

# The Irish Association of Pension Funds



The National Pensions Framework

# NATIONAL PENSIONS FRAMEWORK



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**15 March 2010**

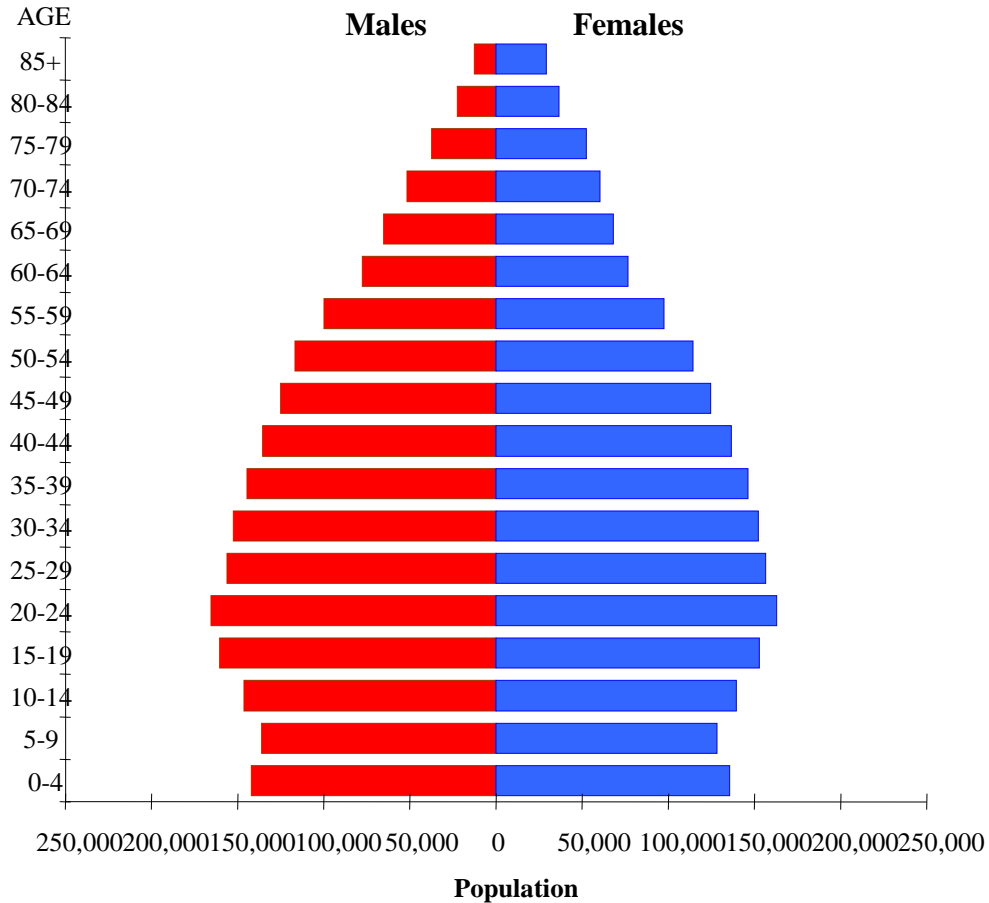


# Pension Challenges

- **People are living longer** – By 2050, less than 2 workers per older person compared to 6 workers today
- **Number of older people increasing** – 59% increase in over 65s in the next 10 years; by 2050 numbers will treble
- **State expenditure on pensions** – costs will increase from 5.5% of GDP to 15.5% (equivalent of €8 bn. in 2009)
- **People not saving enough or for long enough**
- **Calculation of State pension seen as unfair to some**
- **Inequity in the tax system**

