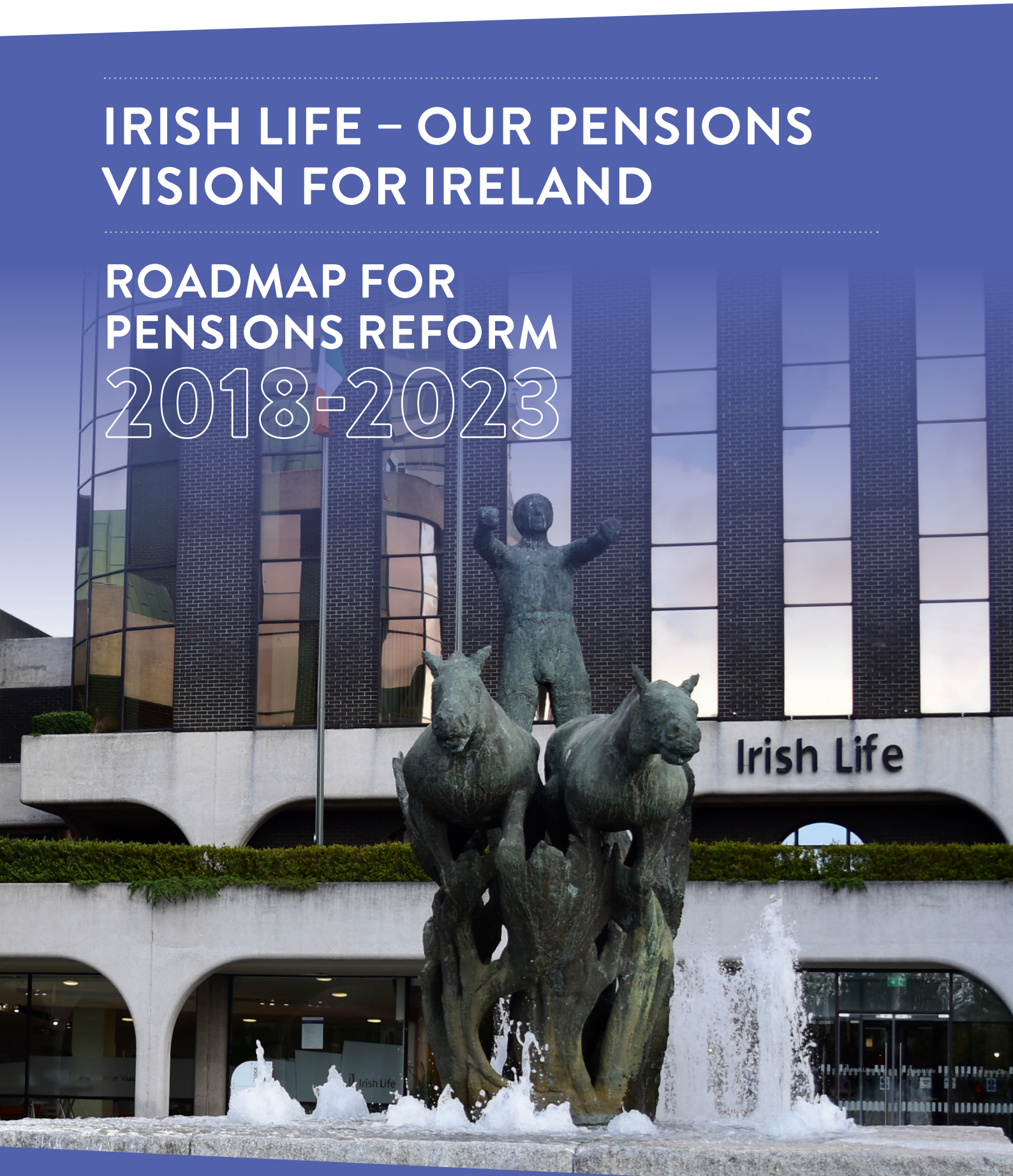




**Irish Life**

# IRISH LIFE – OUR PENSIONS VISION FOR IRELAND

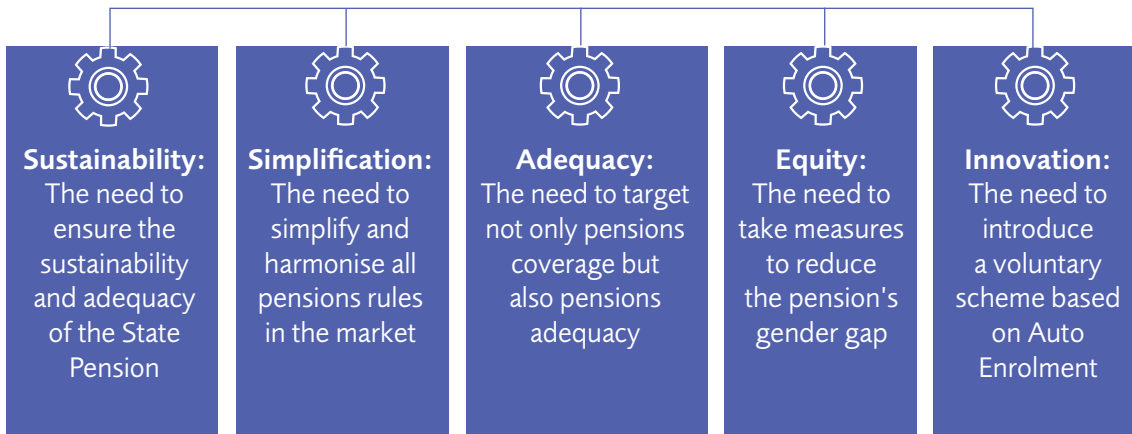
## ROADMAP FOR PENSIONS REFORM 2018-2023





Irish Life recently responded to a series of the consultation papers on pensions setting out its vision for a new retirement landscape for Ireland. The Government's Pensions Roadmap touches on all aspects of pensions within the State from changes to the State Pension to the proposed implementation of a nationwide "Auto Enrolment" scheme.

As a pension provider to over one million customers in Ireland with a wide variety of insurance needs and preferences, Irish Life has advocated on a number of key principles:



Irish Life believes that Ireland is at a seminal moment for Irish pension provision and that the Government can now embrace the opportunity for pro-active, wide scale, and durable reform. The Government's Pensions Roadmap is the opportunity and responsibility now lies with all stakeholders (the State, employers, employees and pension providers) to ensure the best possible outcome for our citizens in old age.

No single pension proposition can satisfy all market needs but Irish Life believes Auto Enrolment provides the valuable option of a pension to all of the working population, but with the freedom to opt out if they wish. Auto Enrolment also fits with our vision for an inclusive, accessible and clear financial future for all in Ireland. It is therefore imperative that the State implements Auto Enrolment as committed by 2022.

We believe Auto Enrolment will provide employers with a simple, easy pension solution for their employees with the benefits of scale that the large numbers involved will enable. Ultimately, more pension savers means more financially stable retirements. This is good for the economy and for the country.





# 1.

## AUTO ENROLMENT

Irish Life sets out here a new perspective on pensions in Ireland; on where to start and how to navigate the challenging journey to Auto Enrolment. The implementation of an Auto Enrolment scheme will be the impetus for the Government and Employers to drive a positive and pro-active cultural change within Ireland for generations to come, enabling better pension provision and retirement outcomes for all.

The Auto Enrolment policy introduced in the UK has been as a wide scale success with over 10 million new people now saving for retirement since this was introduced in 2012. In the past, many people missed out on valuable pension benefits, because their employer did not offer them a pension or they did not join their company's pension scheme.

Pensions are difficult decisions to make and there are always other competing, urgent priorities on people's time. The success of any pension scheme will ultimately be judged by the citizens only when they reach retirement and are able to enjoy long, fulfilled and financially secure lives. Auto Enrolment involves over-coming the inertia that so often means people never get around to taking out or joining pensions in the first place.

