NATIONAL PENSIONS FRAMEWORK

An Roinn Gnóthaí Sóisialacha agus Teaghlaigh
Department of Social and Family Affairs
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NATIONAL PENSIONS FRAMEWORK

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AONAD 20 PÁIRC MIONDÍOLA COIS LOCHA, CLÁR CHLAINNE MHUIRIS, CONTAE MHAIGH EO
(Teil: 01 – 6476834 nó 1890 213434; Fax 094 - 9378964 nó 01 – 6476843)
nó trí aon díoltóir leabhar.

DUBLIN
PUBLISHED BY THE STATIONERY OFFICE
To be purchased directly from the
GOVERNMENT PUBLICATIONS SALE OFFICE
SUN ALLIANCE HOUSE, MOLESWORTH STREET, DUBLIN 2,
or by mail order from
GOVERNMENT PUBLICATIONS, POSTAL TRADE SECTION,
UNIT 20 LAKESIDE RETAIL PARK, CLAREMORRIS, CO. MAYO
(Tel: 01 – 6476834 or 1890 213434; Fax: 094 - 9378964 or 01 – 6476843)
or through any bookseller.

€1.00

Government of Ireland 2010

[PRN A10/0257]

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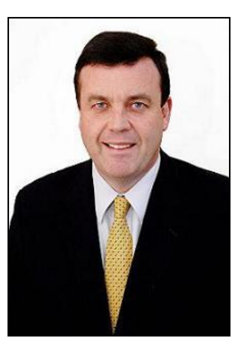
Foreword

Brian Cowen, T.D.
Taoiseach



Brian Lenihan, T.D.
Minister for Finance

Mary Hanafin, T.D.
Minister for Social and Family Affairs

This framework sets out the Government's intentions for radical and wide-scale reform of the Irish pension system. It sets out a fair and equitable approach that encompasses all elements necessary for future pension provision. The State will continue to provide the bedrock for the pension system with the State Pension, while employers and individuals will be encouraged to share the responsibility with Government to save and provide for the future.

Developing this framework has not been an easy task. We started on this reform with the publication of the Green Paper on Pensions and we have been greatly assisted and heartened by the many views of those who contributed to the consultation process. We will continue to consult with all interested parties on the detailed reform arrangements as they are being developed and we welcome and look forward to your continued interest and support.

We know that this long-term framework will pose challenges for us all and implementing such radical reforms will require significant commitment from Government, the pensions industry, employers and individuals. By working together, we can overcome these challenges and ensure that future generations can look forward to a more equitable, sustainable and comfortable pension in retirement.

This Government has always supported pensioners and the substantial increases in the State Pension and other supports in recent years have led to major improvements in their standard of living. But, like other countries, we are facing a number of significant challenges as a society due to the fact that we have an ageing society and a reducing workforce. We must plan now to ensure the adequacy of retirement incomes and the long-term future and sustainability of our pension system.

We embarked on this project to develop a robust strategic response to these emerging challenges. Since then, the much changed economic circumstances and the turmoil in global financial markets over the last year have placed question marks over the capacity of the current pension model to accumulate the required amount of income to serve future pension needs. It is clear that the pension model we pursue must be comprehensive, sustainable and capable of delivering the economic returns required to meet future liabilities as they arise. This task has not been made easier by the recent experience in world financial markets.

This means that we must keep the pensions issue constantly on the agenda and be prepared to accelerate some elements and amend others if necessity dictates. Nevertheless, the basic elements of pension reform presented here will remain - the need to enrol many more savers, the need to promote a fairer system and the need to align pension age and benefits to the unavoidable demographic conditions we will face.

The inescapable fact is that for every pensioner we have now there are around six people at work to support them; by 2060 that figure will be less than two. The sooner we face this inevitability, the better prepared we will be to meet it.

This Government is keenly aware of the current economic environment and the potential impact of some of the proposals on competitiveness, if implemented now. We will ensure that changes are introduced only when we are confident that the time is right. However, we strongly believe that our strategic and long-term policies must be conveyed to all, to provide a clear statement of our intent and direction for the future.

Brian Cowen Brian Lenihan Mary Hanafin

March 2010

Overview of the National Pensions Framework

The aim of the National Pensions Framework is to deliver security, equity, choice and clarity for the individual. It also aims to increase pension coverage, particularly among low to middle income groups and to ensure that State support for pensions is equitable and sustainable. The framework sets out key developments for the future of pension provision in Ireland, as follows:

Area	Key developments
Social Welfare Pensions	• Mandatory social welfare pension coverage will continue. • The Government will seek to maintain the rate at 35% of average weekly earnings. • The system will be simplified with a move to a total contributions approach. • Homemakers' disregard will be replaced with credits for new pensioners from 2012. • State pension age will increase to 66 in 2014, 67 in 2021 and 68 in 2028. • Arrangements will be put in place to allow people to postpone receipt of the State Pension and to make up contribution shortfalls.
Auto-enrolment	• This will increase coverage and employer responsibility. • There will be matching employer contributions and matching State contributions. The State contribution will equal 33% tax relief (delivery mechanism to be decided). • There will be an opt-out mechanism for employees • Access to Approved Retirement Funds will be provided.
Current Occupational & Voluntary Provision	• There will be a matching State contribution equal to 33% tax relief (delivery mechanism to be decided). • Access to Approved Retirement Funds will be provided for defined contribution scheme members. • There will be stronger regulation. • A new DB model is proposed which schemes may wish to adopt in future. • The funding standard will be kept under review.
Public Service Pensions	• A single new pension scheme will be introduced for all new entrants, with effect from 2010.
Tracing Service Dormant Benefits	• A tracing service will be put in place to facilitate the tracing of pension rights by former employees and scheme trustees. • Consideration will be given to the establishment of a State managed fund into which untraceable accounts would be deposited.

1. INTRODUCTION AND CONTEXT

1.1 The Green Paper on Pensions

The Green Paper on Pensions, which was published in October 2007, outlined the challenges facing the Irish pensions system in the years ahead, including the sustainability of the system over the longer term in light of demographic change and the adequacy of contribution levels and benefits. Specific issues in relation to state pensions were also set out, as well as considerations in relation to key aspects of the system including tax treatment, security of pension provision, the regulatory regime, public service pensions and work flexibility in retirement. It also set out key questions to be addressed in formulating the Government's response to these challenges.

1.2 Private and Personal Pension Coverage

The Green Paper on Pensions discussed the issue of pension coverage and the targets proposed by the National Pensions Policy Initiative (NPPI) in 1998 which were reaffirmed in the National Pensions Review (NPR) in 2006. Since the publication of the Green Paper, more up-to-date coverage figures from the Quarterly National Household Surveys (Quarter 1, 2007 and Quarter 1, 2008) have emerged. These have shown:

- Overall, pension coverage has remained largely static since the previous coverage figures (Q4 2005). Coverage in Q1 2008 was at 54 per cent, down slightly from 55 per cent in Q4 2005 but up from 52 per cent in Q1 2002.

- The NPPI set a target of 70 per cent coverage for those in employment aged 30 to 65. The Q1 2008 figure for this group is 61 per cent, down from 62 per cent in Q4 2005 but up from 59 per cent since Q1 2002.

- Pension coverage for employees aged less than 30 years remains low at 37 per cent in Q1 2008. This is a concern, given that beginning pension contributions at an early age is likely to greatly improve income in retirement.

- Pension coverage for female workers has increased significantly over the last number of years. In Q1 2002, 45 per cent of female and 57 per cent of male workers had a pension. By Q1 2008, the rate for female workers had increased to 50 per cent and the rate for male workers was 56 per cent. Women are one of the priority groups targeted by the National Pensions Awareness Campaign in recent years.

- In Q1 2008 the highest rate of pension cover is in the public administration and defence sectors at 93 per cent where, typically, pension scheme membership is mandatory. Coverage is very low, however, in the hotel and restaurant sector (23 per cent) and in the wholesale and retail trade (36 per cent).

1.3 The Green Paper Consultation Process and its Outcomes

Publication of the Green Paper was followed by an extensive period of consultation. A dedicated website – www.pensionsgreenpaper.ie – was established to support this process. Submissions were received from 322 individuals and 62 organisations[1].

As part of the consultation process, six regional seminars were held in early 2008. The seminars, in Cork, Sligo, Tullamore, Waterford and two in Dublin, gave people the opportunity to discuss the issues involved and to make their views known and were attended by over 300 people.

In May 2008, an international seminar was held in Dublin with speakers from the OECD, World Bank, United Kingdom, New Zealand, Australia and Ireland. This seminar was attended by 140 people from a wide range of organisations.

[1] All submissions are available on the Green Paper website at www.pensionsgreenpaper.ie/consultation.html

The response to the consultation process reflected the wide range of views and interests held by individuals and organisations throughout the country[2]. While there was no agreement on ways to respond to the challenges facing the pension system, it was clear that there were significant issues and problems that people wanted addressed.