# Demographic Challenge

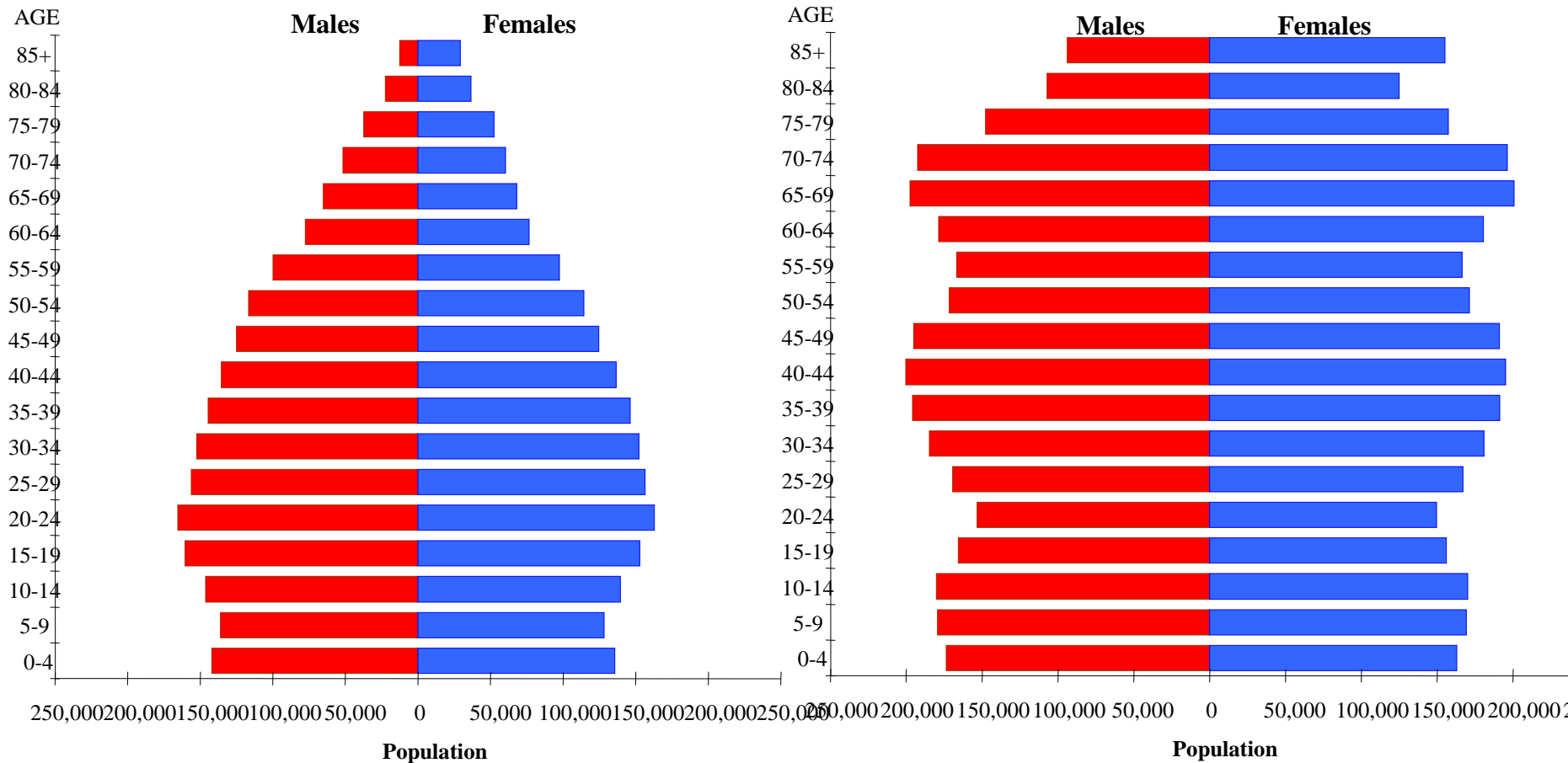
2002



# Demographic Challenge

2002

2052





# Principles to underpin framework

- Affordable and sustainable
- Seek to maintain value of State Pension
- Sufficient income in retirement
- Increased pension coverage
- Equity in the tax system
- Role for State, employers, employees
- Focus on the future

# Overview of framework - Aim is to deliver security, equity, choice and clarity

**Social welfare**

**Auto-enrolment**

**Existing voluntary**

**Public service**

**Tax relief**

**Retirement age**

**Proposed DB model**

**Tracing/Dormant Account**

# State pension

- The State will seek to maintain the value of the State pension at 35% average earnings
- Introduce a ‘total contributions’ approach in 2020
  - 10 years paid cons to qualify and 30 years for full pension
  - 10 years credits allowed
  - Improve the position of homemakers
- Abolish State pension (transition) and standardise age 66 for all State pensions and benefits in 2014
  - increase retirement age to 67 in 2021; 68 in 2028
- Allow people to postpone receipt of State pension

# Auto-enrolment

- Focused on low to middle income earners
- Optional for employees, mandatory for employers
- State, employer and employee contributes
  - 8% in total - 2%/2%/4% - within a band of earnings
- Contributions collected via PRSI system
- Matching contributions
  - €1 for every €2 employee contribution = 33% tax relief
  - Delivery mechanism to be decided.
- Intended to be revenue neutral

# Auto-enrolment (contd.)

- Small selection of investment funds; to include low risk option as the default
- No Government guarantee on investment returns
- Portable personal accounts administered by central agency
- Opt-outs allowed; automatic re-enrolment every two years
- Exemptions if employer has better DB/DC scheme
- Commence phase-in 2014 at the earliest

# Existing voluntary system

- Available to employees and self-employed who wish to put more into a pension fund
- Retain existing limits on income level and fund size
- State will provide matching contributions equal to 33% tax relief
- Equal access to approved retirement funds
  - Requires an annual income stream

# Public service

- Introduce a single new pension scheme for all new entrants with effect from 2010
  - Minimum pension age of 66 – linked to State retirement age
  - Pension based on career average rather than final salary
- Consider CPI as the basis for post-retirement increases



# Proposed DB model

- Model to be negotiated by employers, employees, trustees and unions
- Fixed contribution rates for employers
- Benefits flexible in the event of investment loss
- Ability to deal with increases in life expectancy
- More rigid funding standard for core benefits
- Promised benefits lower but more secure

# Key milestones

<b>2010</b>	<ul style="list-style-type: none"><li>■ Establish implementation group</li><li>■ Introduce public sector pension scheme</li></ul>
<b>2011</b>	<ul style="list-style-type: none"><li>■ Extend new ARF rules</li></ul>
<b>2012</b>	<ul style="list-style-type: none"><li>■ Homemakers disregards replaced by credits</li></ul>
<b>2014</b>	<ul style="list-style-type: none"><li>■ Introduce auto-enrolment</li><li>■ Abolish State Pension (transition)</li><li>■ State Pension age increases to 66</li></ul>
<b>2020</b>	<ul style="list-style-type: none"><li>■ Introduce 'total contributions' for State pensions</li></ul>
<b>2021</b>	<ul style="list-style-type: none"><li>■ Increase State Pension age to 67</li></ul>
<b>2028</b>	<ul style="list-style-type: none"><li>■ Increase State Pension age to 68</li></ul>

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