Here in Ireland, there could be up to 860,000 employees\* involved with over €1bn of potential annual contributions by 2028. Ireland is one of only two OECD countries without a mandatory, earnings related component to retirement saving. The current supplementary pension coverage rate (approximately 35% of the private sector employed population) could be doubled through Auto Enrolment.

\* Source: A Strawman Public Consultation from Dept of Employment Affairs and Social Protection



Below are the key points we believe are needed to make AE a success:



## EMPLOYEES

- There should be no reduction to tax relief, to ensure their levels of contributions are maintained.
- All full time employees over the age of 18 and under State retirement age and earning in excess of €17,600 should be opted in to the Auto Enrolment scheme from the date of commencing employment;
- Employers should be allowed select a preferred default provider for their employees if they wish. Employees can choose their preferred pensions provider but if they cannot choose should be randomly allocated to one of the auto enrolment pension providers.
- The Revenue Commissioners should provide information to employers about persons with multiple employments;
- Employees should have an opt-out window after six months should they wish to leave the scheme and receive a return of their contributions, however, they should be re-enrolled after three years.
- Savings suspensions should be allowed for a period of between 6 months – 3 years maximum over a lifetime.
- The pension pot should follow the member.
- Employees should be provided with a range of simple investment options from which to choose;
- All the same retirement options available to occupational pension scheme members should apply equally to auto enrolment savers

## EMPLOYERS

- Employer contributions of 6% should be provided at all salary levels in alignment with the occupational pension limit of qualified earnings up to €115,000;
- All employers in the State regardless of size should be included unless all their employees are already members of an occupational pension scheme with equivalent contribution levels;
- Employer and employee contributions should grow gradually starting at 1% each until they each 6% in year 6 in order to ensure pensions adequacy;
- For ease of administration employers should be allowed select their preferred auto enrolment provider; however, if an employee expresses a preference this should be honoured;
- Employer contributions should be returned to the employer if an employee chooses to leave the scheme during the opt-out window.
- Close scrutiny is needed to ensure no possible abuse of any "self-employed" exemptions or salary thresholds by rogue employers.

## PENSION PROVIDERS

- Pension providers should tender for inclusion within the auto enrolment scheme as a Registered Provider based on their pensions expertise, digital platforms and member communication tools.
- Pension scheme administration (including collection of pensions contribution, investment and member communications) should all be provided by the pensions providers;
- Maximum investment charges should be set at 75-100 bps for core investment funds; however, if alternative investment options are provided a higher rate could be applicable.
- All charges should be transparent and easily understood by members.
- It should be permissible to remove a provider if they fall short of service standards.

