

Irish Association of Pension Funds
June 2009 Research



Introduction

The IAPF is concerned that decisions will be made which will have long term impact on pension provision without considering a number of critical areas due to lack of data and research.

There has been a lot of ill-informed commentary on the issue of tax relief and the beneficiaries of this. To date, the only available data on the beneficiaries of tax relief related to self-employed Retirement Annuity Contracts and Personal Retirement Savings Accounts from 2005. We believe that this data is not comparable to the 800,000 private and public sector employees who are members of occupational pension schemes.

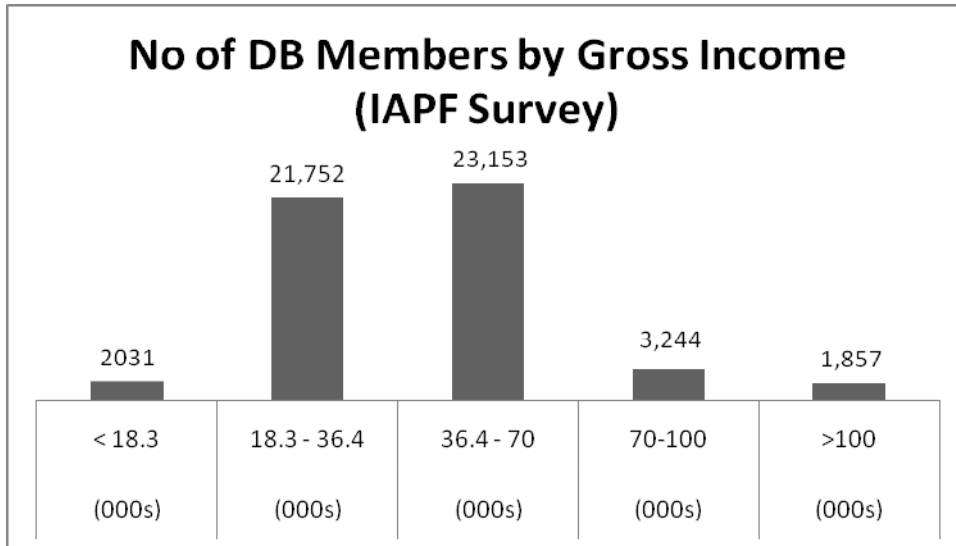
Consequently we asked Employers and Administrators who are members of the IAPF to provide us with a breakdown of the members of schemes they administer by a number of income categories. The results of this research, as one would expect, present a different picture to the self-employed data as summarised in the following tables and graphs:

Defined Benefit Data

| Salary band (000s) | Number of Members | Percentage |
|-----------------------------|--------------------------|-------------------|
| < 18.3 | 2031 | 4% |
| 18.3 - 36.4 | 21,752 | 42% |
| 36.4 - 70 | 23,153 | 44% |
| 70-100 | 3,244 | 6% |
| >100 | 1,857 | 4% |
| Total no. of members | 52,037 | |

The data in this table shows that 86% of the members of the schemes surveyed earn between €18,300 and €70,000 per annum. The total number of 52,037 members represents 21%¹ of all members of private sector defined benefit schemes and is based on data received from a small number of the largest DB schemes in Ireland. Graphically, the income distribution can be seen as follows:

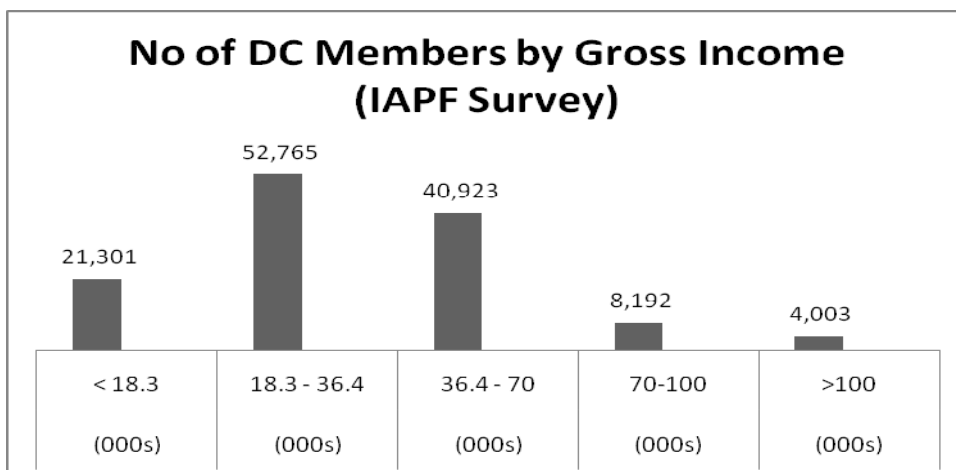
¹ The Construction Workers Pension Scheme (CWPS) is included as a DB scheme by the Pensions Board although it has many characteristics of a defined contribution scheme. If the 90,000 members of this scheme are removed from the overall number of 244,541 private sector DB schemes the above sample represents 34% of all DB members. It should also be noted that the members of the CWPS are included for pensions based on the average salary for operatives in the industry of approximately €38,000 and would therefore fall into the middle income category.