While recognising that consensus cannot be reached and that not all of the issues raised in the consultation process can be addressed, the Government is confident that this framework fundamentally addresses the future of the pensions system in Ireland. The framework builds on the strong foundation of the State Pension and aims to encourage and support people to provide for their retirement savings in a fair, transparent and sustainable way.

1.4 Economic Developments Since Publication of the Green Paper on Pensions

Although Ireland is in the midst of a severe recession, there are indications that the economy may be nearing the bottom of the current downturn. It is expected that positive growth will return during 2010, although it will be 2011 before there is growth for the year as a whole. In Budget 2010, the Department of Finance forecast that for 2010:-

- GDP will decline by 1¼ per cent, with GNP contracting by slightly more;
- Unemployment will peak at an average of 13¼ per cent for the year;
- The numbers in employment will fall by 3½ per cent;
- The harmonised consumer price level will continue to decline, falling by 1¼ per cent in 2010; and
- The General Government Deficit will be stabilised at approximately 11.6 per cent of GDP.

[2] A report of the consultation process was produced in September 2008 and it is available at http://www.pensionsgreenpaper.ie/downloads/Green_Paper_Consultation_Report_Final_Report_final.pdf

Budget 2010, published on 9 December 2009, was the latest in a series of measures designed to restore order to the public finances. Since July 2008, measures have been announced to improve the budgetary position with a planned impact of €8 billion. The consolidation plan set out in Budget 2010, which has been welcomed by the European Commission, foresees the General Government Deficit being brought to under 3 per cent of GDP by the end of 2014.

While recognising the current difficulties, the Government emphasises that this framework is a long-term strategy for the Irish pension system and it will be implemented over time. It is expected that the legislative and infrastructural developments needed for the significant reforms proposed in this framework will take between three and five years to complete.

1.5 Pension Developments Since Publication of the Green Paper on Pensions

It is recognised that there are significant difficulties facing defined benefit (DB) schemes. While these schemes have been under pressure for a number of years due to volatility in stock markets and increased liabilities arising from people living longer, recent market difficulties and investment losses have compounded these pressures. In addition, many defined contribution (DC) schemes, where members bear all of the investment risks, have seen the value of their funds fall significantly.

In such an environment, any measures put in place must not erode competitiveness or create unsustainable pressures. However, it is also clear that fostering a successful supplementary pension environment assists in creating financial stability and wealth and provides a basis for retirement income beyond a reliance on State support.

Since publication of the Green Paper on Pensions, the Government has been working to help sustain the pension system in Ireland and has introduced a range of measures aimed at supporting the system and DB schemes in particular. In addition, the rates of state pension have been increased and there have been changes to the tax system. All of these developments are outlined in the following sections.

1.5.1 Developments Regarding the State Pension and the Tax System

The Government views the State Pension as a key element of the pension system. For many people, it provides their only income in retirement and, for many others, it represents the solid foundation on which the rest of their overall pension income is built. Between 2004 and 2009, the Government increased the State Pension (Contributory) by 38 per cent (from €167.30 to €230.30 per week) and the State Pension (Non-Contributory) by 42 per cent (from €154 to €219 per week). During that same period, average industrial earnings increased by 15.5 per cent while the Consumer Price Index increased by 10 per cent leading to a real increase of some 28 per cent for the State Pension (Contributory) and 32 per cent for the State Pension (Non-Contributory). The rates of State Pension were maintained in Budget 2010.

In relation to the tax system, the annual earnings limit for determining maximum tax-relievable contributions for pension purposes was reduced from €275,239 in 2008 to €150,000 for 2009 to achieve more equitable treatment. In addition, in 2009, there was no upward adjustment of the Standard and Personal Fund Thresholds (the total capital value of pension benefits that an individual can draw upon in their lifetime from tax-relieved pension arrangements with punitive tax on amounts above the limit) which had been indexed in line with an earnings factor since 2007.

1.5.2 Assistance for DC Scheme Members

In December 2008, measures were introduced to enable members of DC occupational pension schemes to defer the purchase of a retirement annuity with their pension funds for a specified period of two years.

Under the deferral arrangement, which is being operated on an administrative basis by the Revenue Commissioners, members of DC occupational pension schemes who retire in the period from 4 December 2008 to 31 December 2010 have the option of taking a tax-free lump sum and purchasing a retirement annuity immediately on retirement or taking a lump sum and deferring the purchase of an annuity up to and including 31 December 2010 by which date this option will cease.

1.5.3 Developments to Ease Funding Pressure on DB Schemes

Recent volatility in the financial markets has significantly weakened the funding position of pension schemes. In this regard, in December 2008, the Government announced a number of short-term measures aimed at reducing the pressure on under-funded DB schemes by allowing greater flexibility and time to recover funding positions. Specifically, these measures mean that the Pensions Board can now:

- Grant additional time for the preparation of funding proposals aimed at restoring pension scheme funding positions;
- Deal as flexibly as possible with applications for approval of funding plans;
- Allow longer periods for recovery plans (i.e. greater than ten years) in appropriate circumstances;
- Allow the term of a replacement recovery plan to extend beyond the end date of the original plan where the scheme is part-way through a previous recovery plan but is off track due to investment losses; and
- Take into account voluntary employer guarantees in approving recovery plans.

In order to ensure that these extensions are not seen as a weakening of supervision, the Pensions Board will reject recovery plans which fail to demonstrate an appropriate investment approach.

These measures have been broadly welcomed as short-term solutions to ease the immediate and significant pressures currently facing defined benefit schemes.

1.5.4 Social Welfare and Pensions Act 2009[3]

In the Social Welfare and Pensions Act 2009, the Government introduced a number of changes to the Pensions Act 1990. These measures focused on assisting trustees of pension schemes to respond to the challenge of maintaining the viability of a pension scheme or, where that may prove impossible, to assist them in enhancing the benefits to scheme members in the event of the wind-up of a scheme.

[3] Enacted on the 28th April 2009.

These additional measures (which are outlined in the following sections) provided for the:

- Establishment of a Pensions Insolvency Payment Scheme (PIPS);
- Re-ordering of the wind-up priorities of a DB scheme;
- Restructuring of DB pension schemes;
- Strengthening of the role of the Pensions Board; and
- Protection of trustees for breach of trust.

(i) Pensions Insolvency Payment Scheme (PIPS)

A DB scheme becoming insolvent may lead to it being wound up. Where the sponsoring employer is also insolvent, there is really no possibility of avoiding this leading to the need for the scheme to purchase annuities.

The cost of annuities has increased significantly over the last 10 years because of falling interest rates and improvements in life expectancy. The current cost of purchasing an annuity to provide a pension of €10,000 per annum for a 65-year-old man, including consumer price index increases but no provision for a widow's pension, is approximately €220,000[4].

This may mean that pension scheme members who have yet to retire will face a shortfall in their pension. This is of particular concern for those close to retirement. For this reason, the Social Welfare and Pensions Act 2009 included a power to enable the Minister for Finance to provide for a Pensions Insolvency Payment Scheme (PIPS). The PIPS will provide an alternative for trustees of DB schemes in deficit where the sponsoring employer is also insolvent. Trustees of participating schemes will pay a lump sum to the Exchequer to cover the cost of providing pensions to their retired members. On receipt of the capital sum into the Exchequer, the Government will take responsibility for the future payment of pensions to the beneficiaries covered by the scheme at the rate set by the Minister for Finance. The PIPS will not provide for post-retirement increases.

[4] The Indecon and Life Strategies, *Review of the Irish Annuities Market – Report for the Partnership Pensions Review Group* (2007) indicated that annuity prices could be expected to be about 18 per cent higher than paying a pension direct from a pension fund.

The PIPS works by the Government, through the National Treasury Management Agency (NTMA), making available an investment facility, that links the return on the pension fund's investment to the 10-year-rate on fully secured Government bonds. This provides a better return than might otherwise be the case for the pension fund in question and this should release additional funds for the benefits of those yet to retire.

It is not possible to say exactly what difference participation in the PIPS will make to any scheme or to any individual because that depends on the characteristics of each scheme. Each scheme involved will have to be actuarially assessed and the NTMA will perform this calculation on behalf of the Minister for Finance. The pricing will be done on a cost neutral basis for the Exchequer.

The Minister for Finance, in consultation with the Minister for Social and Family Affairs, published the necessary regulations on 18 January 2010. The PIPS will operate on a pilot basis for a three year period from 1 February 2010 after which it will be reviewed. Payment to pensioners of schemes already participating in the PIPS will continue regardless of the outcome of the review.

(ii) Change in the Priority Order on Wind-Up

In the event of a defined benefit scheme winding-up, the Pensions Act 1990 stipulates the order in which the liabilities of the scheme must be discharged. Previously, the legislation prioritised the liabilities accruing to pensioners (including provision for post-retirement increases where provided) ahead of distribution of the remaining assets to the active and deferred members. In order to achieve a greater equity in the distribution of scheme assets on wind-up, the priorities were re-ordered by lowering the provision for post-retirement increases.