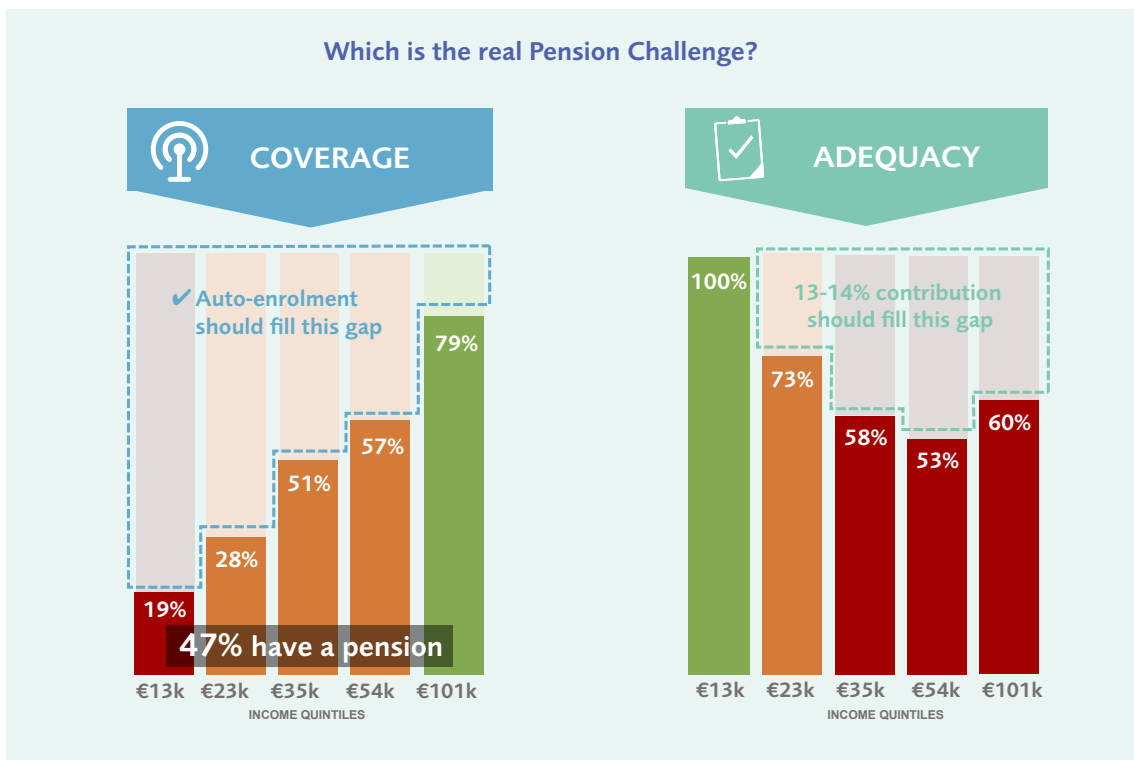
## STATE

- A Central Processing Agency (CPA) should be put in place for ease of administration and collection of data through a digital portal;
- There should be an open tender for the appointment of the (four) pensions providers;
- The cost of the CPA should be funded by the Exchequer;
- To avoid creating unnecessary complexity and arbitrage – tax relief should be the same as that provided for occupational pension schemes;
- The operation of tax relief needs to be better communicated to all pension scheme members.

# 2.

## PENSIONS TAX RELIEF

Pension adequacy needs to be a key consideration when reviewing any pension reform. There is little point in increasing pension coverage through auto enrolment if this does not provide an adequate income in retirement. A fundamental plank of ensuring pension's adequacy and encouraging workers to engage in long term savings is the provision of tax relief of pension contributions.

