IRELAND

On a pension precipice

Ireland's pension system is primed for a wave of proposed reforms, including the introduction of auto-enrolment. But for now, the country awaits the outcome of a general election in February

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Like most other European countries, Ireland has a pension system that faces numerous demographic challenges, as the number of people living longer in retirement increases. There is also a large part of the Irish population that has no pension provision at all and will be reliant on the state pension when they stop working.

In 2018, a number of major reforms were proposed to bring Ireland's pension system in line with countries like the UK, including plans to introduce auto-enrolment (AE) in 2022. But two years later, the industry is awaiting further developments and, in the meantime, a general election has been called for 8 February.

According to Irish Life head of public policy and governance, Teresa Kelly Oroz, approximately 50 per cent of Irish workers aged 20-69 have some form of private pension and, of those, 62 per cent are part of an occupational pension scheme.

Meanwhile, the share of defined benefit (DB) schemes has been in steady decline for a number of years now, she explains, with only 36 per cent of workers having access to that arrangement.

She says: "Defined contribution (DC) schemes are now the prevailing model within the private sector for pension provision. The state also provides a relatively generous first-pillar state pension, with both a contributory and non-contributory element.

"However, with an ageing population the government has seen the need to increase retirement ages – currently 66 but increasing to age 68 by 2028."

Figures from The Pensions Authority *Annual Report* show there were about 500,000 active members of DB schemes and 330,000 active members of DC schemes at December 2018, compared to 580,000 in DB and 270,000 in DC in 2008.

LCP Ireland head of governance, Roma Burke, says: "While the current system has many challenges – the key perhaps being its inability to produce high coverage and the quality of cover is poor – the state pension does provide a floor that protects against poverty, the tax reliefs available do encourage private pension provision and middle income earners benefit the most."

Industry evolution

Back in 2018, the Department of Employment Affairs and Social Protection in Ireland published its *Roadmap for Pensions Reform*, which Burke says was a "wide-ranging document that articulated the challenges and set out a five-year strategy for change". These included reform of the state pension, building a new AE savings system, improving regulation of the pension sector, supporting the operation of DB schemes, public service pensions reform and supporting fuller working lives.

Irish Association of Pension Funds (IAPF) chief executive, Jerry Moriarty, says the reforms are "a matter of evolution".

"Similar to the UK, we've had a lot of incremental changes that get made over the years, but without anybody taking a step back to look at all the change in regulation, all the change in legislation and getting rid of bits that no longer matter," he explains. "Then some of the change is driven by European regulation as well."

The European Union (EU) directive on the activities and supervision of institutions for occupational retirement provision (IORP II Directive) was adopted in 2016 and was due to be transposed into law by January 2019.

Irish Institute of Pensions Management president, Elma Fox, points out that in relation to the government's roadmap, "not a whole lot of progress has really been made on those reforms".

She adds: "Because we still haven't had IORP II transposed into Irish law… that has kind of slowed up any other reforms coming through as well on the private sector pensions side." A government focused on Brexit and now a general election means pensions has slipped further down the Irish government's 'to do' list.

AE infrastructure

Assuming AE is implemented by the next government, whether that is the incumbent Fine Gael or Fianna Fáil, what might it look like?

The Irish government published its proposed 'pot-follows-member' design for the regime in October last year, following a consultation process, with scaled back contribution levels for employees aged 23-60.

The initial minimum contribution level after consultation was set at 1.5 per cent for workers and employers for three years, starting in 2022, increasing by 1.5 percentage points every three years to reach a maximum of 6 per cent each at the beginning of 2032.

Prior to consultation, the government had suggested a contribution rate of 2 per cent of salary, going up by 1 per cent a year for six years. Moriarty says: "The basic design structure at the moment is that it will be the employee who chooses their provider and if they don't feel the need… or don't feel capable of choosing a provider, then there will be a central processing authority who will allocate a provider to them."

While Ireland has looked closely at the UK's AE system for guidance, Moriarty says it has also observed countries like New Zealand, which are closer in population size. Clearly, the 'pot-follows-member' design is not the same as in the UK, where the AE scheme sits with the employer.

"I think the only concerns we would have are how long and how expensive it will be for the state to build that central processing authority and to put that kind of infrastructure into place," adds Moriarty.

With the plans for Ireland's AE system having stalled, there are many who think that even a 2022 implementation date is now unrealistic, pointing to missed deadlines.

Moriarty explains: "In the document that was published in 2018, there were 40 action points set out. They all had timelines attached to them and responsibilities within various government departments, but practically all those deadlines have been missed at this stage."

Burke notes: "With a general election called for 8 February 2020, all bets are off. The timescales and the structure of AE could well change depending on which party forms a government.

"In other countries, the AE approach has been shown to lead to more people saving for retirement, so AE should be a positive development in Ireland in this regard. What is not clear at this stage is the tax rules that will apply – under the proposed approach, the AE system will operate entirely differently to the current tax relief system."

She adds: "In my view, it is important that there aren't groups of people who might be worse off in AE – from a tax relief perspective – than under the current system."

Oroz believes the AE regime will now be brought in on a phased basis, but adds it would be "unwise of any future government to ignore the pension time bomb that Ireland may be facing".

Greater DB protections

The IORP II Directive sets out stricter funding requirements for employers with DB schemes. If this is brought in, then it should mean schemes are not left unfunded.

"This will enhance the oversight of pension schemes and should result in higher governance standards and controls surrounding private pension provision," explains Burke. "I hope that this will better safeguard member benefits."

Moriarty agrees there should be greater protection for DB scheme members. "In theory, any company with a scheme can just decide to wind the scheme up," he says. "At this stage you have a very small number of DB schemes left. I think the employers that have decided to stick with their DB schemes, they're in this for the long term anyway."

Election promises

Fine Gael confirmed that if the party is re-elected it will introduce a new transition pension for those who are forced to retire at 66 from their jobs but have to wait until the official pension age before receiving their state pension. The transition pension will be paid at a rate equivalent to the contributory state pension.

In its manifesto published on 24 January, Fine Gael stated: "We will increase the state pension by at least €25 over five years and all social welfare payments (except jobseeker's allowance)."

Fianna Fáil released its manifesto the same day, having already revealed it would reinstate a state pension transition payment if elected, and defer the state pension age increase to 67 until a "comprehensive review" is completed.

Fianna Fáil also said it will establish a commission on pensions and that it will legislate to ensure "no solvent company can wind up their pension without permission from The Pensions Authority". ■