There is no impact on the current pension payment to pensioners but the level of resources available to other scheme members will be enhanced. Once the basic pension entitlements of all scheme members are covered, the distribution of scheme assets for post-retirement increases will then be applied if there are sufficient funds[5].

[5] It is estimated that two thirds of all schemes include provision for post-retirement increases which may be mandatory or discretionary.

(iii) Greater Flexibility for Schemes to Restructure Benefits in the Event of Under-Funding[6]

It is important to ensure that pension legislation supports the viability of current pension schemes and that it would not be considered restrictive in the ongoing maintenance and sustainability of a pension scheme. The scope of a scheme restructuring was broadened to include those currently in employment, those who have ceased employment with the current employer, and the provision of post-retirement increases for all scheme members including pensioners. This change does not impact on the pension currently in payment to pensioners and so members who have retired, and those who have reached normal retirement age, will not see any diminution of their entitlement to a pension.

(iv) Strengthening the Regulatory Role of the Pensions Board

New measures were introduced to strengthen the regulatory role of the Pensions Board by establishing a separate offence for failure by an employer to remit pension scheme contributions deducted from an employee's wages/salary to the trustees of a pension scheme, and by enhancing the admissibility of documentary evidence. While it is acknowledged that the vast majority of employers comply with these requirements, it is essential that the measures in place are adequate to pursue those who fail to comply.

(v) Protection of Trustees for Breach of Trust

The Court was provided with the power to relieve a trustee, in whole or in part, from liability for a breach of trust, on such terms as the Court may deem appropriate, where the Court is satisfied that the trustee acted honestly and reasonably and that having regard to all of the circumstances of the case the trustee ought fairly to be excused for the breach of trust.

[6] In May 2009, the Pensions Board issued guidelines in relation to this change to the Pensions Act.

1.6 Recent Reports

The *Special Group on Public Service Numbers and Expenditure Programmes* published its report (the "McCarthy Report") in June 2009. The report proposed that the range of reform options for public sector pensions which were discussed in the Green Paper on Pensions should be implemented. In addition, it put forward a number of other reform options in this area.

In relation to state pension provision, the report suggested that an increase in the age of eligibility for the State Pension (Contributory and Non-Contributory) could be phased in over a number of years. However, it did not propose any timeline in this regard or suggest the age to which the eligibility should be increased[7].

The *Report of the Commission on Taxation*, published in August 2009, recommended that the regime for non-funded pensions should be examined to identify the implicit tax cost to the Exchequer. In reviewing the options for tax relief on pension contributions, the report proposes an Exchequer contribution of €1 for every €1.60 contributed by the taxpayer. It also stated that a soft mandatory approach should be considered as it would make a significant contribution to increasing coverage. The report also made a number of other recommendations in relation to pensions, including the introduction of an SSIA-type retirement savings scheme.

The Government has carefully considered the various proposals put forward by the Commission on Taxation and the McCarthy Group and reflected a number of their recommendations in this framework.

[7] *Report of the Special Group on Public Service Numbers and Expenditure Programmes, Volume II: Detailed Papers*, p. 192

1.7 Renewed Programme for Government

In October 2009, following a review of the *Agreed Programme for Government 2007-2012,* the Government published its *Renewed Programme for Government*. The renewed Programme reinforces the Government's commitment to the development of the national pensions framework and sets out the Government's plans in relation to tax relief for pension contributions. Specifically, it includes the following commitment in relation to pensions:

"*We will introduce a single 33% rate for tax relief on private pension provision in the context of the national pensions framework"*

The plans set out in this framework are designed to implement this commitment.

1.8 Contents of the Framework

Section 2 provides an overview of the pension model for the future as set out in the framework as well as detailing the principles on which the framework is based. Section 3 sets out plans in relation to the State Pension. Section 4 describes the new auto-enrolment scheme, while Section 5 sets out planned changes to current occupational and personal pension provision. Section 6 outlines issues in relation to public service pensions and Section 7 deals with work flexibility in retirement. Section 8 describes plans for a tracing service and the treatment of dormant accrued benefits. Implementation arrangements are presented in Section 9 with conclusions presented in Section 10.

2. OVERVIEW OF PENSION MODEL FOR THE FUTURE

2.1 Key Issues

The key issues that this framework seeks to address are:

- The task of financing increasing pension spending will fall to a diminishing share of the population as demographic projections indicate that there will be less than two people of working age to every person aged 65 or over by the middle of the century, compared to almost six people today;

- The impact of demographic pressures: over the next 10 years, the number of people over the age of 65 is expected to increase by approximately 50 per cent, while, by 2050 it is expected to have trebled;

- The projected increase in spending on public pensions (social welfare pensions and public service occupational pensions) from approximately 5½ per cent of GDP in 2008 to almost 15 per cent in 2050. This rise in public expenditure is the equivalent of over €8 billion in 2009 present value terms;

- The need to provide a standard, consistent and efficient structure for the future management and control of public service pensions;

- Growing numbers of people want to work, or may need to work, beyond the state pension age as people are living longer and healthier lives and the costs of pensions are increasing. Sustainability considerations together with increases in longevity mean that increasing the state pension age is essential;

- The indications that some pensioners are not attaining the replacement income target (50 per cent of pre-retirement income);

- The evidence that many pension scheme contributors are under-saving for retirement;

- The significant issues associated with eligibility for the State Pension (Contributory) which are perceived as being unfair to certain groups of people;

- The need for tax incentives to be targeted to strike a balance between encouraging pension coverage, achieving greater equity and the cost-effectiveness of the existing arrangements; and

- The need to ensure that regulation continues to support security and transparency within the pension system.

2.2 Principles Underpinning the Pensions Framework

In deciding upon the appropriate model for a new pension system, the Government was guided by the many and varied contributions made during the Green Paper consultation process as well as the reports of the McCarthy Group and the Commission on Taxation. The value of the State Pension as a fundamental basis for people's retirement incomes was emphasised in many submissions and the Government supports this view. Other submissions emphasised the need to enhance the occupational and personal pension system to encourage more people to save, to increase the amount that people save, and to make the system more equitable.

Taking all of these issues into account, the Government also has an over-riding responsibility to ensure that any reforms are affordable and sustainable. On that basis, the Government decided on seven principles which underpin its approach to pension reform. These are:

(i) Proposals for pension reform must be affordable and sustainable;

(ii) The State Pension will continue to be the fundamental basis for the pension system. The Government will seek to ensure that the level of the State Pension is maintained at 35 per cent of average weekly earnings[8];

[8] As calculated by the CSO in the Earnings, Hours and Employment Costs Survey (EHECS).

(iii) Supplementary pension coverage and contributions must be increased to improve adequacy of incomes in retirement;

(iv) The system of tax incentives offered by the State should be equitable;

(v) Employees, employers and the State each have a role to play in any pension reform;

(vi) People should be supported to work longer through flexible working arrangements; and

(vii) Pension reform should focus on arrangements for the future rather than attempt to address shortcomings of the past.

2.3 Summary of Pension Model

Based on these principles, the Government has decided to introduce significant restructuring of the current pension system. In summary, the Government will:

- Maintain and reform the State Pension as the fundamental basis of the pension system;
- Develop an auto-enrolment system for employees, with mandatory employer contributions and a matching State contribution equal to 33 per cent tax relief, to facilitate increased coverage and adequacy;
- Change the current system of marginal tax relief for existing occupational and personal pensions to a more transparent State contribution equal to 33 per cent relief;
- Introduce new arrangements for the drawdown of retirement benefits;
- Strengthen the regulatory regime for DB schemes;
- Reform public service pension provision; and
- Develop mechanisms to facilitate people in tracing pension rights accrued in former employments.

The model for reform set out in this framework is intended, in the main, to assist those in the lower to middle income range to provide for pensions to improve their post-retirement incomes. This target group is not responding to existing incentives, nor are they likely to have significant non-pension assets. This approach to retirement income provision will encourage people to save for retirement in a reformed system that provides greater security, equity, choice and clarity. The elements of the framework are outlined below.

2.3.1 The State Pension

The State Pension will continue to be the fundamental basis for the pension system and the Government will endeavour to maintain its value. The way in which eligibility for State Pension (Contributory) is calculated is complicated and can give rise to anomalies. Therefore, the current averaging system will be replaced by a 'total contributions' approach. The amount of pension will be directly proportionate to the number of years that a person has contributed. In addition, the homemakers' disregard will be replaced by a system of credits. The State Pension age will be increased to 66 and then to 68 over a number of years. Arrangements will be put in place to allow people to postpone receiving the State Pension beyond pension age and to make up contribution shortfalls.

2.3.2 An Auto-enrolment System

Employees will be automatically enrolled into a new pension scheme unless they are a member of their employer's scheme and that scheme provides higher contribution levels or is a DB scheme. Contributions to the new scheme will be made within a band of earnings, with earnings below and above certain thresholds exempt. Employees will be required to make a fixed percentage contribution. In addition, in line with the Government commitment, a State contribution equal to 33 per cent tax relief will be provided in respect of pension contributions made by the employee (within a band of earnings). Employers will be obliged to provide a contribution equivalent to the State contribution. For example, a contribution of €4 to the scheme would comprise an employee contribution of €2, a State contribution equivalent to €1 and an employer contribution of €1.