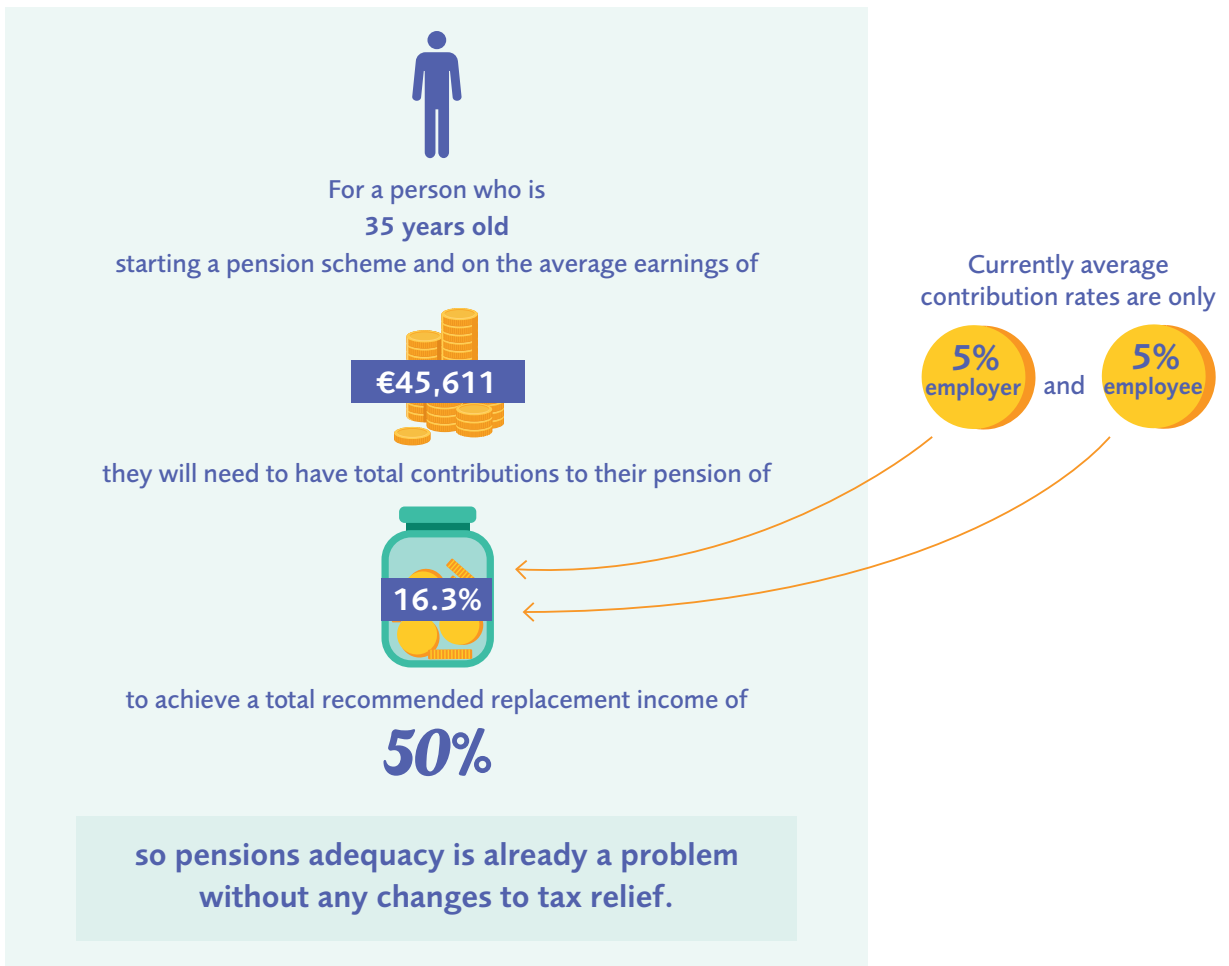


Irish Life has recommended the retention of the current system of tax relief and its implementation for auto enrolment because:

- The pension system as a whole reinforces the progressive nature of the Irish tax system – it does not discriminate towards lower or middle income workers:
  - The cost of the State Pension is higher than the income tax and social insurance paid by a very significant portion of the workforce and therefore the cost is effectively subsidised by the higher paid.
  - Tax relief is mainly a deferral of taxation until retirement rather than full tax exemption. The amount of tax paid on pensions drawdown also needs to be considered when assessing the equity of tax relief and this is material in the economy (estimated at €1.33BN\*\*).
  - Our analysis shows that the tax relief for pension contributions, as a percentage of tax paid for lower and middle income workers is the same as, if not higher than, that for higher income workers.

\*\*Source: Insurance Ireland Response to the Interdepartmental Pensions Reform and Taxation Group Consultation on Supplementary Pensions Reform 2018-2023. October 2018

- Currently 43% of individuals in work pay income tax at the marginal rate. The persons most likely to be affected by a change to pension tax relief are those in the €35k-€80k income brackets - for those on lesser incomes the State pension acts as a good replacement and those on higher incomes generally have other income sources/investment options. In the event of any change, it will be the middle earners that will either have to decrease their take home pay to maintain their pension provision or reduce their pension contributions (which over time will have a detrimental impact).
- The introduction of the Standard Fund Threshold (SFT) has already ensured no excessive use of pension system by high earners.



Maintaining the current tax incentive is a necessary step in ensuring adequacy of retirement income.



# 3.

## SIMPLIFICATION AND HARMONISATION OF PENSIONS RULES

In order for people to be engaged with their retirement needs, pensions choices need to be simple and uniform, and communication needs to be clear and transparent. The current complexity of pension regulation and taxation is not consumer focused.

Irish Life has recommended the following key principles of reform and simplification:

1. Consumer focused – the design of all aspects of pensions needs to have the consumer needs at its core.
2. Consistency of rules across products - Taxation, contribution and benefit options should be 'product' neutral across all pension structures. Irish Life believe there is no reason why being an employee or self-employed should determine when someone can retire or what retirement options or death benefit options apply.