Defined Contribution Data

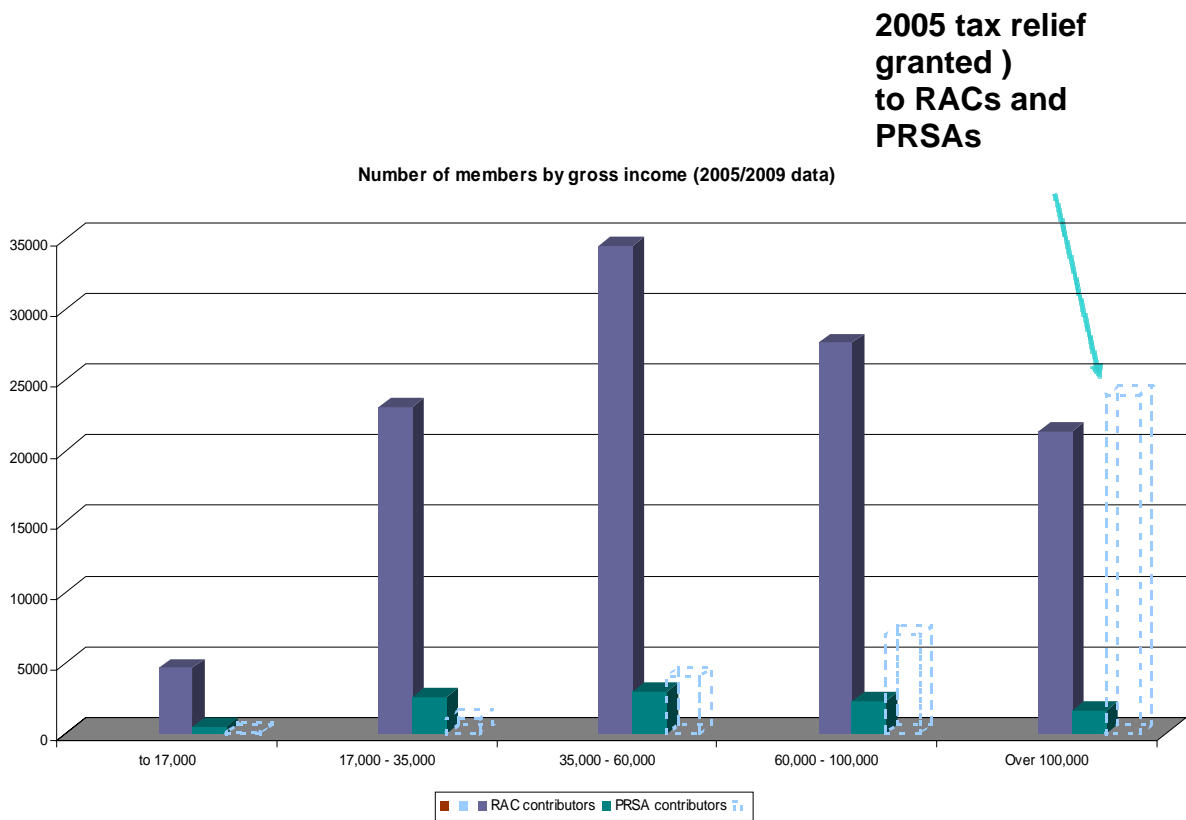
| <i>Salary band (000s)</i> | <i>Number of Members</i> | <i>Percentage</i> |
|-----------------------------|--------------------------|-------------------|
| < 18.3 | 21,301 | 17% |
| 18.3 - 36.4 | 52,765 | 41% |
| 36.4 - 70 | 40,923 | 32% |
| 70-100 | 8,192 | 6% |
| >100 | 4,003 | 3% |
| Total no. of members | 127,184 | |

These are broadly similar with 73% of members earning between €18,300 and €70,000 per annum. There is a much higher number earning less than €18,300 per annum and we understand from the administrators that this is largely accounted for by part-time employees. The overall number of members in the survey represents approximately 47% of all DC members in Ireland. Graphically this can be represented as follows:

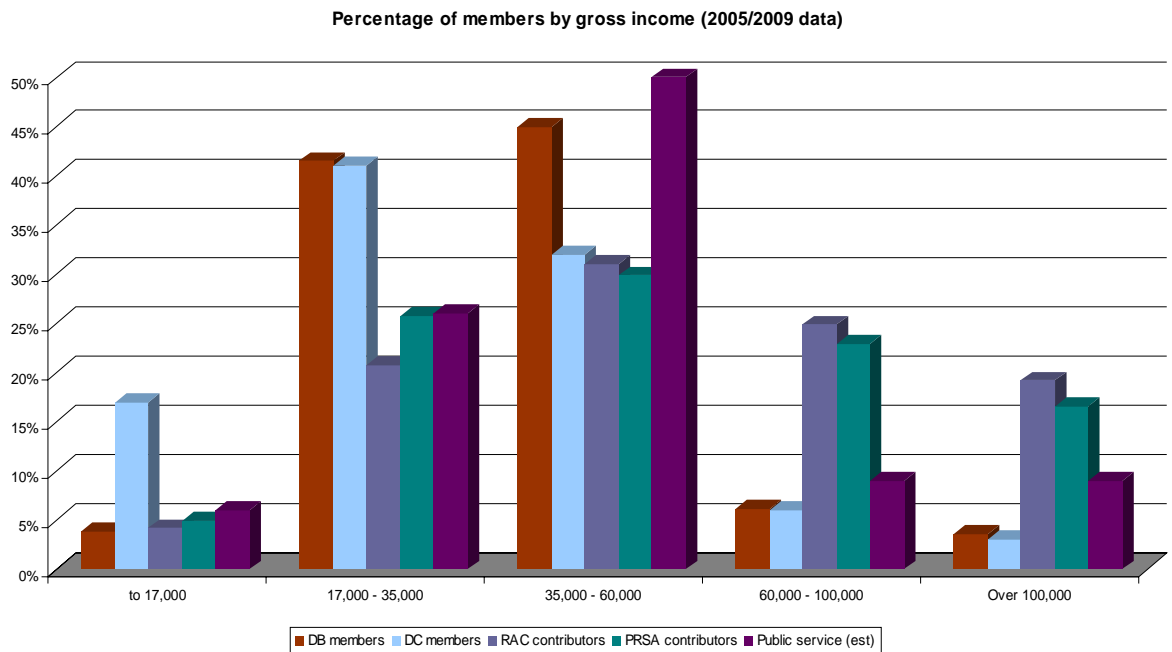


Combined Data

The 2005 RAC and PRSA data gives the following overview:



However adding in the data we have collected changes this picture:



Public Sector Data

The public sector breakdown is based on figures recently quoted by Impact which stated the public sector income breakdown as follows:

| <i>Salary band (000s)</i> | <i>Number of Employees</i> | <i>Percentage</i> |
|---------------------------|----------------------------|-------------------|
| < 30 | 55,000 | 18% |
| 30 - 40 | 74,000 | 24% |
| 40 - 60 | 126,000 | 41% |
| >60 | 55,000 | 18% |
| Total | 310,000 | |

There are 282,714 members of public sector occupational pension schemes.

Summary

The results of the research presented in this report adds significant new information to that currently available and must be used to further inform the decision making process. We believe it is imperative that the needs of the existing 800,000 employees who are currently contributing to pension schemes are taken into account and that any action taken does not serve to discourage them from continuing to save for their retirement. It is of critical importance that the employers who sponsor pension provision in Ireland for their employees continue to see pension funding as a benefit that their employees need and appreciate.

Pension schemes have suffered greatly over the last year and a half due to substantial falls in asset values. At this point in time those schemes need time to recover and we believe that now is not the time to introduce radical changes that could further undermine confidence in the existing system. We also believe that it is important that any changes designed to encourage more people to save for retirement are fully thought through and subject to intensive impact analysis. We would be happy to assist in this and in particular in examining the potential impact on existing schemes.

There is little or no analysis of the people who do not have retirement savings and without this research it is virtually impossible to prescribe measures to achieve the desired result.

Individual Examples

As part of our research we commissioned PWC to calculate and present examples of how individuals have been affected by the budgetary changes over the last 9 months and how they would be affected by the much speculated reduction in the level of tax relief granted on their pension contributions.