A range of funds, including a low-risk default option, will be available so that people will have a choice about where their savings are invested as well as confidence in their security. If people decide that retirement saving is not feasible, they can opt-out but there will be a once-off bonus payment for people who contribute to the scheme for more than five years without a break in contributions.

2.3.3 Existing Occupational Pension Scheme and Voluntary Provision

Tax relief for contributions to existing occupational and personal pension arrangements currently based on a contributor's marginal rate of tax will be replaced with a State contribution equal to 33 per cent tax relief. This will promote simplicity and equity and ensure that similar options are available to all groups of employees. New arrangements for the drawdown of retirement benefits will be introduced and plans for the future regulatory regime for DB schemes are set out.

2.3.4 Public Service Provision

A single new pension scheme will be introduced for all new entrants to the public service, with effect from 2010.

2.3.5 Tracing Service and Dormant Accrued Benefits

A tracing service will be put in place to facilitate the tracing of pension rights by former employees and scheme trustees. Consideration will be given to the establishment of a State-managed fund into which untraceable accounts would be deposited.

3. STATE PENSION

3.1 Introduction

Social welfare pensions featured very strongly throughout the Green Paper consultation process. A State Pension (Contributory) is a very valuable benefit and it is important to ensure that those qualifying have made a sustained contribution to the Social Insurance Fund (SIF) over their working lives.

The Government, in deciding on these reforms, is conscious of the need to make the system more equitable while, at the same time, ensuring that it is affordable and sustainable. In addition, the new system will be clearer and more transparent, making it easier for people to adequately plan for their retirement.

3.2 Protecting the Value of the State Pension

As stated earlier, the reforms presented in this framework recognise that the State Pension is at the core of the pension system. Over the last number of years, the Government has increased the rates of State Pensions significantly[9]. Over the period 2004 to 2009, this policy has resulted in a sharp fall in both consistent poverty and at-risk-of-poverty rates for older people. Between 2004 and 2008, consistent poverty for older people has fallen from 3.9 per cent to 1.4 per cent while the proportion of older people at risk of poverty has fallen from 27 per cent to just over 11 per cent[10]. In order to maintain this aim of preventing poverty for older people, the Government will seek to sustain the value of the State Pension at 35 per cent of average weekly earnings and will support this through the PRSI contribution system.

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[9] As outlined in Section 1.5.1, between 2004 and 2009, the State Pension (Contributory) increased by 38 per cent while the State Pension (Non-Contributory) increased by 42 per cent, well ahead of increases in both earnings and inflation.

[10] The poverty rates for older people (those over 65) are based on a special analysis of the EU-SILC 2008 conducted by the Central Statistics Office.

Traditionally, social insurance spending has been funded on a tripartite basis - with contributions coming from the Exchequer, employers and individuals. The Exchequer is the residual financier of the SIF and Exchequer contributions were the norm for over forty years. However, no Exchequer contribution has been required since 1996 as the Fund has been in surplus.

Over the coming years, the SIF will face severe challenges and increasing deficits. It recorded a deficit of €255 million in 2008, has recorded a deficit of €2.44 billion in 2009 (provisionally) and with less than €1 billion remaining in the SIF, the surplus built up since 1996 will be exhausted in 2010 and will again require a subvention from the Exchequer of the order of €1.55 billion.

Reports such as the Actuarial Review of the Social Insurance Fund, 2005, highlight that progressive action is required to ensure that future public pension liabilities are met. This will involve finding an appropriate balance between the three strands of the tripartite funding system. In this context, greater account of the cost of benefits may have to be taken in setting social insurance contribution rates to ensure that, for example, voluntary and self-employed contributors are paying contributions at an appropriate level given the benefits they are accruing.

3.3 Introducing a 'Total Contributions' approach to State Pension (Contributory)

In order to qualify for State Pension (Contributory), a person must have a set number of paid contributions (currently 260) and satisfy the average contributions test.

In 1997, the Government passed legislation to provide for an increase in the minimum number of paid contributions for State Pension (Contributory) from 260 to 520 for persons who reach 66 on or after 6 April 2012. The Government considers that this is a reasonable requirement given the level of social insurance coverage in place for the last 20 years, the value of the State Pension and the increased attachment to the labour force that people have had over the last 15 years. Accordingly, this change will proceed as planned and as already provided for in legislation.

The average contributions test has been in existence since 1961 when contributory pensions were first introduced. The system was designed with a view to ensuring that people could qualify for contributory pensions immediately in that year rather than waiting for contributions to build up, and to suit a system where social insurance coverage was limited and people could move in and out of coverage as a result of the nature of their employment and/or their earnings. In a scenario where social insurance is long established and is now very comprehensive in terms of the workforce covered, it is considered that the averaging system is no longer suitable.

A 'total contributions approach' will be adopted to replace the current averaging system. The level of pension paid will be directly proportionate to the number of social insurance contributions made by a person over his or her working life. This will remove the current anomaly whereby some people qualify for higher pension payments even though they may have fewer contributions (but a higher average) than others who do not qualify, or qualify for a lower pension, due to the average contribution test.

In introducing such a system, the Government considers it appropriate to have regard to the potential that people now have to accumulate contributions as a result of the comprehensive nature of social insurance coverage which has been in place for 20 years, and the growth in the labour force over that period. Accordingly, a total contributions requirement of 30 years contributions for a maximum pension will be introduced.

As outlined above, from 6 April 2012, a person will be required to have paid 520 contributions in order to qualify for State Pension (Contributory). Under the new 'total contributions approach', this is the level at which the minimum rate of State Pension (Contributory) will be payable (i.e. 10/30^{ths} – or one third – of the maximum rate). A person will accumulate 1/30th of a pension for each year of contributions up to a maximum of 30/30^{ths}.

Research for the Green Paper, and further analysis undertaken since, has shown that the gaps in social insurance coverage which existed in the past are still apparent in the insurance records of those qualifying for pension today. The introduction of the total contributions approach at this stage would, as a result, see a reduction in the levels at which pensions are paid. Accordingly, the Government has decided that implementation of this measure will not take place until 2020 when the social insurance reforms undertaken from 1974 will be evident in the records of those who will then be reaching pension age. The existing 'average contributions' regime will continue for persons reaching state pension age prior to 2020.

3.4 Introducing Credits for Homemakers

Since 1994, homemakers have had their periods of care for children under 12 years of age, or adults with a disability, disregarded when calculating entitlement to the State Pension (Contributory), making it easier for them to qualify for a contributory pension. Up to a maximum of 20 years can be disregarded in this way. Recipients of carer's benefit already qualify for credited contributions while they are in receipt of that payment. Similarly, recipients of carer's allowance may qualify for credited contributions subject to the qualifying conditions.

Many Green Paper submissions argued in favour of introducing a system of credits for homemakers. The Government accepts these proposals and will introduce a system of homemaker's credits to replace the current disregard.

While a credits system would be needed in any event upon introduction of the total contributions approach outlined in Section 3.3, the Government will introduce credits from 2012, and allow backdating to 1994, for the purposes of the averaging system that will continue until 2020. This means that people reaching pension age after the credits are introduced will have credits rather than disregards applied to their records to cover periods of care since 1994 (up to a maximum of 20 years).

Upon introduction of the total contributions approach in 2020, the maximum number of credits applicable for pension purposes will be 520 (i.e. 10 years). It is intended that a standard approach will apply to the various categories of people who receive credited contributions, including jobseekers and people with disabilities.

3.5 Increasing the State Pension Age

Recognising that people are living longer and healthier lives, the state pension age will be increased gradually to 68 years. This will begin in 2014 with the removal of the State Pension (Transition) thereby increasing state pension age from 65 to 66. This will remove the retirement condition which has prevented some people from continuing in employment beyond age 65. State pension age will then be increased to 67 in 2021 and to 68 in 2028. Table 3.1 illustrates the implications of these changes.

Table 3.1 Changes in State Pension Age

Date	**State Pension Age**	**Date of birth of those reaching State Pension age**	**Age on birthday in 2010**
Present to December 2013	65 (State Pension (Transition)) [11]	1945 to 1948	62 to 65
January 2014	66		
2014	66	1948 **but** people reaching state pension age during 2014 may have already qualified for State Pension (Transition) at age 65 in 2013.	62
January 2015 to December 2020	66	1949 to 1954	56 to 61
January 2021	67		
2021	67	No one will reach state pension age in 2021 as anyone turning 67 during that year will have already qualified for state pension at age 66 in 2020.	
January 2022 to December 2027	67	1955 to 1960	50 to 55
January 2028	68		
2028	68	No one will reach state pension age in 2028 as anyone turning 68 during that year will have already qualified for state pension at age 67 in 2027.	
January 2029 onwards	68	1961 or later	49 or younger

3.6 Postponing Retirement and the State Pension (Contributory)

People are living longer, and many people want to have the option of working longer. For those people who wish to postpone drawing down their state pension, arrangements will be put in place to enable them to receive an actuarially increased benefit when they decide to retire. The actuarial adjustment applied will not impose any additional burden on the Exchequer.