### How can pensions be simplified?

- \* Have a lifetime standard fund threshold of €2 million and contribution limits based on this i.e. maximum annual contribution calculated as €2 million less existing fund, divided by years remaining to retirement.
- \* One single retirement lump sum for all pensions savers of the higher of 25% of funds or €50,000 (max €200k tax free).
- \* Allow all pensions savers access to the same retirement options i.e. annuity, ARF and lump sum.


These simplification principles should apply equally to the Auto Enrolment Scheme; to create another new layer of differing pensions complexity at this time would only lead to further market confusion and increase pensions inertia.

### What about Master Trusts and PRSA's?


Currently a large number of pensions are being set up under trust, primarily to access benefit options that are available to occupational pension schemes that are unavailable to PRSAs.

Master Trusts are a viable pensions vehicle for corporate or industry wide schemes. However, Master Trusts do not necessarily reduce costs, nor improve governance, to single member trust schemes and if we are to reduce the high number of single member schemes in the market an amended PRSA structure would be a better alternative to a Master Trust. Irish Life recommends that new buy-out-bonds and retirement annuity contracts (personal pensions) could instead be facilitated by an amended PRSA.


Our proposed amended PRSA would have these principles:



**1.**  
Employer contributions would have the same tax and contribution rules as occupational pension schemes



**2.**  
Transfer rules into PRSA's would be the same as those between defined contribution pensions schemes



**3.**  
Harmonisation of disclosure rules for PRSA's with occupational pension schemes and options to provide digital information



**4.**  
Same investment choices as those provided to occupational scheme members with alignment of charging disclosures



## Options at Retirement

Irish Life believes all pensioners should be free to make their own choices on retirement - all savers should have access to the same retirement options regardless of the type of pensions vehicle/scheme used and regardless of their employment status.

Our main proposals here are:

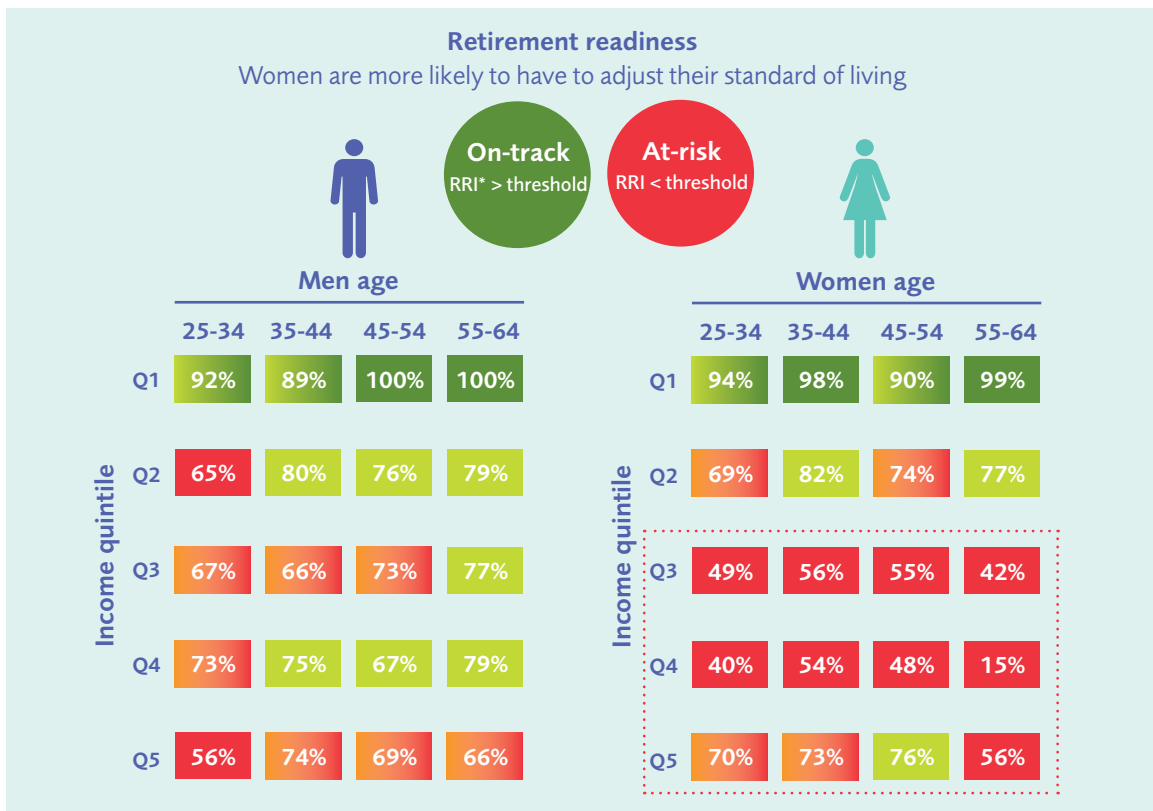
- Allow all pensions savers access to the same retirement options i.e. annuity, ARF, lump sum;
- Removal of the requirement for an AMRF
- No restrictions on ARF draw down but if necessary a simple fixed percentage of 4%, for all ages above 60.
- Increased onus on advisers and providers to outline retirement options and risks in relation to draw down, potential bomb-out etc.



