



# Pension Savings Decision: a case study

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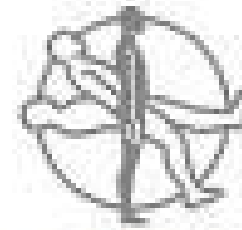


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# Background

- Case study research of Medtronic Vascular Galway Ltd a subsidiary of a US-based multinational
- Over 2000 employees
- Current qualitative research builds on research conducted in 2009 that examined the personal and employment characteristics of the employees adding to their pension savings through AVCs



**Medtronic**

**2011**

**Special Awards**

Retirement Planning Award, presented in partnership with the Irish Pensions Board

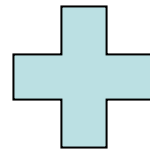
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# Background: Pension Plan at Medtronic

## Defined Benefit (DB)

- Compulsory contribution by employee
  - Costs paid by Medtronic
  - Fully funded



## Additional Voluntary Contribution (AVC)

- Flexible entry and contribution
- Favourable annual AVC charge negotiated by Medtronic



# Background: Communication Media

Information source	DB	AVC
On-site Financial Advisor	X	X
Employee Benefit Day	X	X
Explanatory booklet	X	X
Pension workshop	X	X
Personal pension statement	X	X
Total Rewards Newsletter	X	X
Total Reward Website	X	X
PensionPlanet		X
PensionPhone		X

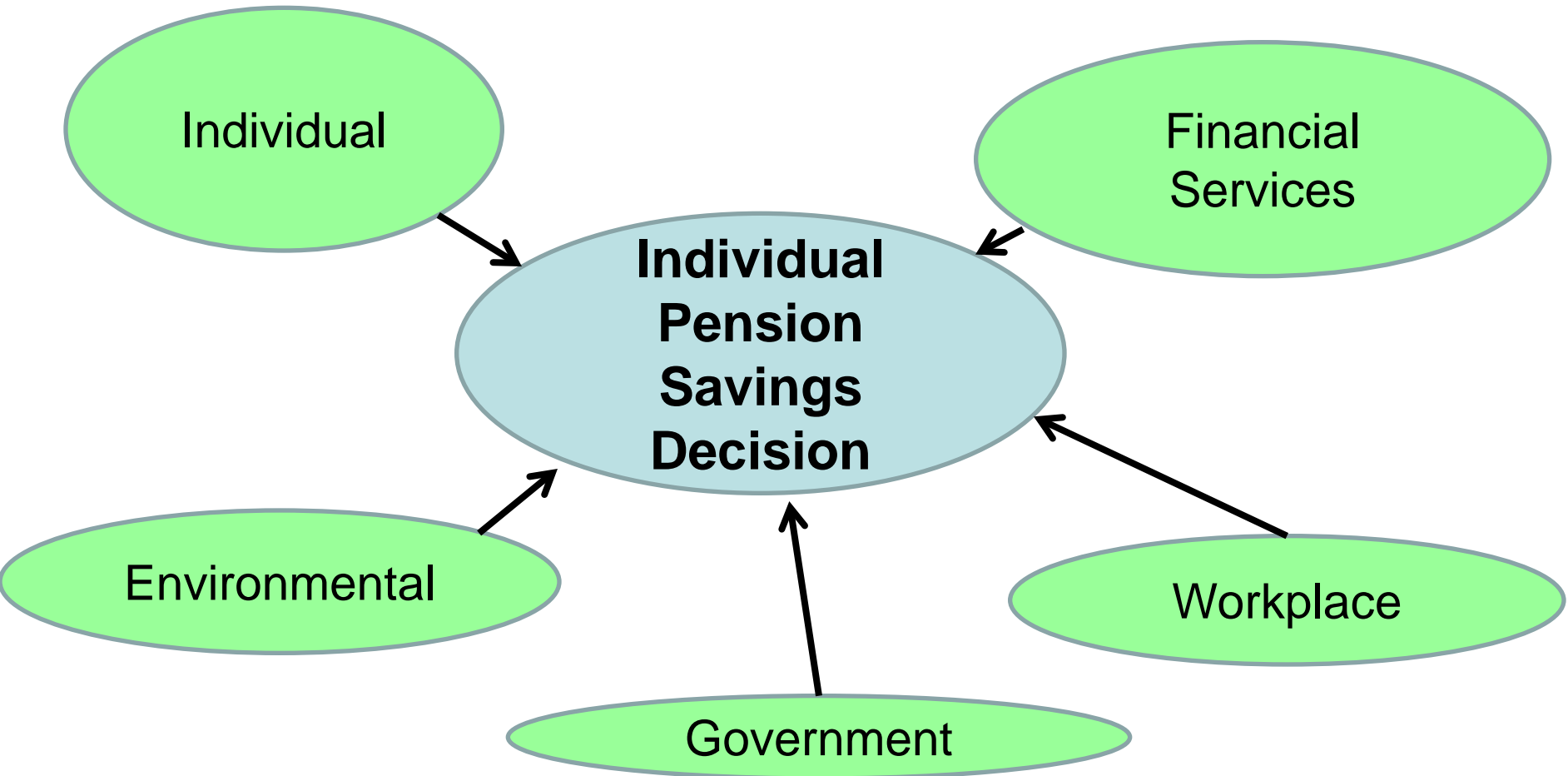


# Background: 18% AVC Uptake

<b>Positive relationship</b>	<b>No relationship</b>
Age	Gender
Tax	Marital Status
Employment Status (FT/PT)	Education
Nationality (Irish/other)	Tenure
	Grade (proxy for income)