[11] At present State Pension (Transition) is payable at age 65 and State Pension (Contributory) is payable from age 66, subject to the qualifying conditions.

In addition, for those with contribution shortfalls at pension age, arrangements will be put in place to allow them to receive additional benefits at a later date if they continue to make paid contributions for pension purposes while remaining in work or self-employment.

3.7 Legacy Issues

Many submissions to the Green Paper consultation process addressed 'legacy' issues concerned with social insurance coverage and entitlement to contributory state pensions. The main issues involved were the impact of the marriage bar (which excluded many women from social insurance coverage) and social insurance coverage for the self-employed. These issues arose because of gaps in social insurance coverage which existed until the late 1980s, and societal norms which applied until the early 1970s.

It is estimated that 47,000 older people, mainly former public servants, self-employed people and their spouses or partners, are affected and as a result do not receive any income support through the State pension system. These older people do not have the appropriate social insurance contribution requirements and, because they have other sources of income, they do not satisfy the means test for the State Pension (Non-Contributory) for which everyone is entitled to apply.

(a) The Marriage Bar

Many submissions proposed that the homemaker's scheme should be backdated beyond 1994 to take account of periods of care after women left employment due to the marriage bar. The main difficulty with this approach is that it would only address the position of women who paid full PRSI contributions during their working lives and would not assist the position of those women, mainly public servants, affected by the marriage bar.

(b) Self-employed People

Submissions were received which sought contributory pensions for those who retired before social insurance was extended to the self-employed in 1988; higher payments for those who qualified for the special pension; and pensions for those who paid contributions but not enough to qualify for any payment. The Government considers that the special pension for those self-employed people who paid at least five years contributions, which was introduced in 1999, is a reasonable response to the situation and no further measures are proposed.

In relation to self-employed people who retired prior to 1988 and those affected by the marriage bar, the Government cannot address shortcomings which have arisen from gaps in social insurance coverage in the past. Having regard to the need to uphold the contributory principle underlying entitlement to contributory state pensions and the fact that the State Pension (Non-Contributory) is available to anyone with inadequate means, the Government has decided that no action will be taken in these areas. However, the social insurance records of people who take time out of the workforce for homemaking and caring duties will be protected by the new homemakers' credits system as outlined in Section 3.4.

3.8 Summary

To summarise, the Government will:

- Seek to maintain the value of the State Pension at 35 per cent of average weekly earnings;
- Introduce a 'total contributions' approach for those reaching state pension age from 2020 thereby replacing the current averaging system;
- Apply credits rather than disregards to homemakers and backdate these to 1994 for new pensioners from 2012;
- Introduce a standard age of 66 for the State Pension from 2014 and abolish the State Pension (Transition) thereby removing the retirement condition;
- Gradually increase state pension age to 68 by 2028; and
- Arrangements will be put in place to allow people to postpone receiving the State Pension beyond pension age and to make up contribution shortfalls.

In relation to legacy issues in pension coverage, pension reform will focus only on future arrangements.

4. A NEW APPROACH TO SUPPLEMENTARY PENSIONS – AUTO-ENROLMENT

4.1 Occupational and Personal Pension Coverage

Overall pension coverage for people in employment has remained in the region of 55 per cent since 2002 but coverage is particularly low in certain employment sectors and amongst those on lower incomes. Pension coverage for employees under 30 years of age also remains low at 37 per cent. This is a concern, given that beginning pension contributions at an early age can greatly improve income in retirement.

4.2 The Introduction of Auto-enrolment

The Government will introduce three principal changes in the pension system:

- An auto-enrolment system for employees to ensure increased coverage and adequacy;
- A requirement for employers not currently providing pension arrangements to take on a significant role in pension reform by enrolling employees and contributing on a mandatory basis; and
- Reform of the current system of tax incentives.

Once a person enters employment or changes employment, and is over 22 years of age, he or she will be automatically enrolled into the new pension scheme unless the employee is a member of their employer's scheme which must be:

(i) a defined benefit scheme; or

(ii) a defined contribution occupational pension scheme with a contribution rate equal to or greater than the minimum paid under the new scheme; and with an employer contribution equal to or greater than the minimum under the new scheme.

The detailed operational arrangements of this scheme will be developed during the implementation phase. It is intended that the auto-enrolment scheme will be introduced in 2014 but only if it would be prudent given the economic conditions prevailing at that time.

There are several reasons why people are not saving for retirement, or not saving enough. One of these is inertia – whereby people have 'just not gotten around to it'. Automatically enrolling people into a pension scheme overcomes this problem. Another reason is that people are often unsure about the value of the incentives provided by the State to encourage pension provision. By providing a matching contribution equivalent to 33 per cent tax relief, the Government will introduce more transparency to the system – allowing people to see the exact value of the Exchequer support. By giving everyone the same matching contribution, the system is more equitable than the current system of marginal tax relief. A third reason people do not save for retirement is affordability. As people need to use their money for other purposes at certain times, for example, to save for a deposit for a house, the opt-out mechanism allows people to take a break from saving for retirement when they need to do this.

4.2.1 Contribution Levels

The *Renewed Programme for Government* commits the Government to introducing tax relief of 33 per cent on pension contributions to replace the current rates of 20 per cent and 41 per cent. So that the auto-enrolment scheme is in line with that commitment, the total contribution will be 8 per cent (within a band of earnings) with 4 per cent being paid by the employee; 2 per cent being paid by the State and 2 per cent being paid by the employer[12]. This State contribution equal to tax relief at 33 per cent will replace the current system of marginal tax relief for pension contributions. The operational arrangements and mechanisms for delivering this level of relief will be developed during the implementation phase. This will mean that, for example, for every €2 contributed by the employee, the State and the employer will each contribute €1. Contributions to the scheme will also attract PRSI and Health Levy relief.

[12] In this way the employee and State contributions add to 6% with the State contribution (of 2%) accounting for 33% of this portion of the overall contribution.

Contributions to the new auto-enrolment scheme will be paid on a band of earnings and will be collected through the PRSI system to minimise costs, maintain simplicity and ensure security of remittances[13]. The floor and ceiling for contributions will be decided closer to the date of introduction of the auto-enrolment scheme and they will be set in such a way to ensure that the scheme targets lower and middle income earners**.** For example, the entry level could be set at €352 per week with people earning over that amount paying contributions on amounts over €127 per week (in line with employee PRSI limits) up to an upper limit of €995 per week (approximately 1.5 times average weekly earnings in 2008)[14]. The State and employer's contributions will be recorded on the employee's payslip.

Table 4.1 shows an example of the level of the payment from the auto-enrolment scheme and the percentage of earnings replaced for employees with earnings of €20,000; €30,000, €50,000 and €100,000 per year. The corresponding employee, employer and State contributions to the auto-enrolment scheme are also presented. This table is indicative only and provided purely for illustrative purposes.

[13] The employee contribution will be based on gross pay but will be deducted from net pay.
[14] These weekly amounts equate to annual sums of €18,304; €6,604; and €51,740 respectively.

Table 4.1 Contributions & Replacement of Earnings

Annual Income (€)	20,000	30,000	50,000	100,000
Pension payment from auto-enrolment scheme				
per week	€59	€104	€192	€200
per annum	€3,085	€5,387	€9,992	€10,398
% of earnings replaced				
Social welfare	60%	40%	24%	12%
Auto-enrolment plus social welfare	75%	58%	44%	22%
Contribution per week				
Employee	€10.00	€18.00	€33.00	€35.00
Government	€5.00	€9.00	€16.50	€17.50
Employer	€5.00	€9.00	€16.50	€17.50

Notes to table:

1. The table is based on the following assumptions: 5% earnings growth; 7% investment returns; 22:1 annuity for pension; a 40 year employment career. These are reasonable assumptions over a 40 year period.
2. The table is based on contributions to the auto-enrolment scheme within a band of earnings with the entry level set at €352 per week with people earning over that amount paying contributions on amounts over €127 per week (in line with employee PRSI limits) up to an upper limit of €995 per week (approximately 1.5 times average weekly earnings in 2008). These weekly amounts equate to annual sums of €18,304; €6,604; and €51,740 respectively.
3. Table is indicative only and provided purely for illustrative purposes.

4.2.2 Accessing Funds

Employees will be permitted to opt out of the auto-enrolment scheme after a period of three months. Employees can opt in again whenever they wish but, in any event, they will be automatically re-enrolled every two years. A once-off bonus payment will be paid to people who stay in the scheme for five years without a break in contributions.

Once a person remains in the scheme for six months, their contributions will be held in a pension account and no withdrawals will be allowed.

The procedures for accessing funds from the auto-enrolment scheme at retirement will be developed during the implementation phase. In as far as possible, these arrangements will mirror those which apply to access to PRSA funds at present.