# 4.

## STEPS TO BRIDGE THE GENDER PENSIONS GAP

The gender pay gap in Ireland is approximately 13.9%; however, the pensions gender gap is believed to be 32%<sup>1</sup>. Irish Life has therefore recommended that specific taxation measures should be implemented that focus on the needs of parents and women to bridge the current Pensions Gender Gap.



- Tax credits should be applied to pension pots during periods of time when a person is not earning due to caring activities i.e. maternity leave, parental leave, paternity leave, adoption leave;
- Tax free pension contributions to an unemployed partner should be permissible over periods of time when persons are taking on board caring activities.

In addition, the design of the auto enrolment scheme needs to be carefully considered to ensure that women on lower incomes are not unduly disadvantaged.

Hence, Irish Life proposes that:

- The salary threshold for entry be reduced to €17,600 and that there is a mechanism to ensure persons with multiple salaries that reach the threshold are included within the scheme;
- Ireland adopts a similar position to the UK where under the Auto Enrolment system, non-earners can contribute up to £2,880 and receive a top up of 20% from the State via a tax credit even though they are not paying income tax in the current year.
- Even when the salary threshold is not achieved the person has the option to opt-in to the scheme with matching employer contributions.
- Regulations to ensure oversight on employers to ensure no false "self-employment" or earnings manipulation around thresholds to avoid inclusion in Auto Enrolment.

<sup>1</sup> Source: 2017 Report on equality between men and women in the EU.

\*RRI - Retirement Readiness Indicator.



## CONCLUSION

As the population ages, it is incumbent on all stakeholders (the State, employers and individuals) to take responsibility to ensure the best possible outcomes for old age. The extensive and all-encompassing vision within the wide-ranging Government's Pensions consultations provides all of us with a unique opportunity to co-create a world class pensions system for the future.

Irish Life reiterates its belief that the State pension is the core pillar of pension provision in Ireland and measures should be taken to ensure its sustainability and viability into the future.

Based upon our deep experience as the largest pensions provider in Ireland, we have called here for protection of the current tax relief incentive system. Without this, ordinary middle earners in Ireland will be unable to save today for their later lives.

Whilst maintenance of this incentive is critical, it's not adequate on its own and we call for decisive action to bring forward the draft Auto Enrolment plans and radically simplify the existing pensions system.

Reform of the pensions system in Ireland is overdue but needs to be implemented consistently across all aspects on the pension spectrum. The goal should be to achieve a transparent, easily understood and stable pensions system that encourages everyone to save more for their retirement. Investing in pensions now will provide stability to pensioners, employers, the economy and the State in the future and that's good for everyone.



# Irish Life

Irish Life Assurance plc is regulated by the Central Bank of Ireland.  
Irish Life Health dac is regulated by the Central Bank of Ireland.

ILA 14530 (NPI 02-19)