Civil Servant - Higher Executive Officer
Married One Earner - Class A PRSI
Salary: €51,980

| Summary | October 2008 | January 2009 | March 2009 | May 2009 | Pension + Levy @20% |
|---------------------------|---------------|---------------|---------------|---------------|---------------------|
| Gross salary | 51,980 | 51,980 | 51,980 | 51,980 | 51,980 |
| Pension Contribution | 1,559 | 1,559 | 1,559 | 1,559 | 1,559 |
| Pension Contribution | 1,006 | 981 | 981 | 981 | 981 |
| Pension Levy | | | 3,948 | 3,448 | 3,448 |
| Income Tax | 5,446 | 5,246 | 3,628 | 3,833 | 5,090 |
| PRSI | 1,712 | 1,713 | 1,556 | 1,576 | 1,815 |
| Health Levy | 988 | 989 | 910 | 1,840 | 2,079 |
| Income Levy | | 520 | 520 | 1,040 | 1,040 |
| Net Pay | 41,268 | 40,971 | 38,879 | 37,704 | 35,968 |
| Net Monthly Income | 3,439 | 3,414 | 3,240 | 3,142 | 2,997 |

Civil Servant - Principal Officer
Single - Class A PRSI
Salary: €112,191

| Summary | October 2008 | January 2009 | March 2009 | May 2009 | Pension + Levy @20% |
|---------------------------|---------------|---------------|---------------|---------------|---------------------|
| Gross salary | 112,191 | 112,191 | 112,191 | 112,191 | 112,191 |
| Pension Contribution | 3,366 | 3,366 | 3,366 | 3,366 | 3,366 |
| Pension Contribution | 3,114 | 3,088 | 3,088 | 3,088 | 3,088 |
| Pension Levy | | | 9,969 | 9,730 | 9,730 |
| Income Tax | 32,248 | 32,048 | 27,961 | 28,059 | 31,457 |
| PRSI | 1,901 | 1,948 | 1,933 | 5,795 | 5,825 |
| Health Levy | 2,142 | 2,143 | 1,915 | 1,049 | 1,858 |
| Income Levy | | 1,243 | 1,243 | 2,987 | 2,987 |
| Net Pay | 69,420 | 68,355 | 62,716 | 58,118 | 53,880 |
| Net Monthly Income | 5,785 | 5,696 | 5,226 | 4,843 | 4,490 |

Jane, aged 36, single
 Communications and PR manager
 Salary €48,000

| October 2008 | |
|-----------------------------|------------------------|
| Member of DC pension scheme | |
| Her standard contribution | 5% |
| Employer contributes | 3% plus matches her 5% |
| She contributes AVCs | An additional 6% |
| Total pension contribution | €760 per month |
| Gross salary | €4,000 per month |
| Net salary | €2,833 per month |

| January 2009 | |
|---|------------------------|
| Salary reduced to €45,000. Has had to stop AVCs to pension scheme but has maintained her normal contributions | |
| Her standard contribution | Kept at 5% |
| Employer contributes | 3% plus matches her 5% |
| She contributes AVCs | Nil |
| Total pension contribution | €487.50 per month |
| Gross salary | €3,750 per month |
| Net salary | €2,815 per month |

| August 2009 | |
|--|------------------------|
| Tax relief reduced on employee pension contributions She cuts back her own contribution further | |
| Her standard contribution | Reduced to 3% |
| Employer contributes | 3% plus matches her 3% |
| She contributes AVCs | Nil |
| Total pension contribution | €337.50 per month |
| Gross salary | €3,750 per month |
| Net salary | €2,712 per month |

Net result: Jane's private pension savings have more than halved in less than a year and the tax changes mean that she has no strong incentive to increase her contributions meaning a much increased likelihood of requiring greater State pension support at retirement

The effect on Jane's savings at retirement as a result of this change is immense as can be seen on the following table:

| Savings Rate | October 2008 | August 2009 |
|---|--------------|-------------|
| Accumulated Fund at 65 | €346,162* | €153,723 |
| Tax Free Cash | €72,000 | €67,500 |
| Monthly Pension | €1,173 | €369 |
| Spouse's Pension on Death in Retirement | €587 | €184 |

*Based on Pensions Board's pensions calculator

These are examples of what has already happened to the income of individual sample cases over the last 9 months together with what would happen if tax relief on contributions was reduced to standard rate. In these cases the only reason the current income of these individuals will drop again is because they are saving for retirement. In addition, any likely changes in behaviour will result in a significant fall in their savings and income at retirement. The recent redc survey prepared for the Irish Taxation Institute indicated that 53% of people currently making pension contributions would stop or reduce them if tax relief was removed.