4.2.3 Investment Choice

The individual will be provided with a range of investment choices reflecting different levels of risk, accompanied by suitable, easily understood information about the level of that risk and the benefits expected. The range of funds will include very low risk options to provide members with a high level of security on their savings. The Government will not, however, provide any guarantees on investment returns.

The limited number and types of funds (which will be required to have life-styling built in) available under the scheme will be provided by the private sector through a competitive process run by the State[15]. Members will have the option of choosing between these approved funds or providers, or else they will be enrolled in one of the low risk default options. Charges will be kept to a minimum as marketing expenses and investment advice are minimised.

4.2.4 Transferring in Small DC Funds and PRSAs

The Government is aware that there are many people in DC arrangements who may wish to transfer into the new auto-enrolment scheme. Arrangements will be made to allow those people who hold small DC funds to transfer those funds into the new scheme. Monies transferred into the scheme in this way will not attract any matching contribution from the State or the employer, they will simply be invested with the other contributions to the new fund. Such transfers will enable people to save on the charges/commissions associated with those small investments.

The operational arrangements necessary to facilitate this type of transfer will be developed during the implementation phase. The Government will also determine the size at which a fund will be deemed to be a small fund for this purpose. That amount may be linked to the level at which pension benefits are preserved, which is currently €10,000. Only funds at or below the threshold will be allowed to transfer into the auto-enrolment scheme.

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[15] Under life-styling, pension companies automatically move a portion of funds out of equities and into more stable assets (such as cash on deposits or gilts) over a period of five to 10 years before the person is due to retire.

4.3 Impact on Current Provision

The Government recognises that the existence of the new auto-enrolment scheme may have an impact on other pension provision, especially DC provision. For example, some employers may find it simpler and less costly to encourage their workforce to join the auto-enrolment scheme rather than undertake the task of setting up separate pension arrangements. However, it must be emphasised that the purpose of these reforms is to increase occupational pension coverage for people who do not currently avail of such an arrangement rather than to replace current provision. The scheme represents a more equitable re-allocation of the tax spend on pension contributions. The total contribution rate to the auto-enrolment scheme is designed to provide an adequate income in retirement, when combined with the State Pension, for low and middle income earners.

The contribution rates (as set out in Section 4.2.1) are designed in a way that does not impose a heavy financial burden on employers. It is acknowledged that the scheme will have an impact on the cost base of some employers, but it is important to point out that this will only occur in those firms that do not currently provide at least equally favourable pension contributions for their employees. Although the contribution rate is set at 2 per cent for employers it will add less than 2 per cent to payroll costs as contributions will only be paid within a band of earnings. Sufficient notice and recognition of this cost for some employers is provided for by the introduction date of 2014 and the Government will review its introduction depending on the prevailing economic conditions.

4.4 Administration

To ease administration costs, contributions will be collected through the PRSI system. In addition, the opting in/opting out arrangements will be made as straightforward as possible. The Government recognises, however, that any additional labour and administration costs will have an impact on small firms, particularly in the current economic environment.

As emphasised earlier in this framework, the implementation of these proposals will be cognisant of the current and emerging economic situation, particularly as this is a long-term strategy. In addition, it is intended that the State will manage the process through a central processing agency. These operational details will be worked out during the implementation phase. The development process preceding full implementation will take place over a period of three to five years, during which there will be extensive consultation with all interested stakeholders.

4.5 Summary

In choosing this approach to pension provision, the Government has sought to overcome the inertia involved in the decision to take out a pension by introducing an auto-enrolment approach. In addition, it has provided the choice for people to opt out of the scheme if they wish. It has also ensured that employees, employers and the State all have to play their part in addressing the provision of future retirement incomes.

The key features of the auto-enrolment system are as follows:

- Employees (aged 22 or over) will be automatically enrolled unless they are a member of their employer's scheme (which provides higher contribution levels or is a DB scheme);
- Contributions to the new scheme will be made within a band of earnings;
- Employees will be required to make a fixed percentage contribution;
- There will be a State contribution equal to 33 per cent tax relief and employer contributions to match the State contribution;
- Contributions will be collected through the PRSI system;
- A range of funds, including a low-risk default option, will be available;
- Employees can opt out but they will be re-enrolled every two years;
- There will be a once-off bonus payment for people who remain in the scheme for more than five years continuously; and
- Small DC funds may be transferred into the scheme.

It is intended that the scheme will be introduced in 2014 depending on the prevailing economic conditions.

5. CURRENT OCCUPATIONAL AND VOLUNTARY PENSION PROVISION

5.1 Introduction

In addition to the new auto-enrolment scheme, the Government also intends to reform existing occupational pension scheme types, both defined benefit (DB) and defined contribution (DC), and personal pensions. These reforms aim to introduce greater equity to existing pension arrangements, to simplify current provision and to provide greater protection for pension scheme members.

5.2 Reform of the Tax Incentive Regime

Section 4 indicated that, under the auto-enrolment system there will be a State contribution equal to 33 per cent tax relief and that the mechanism for delivering that relief would be developed during the implementation phase of the framework. In line with the commitment in the *Renewed Programme for Government* and the Government's desire to improve the equity and transparency of tax incentives available for pension contributions, the same matching State contribution (and delivery mechanism once decided) will apply to existing occupational and personal pension schemes and will replace the current system of tax relief at the standard and higher rates of 20 and 41 per cent.

Applying these similar incentives will promote simplicity and ensure that similar options are available to all sectors or groups of employees. In reforming the tax incentive regime in this way, the Government is introducing greater equity to the pension system.

The current annual earnings limit for determining maximum tax-relievable contributions for pension purposes is €150,000. Tax relief on pension contributions is applied to remuneration/net relevant earnings according to certain age-related percentages (and subject to the annual limit) as set out in Table 5.1.

Table 5.1 Tax Relief on Pension Contributions

Age of Contributor	**Limit (% of remuneration/net relevant earnings)**
Up to 30	15%
30-39	20%
40-49	25%
50-54	30%
55-59	35%
60 and over	40%

It is likely that, irrespective of what delivery mechanism is decided for the equivalent of 33 per cent tax relief, an age-related and overall earnings limit will be retained in some form.

A key feature of the new auto-enrolment system is that, in addition to the matching State contribution (equal to 33 per cent tax relief), there is also a compulsory matching employer contribution. However, in the case of existing occupational pension schemes, the matching contribution requirement will not be mandatory for employers who instead will continue to contribute to the scheme in accordance with the scheme rules.

Tax relief on employer pension contributions and on the investment income of pension funds are two other elements of the cost of pension tax reliefs to the Exchequer. No changes to these elements are planned in this framework.

5.3 New Arrangements for Drawdown of Retirement Benefits

5.3.1 Current Arrangements

The Government will address the complexity of existing arrangements at retirement. Currently, members of DC occupational pension schemes have different options at retirement compared to PRSA holders, for example.

In order to exercise the Approved Retirement Fund (ARF) option at present, an individual must either be over 75 years of age or have, in his or her own right, a guaranteed pension income for life of a minimum of €12,700 per annum at the point of retirement. Where the minimum specified income test is not met, the legislation requires that the first €63,500 of the pension fund (after taking the tax-free lump sum), or the entire remaining fund, if it is less than this, must either be used to purchase an annuity for the individual or be invested in an Approved Minimum Retirement Fund (AMRF). The individual can also satisfy this requirement by using part of the €63,500 to purchase an annuity and by placing the rest in an AMRF. The individual may use the AMRF funds at any time to purchase an annuity. When an individual attains the age of 75 or dies, the AMRF automatically becomes an ARF. The ARF option is only available to holders of Retirement Annuity Contracts (RACs), PRSAs, members of Retirement Annuity Trust schemes, proprietary directors, and individuals entitled to rights arising from additional voluntary contributions paid to a scheme.

5.3.2 Streamlining Arrangements for Drawdown of Funds

The Government has decided to streamline the current system and provide that all DC arrangements will have access to similar options at retirement. As a result, from 2011, retirement benefit arrangements will apply in the following order:

(i) A tax-free lump sum subject to existing legislative provisions and Revenue rules in this area (see also Section 5.3.3)

(ii) Any remaining funds to be invested in relevant vehicles such as ARFs, subject to already having a permanent income stream in place, or used to purchase an annuity.

The current guaranteed or "specified income" limit (€12,700) has not been changed since the introduction of the ARF legislation in 1999. An increase in this limit to 1.5 times the State Pension (Contributory) (which would amount to approximately €18,000 per year) will be examined in the course of implementing this framework[16]. It is anticipated that people would continue to access annuities, particularly, to make up any shortfall between their state pension and 1.5 times the State Pension (this gap is currently in the region of €6,000). In addition, there is nothing in these new arrangements which would prevent people from purchasing annuities for higher amounts if that is their wish and they have sufficient funds to do so. These new arrangements would apply to new retirees only. There would be no impact on current pensioners who may have an income stream of more than €12,700 but less than 1.5 times the State Pension (Contributory). In the event of such a change, the AMRF option would no longer apply for new retirees.