# Current Research: What Variables Impact on Pension Savings Decision?





# Current Research: Methodology

- Semi-structured interview with 24 employees
- Full-time, Irish, employed more than 2 years
- Gender balanced
- Age cohorts balanced (6 each for 25-34, 35-44, 45-54, 55+)
- AVC uptake (12 current, 2 discontinued, 10 never)
- 16 hourly; 8 exempt





# Preliminary Findings: Income Knowledge

Knowledge of post-retirement income is weak

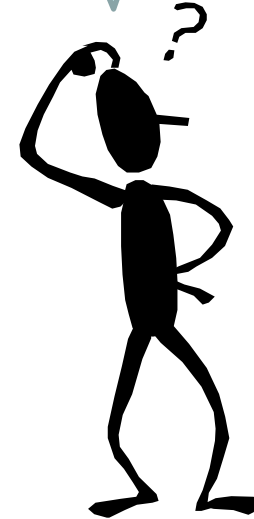
- 15 believe that their post-retirement income will be less/9 didn't know
  - 2 accurate estimates; 4 close guess-timates
  - 7 stated that they will require less income
  - 1 person stated that some costs may be higher
- 1 person calculated his household's post-retirement income needs



# Preliminary Findings: AVC Choice

Reason	No.
Tax relief & greater retirement income	6
Tax relief, greater retirement income & accumulation of tax-free lump sum	1
Tax relief & timely information	3
Tax relief	1
Greater retirement income	2
Concern for OAP	1

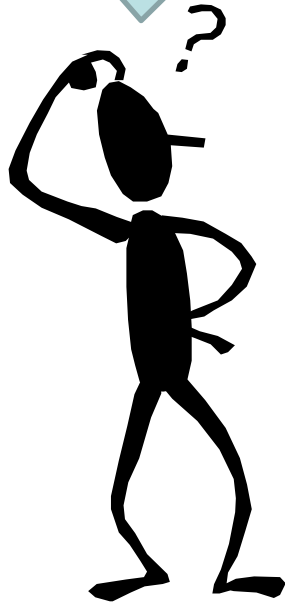
Why did you contribute to an AVC?





# Preliminary Findings: AVC Choice

Why didn't you contribute to an AVC?



Reason	No
	.
Other needs for income	2
Other needs for income & age	1
Other needs for income & fear of higher taxes	1
Age	2
Thought about it; didn't act	2
Risk	1
Other investments	1



# Preliminary Findings: Pension Advice

Do you think pension advice is confusing ?

Don't know/  
didn't ask  
(2/2)

Yes  
(20)



Why?	No.
Hard to grasp details	11
Former pension issues	5
Risk issues	3
Hard to evaluate different views	1



# Preliminary Findings: Pension Advice

Hard to grasp details

- Language (written literature; group information events)
- Applying general information to individual situation
  - Tax effects; marital status; interrupted careers
- Total value of pension (DB + AVC + OAP)
- Impact of AVC contribution



# Preliminary Findings: Pension Advice

## Former pension fund problems

Money paid into pension fund of previous employment is bonded; value fluctuates; difficult to plan between previous plan, current plan and OAP value

Different advice about whether to transfer pension fund or leave it

Pension fund of former employer underfunded; value any of savings unknown

Following company closure, pension could be transferred or left. Transfer reduced the value of the savings. If left, the future value was uncertain.

Following redundancy, tax-free lump sum given that may or may not be part of pension; trying to save maximum amount for tax-free lump sum at retirement in two years



# Preliminary Findings: Pension Advice

## Risk

- Funding issues
- Future value of pension investment
- AVC risk not clearly communicated



# Preliminary Findings: Government Policy

<b>Suggestions to Government*</b>	<b>No.</b>
Maintain/improve tax incentives	12
Reduce taxation	1
Greater certainty around taxation after retirement	1
Communication	6
Nothing; no confidence in government	5
SSIA-type scheme; user friendly pension system	4
Maintain value of OAP	1

\*Each employee made between 0 and 3 suggestions





# Preliminary Findings: Medtronic Policy

<b>What can Medtronic do to encourage you to increase your pension saving</b>	<b>No.</b>
Nothing: the tools are there	7
Nothing: not ready to save for pension	6
Nothing: no more to save	2
Nothing: risk is too great	1
Increase salary	2
Demonstrate impact of increasing savings on post-retirement income/Value of savings in today's terms	4
Instill confidence/Notify about risk	2
Simplify	1



# What Variables Impact on Pension Savings Decision?

## Positive impact

- Educational efforts of Medtronic
- Tax relief
- Realisation that real value of OAP will probably fall

## Negative impact

- Knowledge about retirement income
- Confusing pension information
- Institutional credibility
- Concern for safety of pension savings



# Policy options

Government

Pension  
Administrators

Business

- Improve tax incentives for employees on the standard rate
- Fewer budget changes; longer lead time
- Decision on retirement age
- Portable pensions
- Mechanisms to transfer pension from former employers OR greater cooperation between companies
- Individual financial planning
- User-friendly literature/training
- Communication mechanism if value of DC/AVC is falling



# Policy options

Government

Pension Administrators

Business

- Improve tax incentives for employers to reduce the standard rate
- Fewer budget changes to reduce uncertainty and time
- Decision on retirement savings
- Portable pension options
- Mechanisms to transfer pension from former employer to new employer for greater cooperation between companies
- Individual financial planning
- Provide the structures for people to make informed pension savings decisions
- Provide regularly literature/training
- Communication mechanism if value of AVC is falling