net Cost Tax Exp. on Private Pensions & Gross Cost Direct Exp. on Public Pensions, 1980-2014 (€b)



Current & Future Cost of Direct Exp. on

Public Pensions is Low & Tax Exp. on



Private Pensions is High in OECD Countries,

2011 & 2050

- **Public pensions**
 - 2011 Ireland 5.3% OECD average 7.9% of GDP
 - ninth lowest in 34 OECD countries
- **Private pensions**
 - Ireland 1.1% OECD average 0.4%
 - 4th highest of 21 OECD countries (OECD, Pensions at a Glance 2015)

Other Performance Measures of Private Pensions Show Failure of its Objectives



- **Tax incentives for pension saving failed to increase savings rate: % GDP 1970 7.1% 2015 7.6% (OECD data)**
 - - regression 1970-2015 no positive trend for savings rate
- **Defined Benefit private pensions failed to deliver the promised benefits**
- **No. DB schemes** 1992 2,621 2016 628
- **Consequences:**
 - outside public sector DB closed to new entrants
 - private sector employers offer only DC pensions



Summary & Conclusions

- **The private pension system is inequitable, expensive, ineffective & is not fit for purpose for anyone who is not a high earner & needs reform of tax reliefs & earnings limits to make it fairer;**
- **The public pension system is equitable, sustainable, effective & succeeding in eliminating pensioner poverty but it needs to be strengthened to meet the demographic challenge & to make it fairer for women**