The ARF option will not apply in the case of people retiring from DB schemes as their pensions are related to their previous earnings and they do not have individual funds and so cannot make their own investment decisions.

The Government is aware that people who invest their funds in an AMRF because they did not satisfy the income requirements necessary to ARF their funds at retirement, may later satisfy those conditions. At present such people are effectively locked in to the ARMF until they reach age 75. The Government has decided to allow people in this position to move their funds to an ARF.

[16] At the time ARFs were introduced the maximum personal rate of State Pension (Contributory) was €5,876 (£4,628) per year. Given that the rate of State Pension (Contributory) has since increased significantly (to almost €12,000 per annum) it is appropriate that people should have an income stream greater than this level before being able to avail of the ARF option.

5.3.3 Tax Treatment of Pension Lump Sums

The Commission on Taxation recommended that pension lump sums of less than €200,000 should not be taxed. The Government has accepted this recommendation and decided that arrangements for the tax treatment of lump sums greater than €200,000 would be considered and developed during the implementation of this framework[17].

5.4 Simplification and Increased Transparency

On the introduction of PRSAs in 2003, it was envisaged that they would, in time, replace both RACs and Buy-Out-Bonds (BOBs). At the end of 2009, there were over 170,000 PRSA contracts in force representing over €2.05 billion in assets. Given the complexity of current arrangements, the range of personal pension vehicles available will be reviewed with a view to rationalising provision in this area.

When purchasing, or comparing, pension products it can be difficult for people to understand the various charges and how they are applied. To overcome this problem, the Government will introduce regulations to increase the transparency of pension charges.

Having good information is essential in order for people to understand their pensions and their expected benefits. The Government has recently taken a significant step towards improving the information available to pension scheme members by amending the disclosure regulations to enhance the level of information in annual benefit statements. As a result, from July 2009, such statements must include, for example, a statement of reasonable projection and a statement as to whether the State Pension (Contributory) is integrated with the pension scheme[18]. These arrangements will be reviewed and enhanced to take account of the introduction of the auto-enrolment scheme and the changes to the State Pension (Contributory) which are provided for in this framework.

[17] Financial Statement of the Minister for Finance, 9 December 2009

[18] S.I. No. 531/2008 Pensions Act 1990 (Disclosure of Information) (Amendment) Regulations 2008

5.5 Financial Education

Financial education and financial literacy are important elements in reducing the complexity of retirement planning for individuals and this was reflected in a number of submissions to the Green Paper consultation process.

The Government included financial education as part of the September 2008 Government Guarantee Scheme and the Recapitalisation Scheme, announced in 2008. This requires the Irish Banking Federation to submit a report every six months detailing progress in achieving goals and targets in respect of the development of financial education. In addition, the Recapitalisation Scheme stipulates that recapitalised banks will provide funding and other resources to support and develop financial education for consumers and potential consumers.

The Report of the National Steering Group on Financial Education - "*Improving Financial Capability - a multi-stakeholder approach*" was published in July 2009. The group, chaired by the Financial Regulator, comprised representatives of key stakeholders in financial education such as the Pensions Board, the Money Advice and Budgeting Service, the Department of Finance, the Department of Education and Science, FÁS, the Irish Banking Federation and the National Adult Literacy Agency.

The report draws upon the experience of these organisations in developing a financial competency framework for the future development of financial education resources. In addition, it includes a set of commitments and recommendations to enhance financial capability in Ireland. The implementation group will be cognisant of developments as a result of this report, particularly with regard to the pension aspects of financial education.

5.6 *Defined Benefit Schemes*

5.6.1 The Regulatory Regime

Defined benefit pension schemes are a very important element of pension provision in Ireland. They are operated in a voluntary environment and attempt to deliver a 'promise' of a certain level of income to scheme members on retirement. However, there can be a conflict between this pension 'promise' and its affordability and the ability of a scheme to fulfil this promise. This situation exposes scheme members to a level of risk which is not always clearly understood. This level of risk is also affected by a number of other factors including the investment strategy adopted by the trustees of the scheme, increases in life expectancy and the application of scheme resources in the event of a wind-up of the scheme. This risk can increase as a scheme becomes more mature and pensioners represent a greater proportion of the liabilities.

The Government (as outlined in Section 1.5) has already introduced a range of measures to support the challenges facing trustees of defined benefit schemes. In summary, these are:

- Allowing greater flexibility and time to recover funding positions;
- The introduction of a Pensions Insolvency Payment Scheme (PIPS) for DB schemes in deficit where the sponsoring employer is also insolvent;
- Moving provision for post-retirement increases to a lower priority on wind-up;
- Broadening the scope of benefits that can be included in a restructuring in the event of under-funding;
- Strengthening the role of the Pensions Board in relation to employers who fail to remit employee contributions to the trustees of a pension scheme; and
- Providing the Court with the power to relieve a trustee from liability for a breach of trust where it is satisfied he or she acted honestly and reasonably.

However, the Government believes that further measures must be put in place to ensure that regulatory provision underpins a realisable pension promise and provides that the funding levels required to achieve the core pension expectation of scheme members can be delivered.

It is acknowledged that pension schemes will need some time to recover from their present funding difficulties, but it must also be recognised that measures must be put in place to protect the interest of pension scheme members from future turbulence in the financial markets and the associated investment risk.

There are a number of areas where current regulation will be enhanced in order to help secure the pensions of scheme members, in particular:

- The Pensions Board's powers in relation to the regulation of schemes will be reviewed. This will include consideration of providing the Board with further statutory authority in relation to the investment approach adopted by the trustees of pension schemes, for example, in relation to life-styling, and the option of licensing schemes;

- The information being provided to scheme members will be kept under review and enhanced as considered necessary; and

- The funding standard will be kept under review.

5.6.2 Future of DB Provision

The Government recognises that there are significant problems with the typical current design for funded DB schemes. This design has proven to be too inflexible to deal with recent investment losses and with increasing life expectancy and, as a result, increasing numbers of employers are considering the sustainability of their DB schemes. DB schemes are very beneficial for individuals due to the certainty they can provide and the fact that individuals are not required to make investment decisions. For these reasons, it is hoped that the measures introduced to support DB schemes recently will ensure the survival of this type of pension provision.

However, it is recognised that in some circumstances, more significant re-structuring may be necessary in order to secure the viability of a scheme. Changes to schemes are, of course, a matter for negotiation at scheme level between employees, unions, trustees and employers.

However, the Government considers that where trustees are considering a radical re-structuring of a scheme, the design set out below might be appropriate:

- Fixed contribution rates for members and employers;
- Because contribution rates are fixed, benefits must be flexible in the event of investment losses or other adverse experience; and
- The benefit design must accommodate increases in life expectancy.

One possible way in which DB schemes could be re-structured is outlined in Box 5.1. Such a structure could also offer a potential solution to overcome the structural difficulties currently associated with existing DB schemes. It would seek to address the drawbacks of the current approach while avoiding the excessive risk to which members of defined contribution schemes can be exposed. The re-structured scheme would consist of core benefits which would have to be guaranteed and non-core benefits, which would be flexible depending on economic conditions. This is not a hybrid scheme in the traditional sense as the non-core benefits would have to be secured in years of good returns, unlike hybrid schemes which only guarantee the DB element.

In reviewing the funding standard, consideration will be given to only applying the funding standard to core benefits where this type of design has been adopted.

Box 5.1
Possible Outline of a Re-structured DB Scheme

Key Features

* Fixed contribution rates for members and employers;
* Flexible benefits (in the event of investment losses or other adverse experience);
* Increases in life expectancy accommodated in benefit design;

Benefit Level and Re-valuations

Benefits would be expressed in current money.

Each year, all benefits (current employees, former employees, retired members and other beneficiaries) would be re-valued equally, but only to the extent that the scheme could afford it.

In years of negative investment returns, little or no revaluations would be granted, while, in years of positive returns, trustees would seek to provide the revaluation that had not been paid in previous years. In setting the revaluation each year, trustees would be obliged to demonstrate that the rate declared was sustainable and consistent with the long-term viability of the scheme.

The promised level of benefits would be significantly lower than under a typical current DB scheme but on the other hand, they would be provided to a greater degree of certainty.

Contribution Rates

Contribution rates would be calculated on a basis intended to revalue benefits in line with inflation, before and after retirement. However, only these core benefits granted plus revaluations to date would be guaranteed, and this would be underpinned by regulation.

Benefits of this approach

This suggested approach provides employers with certainty and predictability in their pension contributions. It also provides scheme members with a clearer understanding of the benefits that their scheme will provide them, and gives them a clearer basis for retirement planning.

