

**Making Pensions work for People**

**TASC Pensions Policy**

**by**

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# Presentation Structure

- Background
- Context
- Principles
- Overview of TASC Pension Model

# Background

- TASC/TCD Pensions Policy Research Group (PPRG):
  - Issued policy document in 2008.
  - Relied heavily on the work carried out by the TCD PPRG.
  - TASC /TCD PPRG reconvened in 2010 to update policy.
  - Policy Update published in January 2010.

# Context

- Current policy on pensions combines public and private provision.
- State pension (€4.3bn) and tax relief on private pensions (€3bn).
- Most people rely on the State pension for an income in retirement.
- Increases in State pension have reduced pensioner poverty.
- Almost half of all workers do not have a private pension.
- Poor performance of private pensions.
- Tax relief is costly, it fails to deliver adequate pension cover and it creates inequality.

# Principles

- Universal
- Equitable
- Affordable
- Secure

# TASC/TCD Pension Model – Main Elements

- 1<sup>st</sup> Tier – Increase and Universalise State pension to provide a guaranteed income for **all** pensioners.
- 2<sup>nd</sup> Tier – Establish a new Social Insurance (Retirement) Fund to provide a supplementary earnings-related pension.
- Rebalancing from private to public provision through redistribution of tax reliefs on private pensions.
- Address problems faced by current members of occupational pension schemes.

# State Pension – 1<sup>st</sup> Tier

- Increase and universalise State pension to 40 per cent of gross average industrial earnings over a 5 year period.
- Eliminate pensioner poverty and provide guaranteed income for all long term residents of Ireland.
- National Pensions Framework (NPF) –
  - Importance of State Pension and commitment to sustain the value of state pension at 35 per cent.
  - Move to total contributions (increases contributions required and includes credits for home duties).
  - No move to universality (disadvantages pensioners on non-contributory means-tested pensions – mainly women).
  - Increasing the retirement age (could create poverty traps for older workers unable to work but don't yet qualify for a pension).

# Earnings-related Social Insurance (Retirement) Fund – 2<sup>nd</sup> Tier

- State-led supplementary earnings-related pension scheme through social insurance fund.
- Combined with State pension to provide 50 per cent of final salary up to a specified maximum.
- Mandatory and defined benefit.
- Includes credits for home duties (caring responsibilities).
- Benefits of social insurance approach:
  - Low cost.
  - Flexible (employers/employees/working in the home).
  - Secure (pooling longevity and investment risk; no solvency risk).

# Earnings-related Social Insurance (Retirement) Fund – 2<sup>nd</sup> Tier

- **National Pensions Framework:**
  - Recognises the need for supplementary pension.
  - Identifies PRSI system as low cost, easy to understand & secure.
  - Contributions (8 per cent) collected through PRSI system.
  - Auto-enrolment and managed by private pension providers.
  - No Government guarantees on investment returns.
- **Issues with National Pensions Framework proposals:**
  - Private pension providers – poor track record, high cost, complicated and risky.
  - Contribution levels won't provide 50% replacement income.
  - Younger / low paid workers will opt out – coverage will remain low.

# Re-balancing Pensions from Private to Public Provision

- Use tax relief to fund reform and equitably re-distribute Exchequer spending on pensions.
- Standard-rating all pension tax reliefs at 20 per cent.
- Reduce to €75,000 the ceiling on earnings which may be taken into account for tax relief purposes.
- **National Pensions Framework:**
  - Continue to use tax relief to incentivise pension take-up.
  - Standard rate tax relief at 33 per cent.
  - No reduction in the ceiling on earnings for tax relief.

# Address Problems Faced by Members of Existing Occupational Schemes

- Introduce pension protection schemes for DB and DC schemes.
- Amend Companies Act – move pension fund members to top of list creditors ahead of banks and shareholders.
- Strengthen regulation – more stringent requirements on private pension providers in relation to managing risk, charges and fees.

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