5.7 Summary

- Current tax relief for contributions to existing occupational and personal pension arrangements will be replaced by a State contribution equal to 33 per cent tax relief;

- Existing options at retirement will be streamlined so that all those who have a defined contribution (DC) pension will have access to similar options at retirement;

- The range of personal pension vehicles available will be reviewed with a view to rationalising provision in this area;

- Regulations will be introduced to increase the transparency of pension charges;

- The Pensions Board's powers in relation to the regulation of pension schemes will be reviewed;

- The information being provided to scheme members will be kept under review and enhanced as considered necessary;

- The funding standard will be kept under review; and

- A possible way in which DB schemes could be restructured is set out for consideration.

6. PUBLIC SERVICE PENSIONS

6.1 New Public Service Pension Scheme for New Entrants

As announced in Budget 2010, a new single public service pension scheme will be introduced for new entrants to the public service. Relevant legislation will be introduced in 2010 and the scheme will be in place by the end of the year.

The introduction of a single pension scheme will provide a standard, consistent and efficient structure for the future management and control of public service pensions. The aim is that, in time, all civil and public servants will have the same basic scheme, with an appropriate accommodation made for whatever particular terms and conditions might be required in exceptional areas, such as An Garda Síochána and the Defence Forces. The scheme will have a benefit structure aimed at providing adequate and fair pensions for public servants, while also safeguarding long-term Exchequer sustainability. The new scheme will bring public service pension terms more in line with private sector norms.

The main provisions of the scheme will include:-

- A new minimum public service pension age of 66 years which will be linked henceforth to the State Pension age;
- A maximum retirement age of 70; and
- Pensions based on 'career average' earnings rather than final salary as currently applies. A specific 'pension accrual rate' will be applied to pensionable pay so that each year public servants will earn or accrue a certain amount of pension payable on retirement.

It is proposed that other details of the new scheme will be considered by Government in finalising relevant legislation following consultation between the Department of Finance and public service employers and unions.

In developing the new scheme, the Government will be considering:

- Employee pension contribution - the rate of employee pension contribution remains at 6.5 per cent but may apply to all pensionable pay;

- Pension accrual rate applying to pensionable pay taking account of entitlement to a state pension;

- Fast accrual terms – such terms generally apply at present to the Gardaí, Permanent Defence Forces, Prison Officers and Firefighters. These groups will retain early retirement ages which reflect operational needs and will continue to be paid their pensions at these early retirement ages where this is currently the position; other special terms such as added years and non-actuarially reduced early retirement benefits will be generally discontinued; and

- The terms to apply to the President, Oireachtas members, the Judiciary and the Attorney General.

6.2 Existing Public Service Pensioners

In relation to existing and future public service pensioners, the Government will consider using the CPI as the basis for post-retirement increases.

7. RETIREMENT AGE AND WORK FLEXIBILITY IN RETIREMENT

The Green Paper outlined the rate at which the population is ageing and projections set out how this might affect age-related public expenditure. What is clear is that Ireland's demographic make-up is set to change dramatically in the coming years, and older people will comprise an increasing proportion of the population. The projections suggest that there will be less than two people of working age to every person aged 65 or over by the middle of the century, compared to almost six people of working age to every person aged 65 or over today. This has both social and economic implications.

Many responses to the Green Paper on Pensions suggested that the age at which people qualify for the State Pension should be increased. Other responses underlined the view that many people want to have the option of working beyond 65 years of age. As outlined in Section 3.5, the Government will remove the State Pension (Transition) in 2014 so that people will qualify for a State Pension at age 66 years rather than 65 years. This will also eliminate the retirement condition. State Pension age will then be increased to 67 in 2021 and to 68 in 2028.

Older workers' participation has contributed significantly to increases in the labour force, with older workers employment rates rising by over 10 per cent in the past ten years. This rise is driven less by a delay in retirement than by an increase in the movement of the formerly non-employed into jobs. The increase was mainly due to women entering jobs from home duties but men entering from unemployment also played a significant role. The average exit age from the labour force is 64.1 (2006) in Ireland compared to the EU25 average of 61.2.

The 2010 target employment rate for those aged 55 to 64 in the EU27 is 50 per cent. In Ireland, the employment rate for those aged 55 to 59 is 59.5 per cent while that for people aged 60 to 64 is 41.6 per cent (CSO-QNHS, Q3 2009). The overall employment rate, for those aged 15 to 64, is 62.1 per cent (CSO-QNHS, Q3 2009) so there is scope for further increases in the employment rate for those aged 55 to 64 and the population in the 55 to 64 age cohort will be increasing in the years to come. However, in the current economic downturn, employment rates are declining and it may be difficult for employment rates to increase in the short term.

A key objective for Government is to maximise the opportunities for older people to participate in education, employment and other aspects of economic and social life. Older people will be further encouraged and supported to access further and higher education and appropriate targets will be set in the context of proposals on life-long learning and access to further and higher education. The continued participation of older people in the labour market will be encouraged and facilitated to meet the challenge of an ageing society.

8. TRACING SERVICE AND TREATMENT OF DORMANT ACCRUED BENEFITS

Traditional employment practices, where an employee works with the same organisation for his or her entire career through to retirement, are becoming more unusual. It is not uncommon today for employees to regularly switch jobs and accrue pension entitlements through a number of employments. With the accrued pension benefits being preserved for employees after two years' employment, it will become more common in future years for prospective retirees to have to 'trace' their accrued pension entitlements from multiple employers dating back over their careers.

This task could be quite difficult for the retiree, who would need to ensure that s/he keeps adequate records of both past employers and also the relevant pension funds. Even where such records have been maintained, events such as mergers, acquisitions and other corporate issues can make it more difficult for the retiree to trace their accrued pension entitlements. Similarly, companies and scheme trustees can face difficulties in keeping track of former employees.

The Government will develop mechanisms to put a tracing service in place for both scheme trustees and individuals which will facilitate people in tracing pension rights accrued in former employments.

Consideration will be given to the establishment of a State fund into which companies who cannot trace former employees would lodge the accrued benefits. It is envisaged that this could be modelled on the Dormant Accounts Fund into which dormant accounts and unclaimed life assurance policies are currently transferred from credit institutions and insurance undertakings. A key feature of the system is that, although a proportion of the funds are dispersed to fund socially advantageous projects, monies are held in the fund so that the owners will always be able to reclaim their dormant assets.

9. IMPLEMENTATION

The implementation of proposals in this framework involves major reform of the Irish pensions system. While some proposals can be implemented in the short-term, a technical implementation group, chaired by the Department of Social and Family Affairs, will be established to develop the legislative, regulatory and administrative infrastructure required to put the reforms into operation. The costings group, set up as part of the Green Paper process, will also be reconstituted to provide additional expertise to the implementation group. The implementation group will conduct extensive consultation on the many aspects of this framework before presenting final options to Government for decision. In order to ensure effective reporting, the implementation group will develop a communications strategy.

It is expected that this technical work will require three to five years to complete. As outlined already, the implementation of this framework will be cognisant of the current and emerging economic situation.

Furthermore, many of the proposals require change to the regulatory framework underpinning pension provision. These proposals will be subject to a comprehensive regulatory impact analysis.

Relevant legislation to provide for the new single public service pension scheme for new entrants will be introduced in 2010 and the scheme will be in place by the end of the year.

10. CONCLUSION

The Government presents this framework as a clear statement of intent in relation to the future direction of pension policy in Ireland. The objective is a pension system which will deliver an adequate retirement income for all which is, at the same time affordable and sustainable for the State, and for those who sponsor and provide occupational pension schemes.

People should be confident and secure about their retirement expectations. They should not arrive at pension age and find that their incomes are well below what they expected. Our system must provide security so that everyone can look forward to retirement, confident that their pensions are safe.

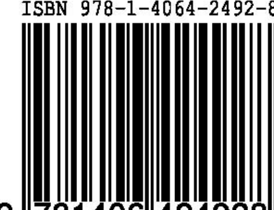
The model for reform set out in this framework copper-fastens a partnership approach to pension provision between individuals, employers, and the State. In choosing to introduce an auto-enrolment scheme, the Government has sought to overcome the inertia involved in the decision to take out a pension with the aim of increasing pension coverage. These reforms are designed to protect the security of members' pension rights and to support the DB pension model.

The plan set out in this framework is fair and reasonable. The Government is confident that the measures set out here provide an overall framework that addresses the pension challenges of the future through delivering a pensions system which is secure and equitable and where individuals have greater choice and clearer options.

The key milestones associated with this framework are summarised in Table 10.1.

Table 10.1 National Pensions Framework – Key Milestones

Year	Milestone
2010	• Publish National Pensions Framework • Establish framework implementation group • New public service pension scheme introduced
2011	• Extend New ARF rules to DC schemes
2012	• Increase contribution for state pension to 520 paid contributions (as planned in line with legislation in place since 1997) • Replaces homemakers' disregard with credits for new pension claimants.
2013	• Review Pensions Insolvency Payment Scheme
2014	• Abolish State Pension (Transition) thereby increasing state pension age to 66 • Introduce auto-enrolment system
2020	• Introduce a "total contributions" approach for State Pension (Contributory)
2021	• Increase State Pension age to 67
2028	• Increase State Pension age to 68


ISBN 978-1-4064-2492-8