



Submission on sustainable State Pensions in the future

Irish Life Group

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INTRODUCTION

ABOUT IRISH LIFE

Irish Life empowers its customers to look to the future with more confidence and certainty. We manage the financial needs of more than 1.3 million Irish customers. We think ahead to find opportunities and anticipate challenges to help deliver more security and certainty for their futures. We have over 75 years' experience serving corporate and private customers in Ireland. So we pride ourselves on having a deep understanding of our customers' needs, interests and concerns for themselves and their families and this has informed our response to this consultation.

Irish Life Group (ILG) includes inter alia Irish Life Assurance and Irish Life Health as well as its associated companies Irish Life Investment Managers and Setanta Asset Management. We currently have 2,400 people working at our campuses in Dublin and Dundalk, and we continue to grow. Irish Life is part of Canada's Great-West Lifeco group. Great-West Lifeco Inc. cares for more than 28 million clients around the world

Irish Life welcomes the opportunity to participate in this discussion paper with the Pensions Commission. Irish Life is the largest provider of private pensions in the State and the State pension forms an integral part of all pensions provision in Ireland.

SUBMISSION

What do you expect from State Pensions?

Irish Life Group believes that the State Pension should be the core Pillar 1 foundation of pensions provision for everyone within the State. This means the State Pension needs to be both adequate to prevent poverty in retirement but also sustainable so that this same commitment can be maintained for generations into the future.

What's working with current State Pension arrangements?

The State pension has been successful at ensure that those in retirement have some adequate form of income into retirement to avoid poverty. The ESRI found in its report on 'Income adequacy in retirement: Evidence for the Irish longitudinal study on ageing' published in July 2020 that relatively few of those approaching the State Pension Age are likely to fall beneath the official at-risk-of-poverty line in retirement – 9 per cent using a definition of retirement income that includes pension income and income from financial assets. This compares with 14 per cent for the population as a whole in 2018.

The State Pension needs to continue to strive to ensure that those in retirement receive an adequate State support that as a minimum avoids poverty but should also allow for dignity in retirement.

What concerns you with respect to current State Pension arrangements?

In order for the State Pension to remain both adequate and sustainable there needs to be inter-generational solidarity to maintain the social contract. Long term policy decisions taken today must recognise both previous contributions and expectations but also seek a balance to ensure that no one generation is favoured against another. Changes made today need to maintain some

parity between the expectations of those nearing retirement today and the contributions they have made against those retiring in 30 years and their relative contributions. Contributions should not be measured purely by monetary amounts but also encompass contributions to society.

How best to accommodate those who provided long-term care for most of their working lives?

This is a critical matter of social policy and Irish Life would be of the view that those who devoted part of their lives to caring for others should not be disadvantaged relative to others and the system should have a mechanism to appropriately allow for this.

What specific policy, provision or other changes are needed to make State Pension arrangements sustainable into the future?

- **How might we best finance sustainable State Pension arrangements into the future? Would you pay more to achieve sustainable State Pension arrangements? Or would you be willing to forego some Government services?**

A balance needs to be struck to ensure both longer term adequacy and sustainability of the State Pension. We would argue for clarity of financing model and long term funding to reflect the genuine expected accrual of benefits to ensure better inter-generational fairness and sustainability.

The future implementation of an auto-enrolment scheme also needs to be considered and the assumptions made around the future level of the State Pension.

- **Should the Commission recommend legislative changes to address gaps between retirement age (the age at which a person retires or is required to retire from their work) and State Pension Age (the age at which the SPC and SPNC become available?) e.g. to prevent a contractual age specific retirement, and/or establish a statutory right to remain until pension age?**

Legislative change to ensure alignment between the date of retirement and access to the State Pension age would ensure consistency of treatment across the State and would avoid individual changes having to be applied to employment contracts and or pensions trust deeds/documentation.

- **What is the appropriate State Pension Age? In what way might it be adjusted – incrementally or at once – e.g. to take account of rising life expectancy, to increase the proportion of working lives to retirement lives, to sustainably cover the longer duration of pensions payments?**

The State Pension Age increased in 2014 to 66. This was the first in a planned number of changes, whereby the State Pension Age was to be linked to life expectancy improvements. According to the CSO¹ life expectancy at birth of both Irish males and Irish females has increased significantly over time. While these

1. (<https://www.cso.ie/en/releasesandpublications/er/ilt/irishlifetablesno172015-2017/#:~:text=Life%20expectancy%20at%20age%2065%20has%20also%20risen%20strongly%20between,a%20gain%20of%207.6%20years.>)

increases are a very welcome reflection of health and economic improvements in Ireland, particularly over the last 30 years or so, they do also mean that the on average people are receiving the State Pension for much longer than before.

As the CSO figures show, a 65 year-old man in Ireland in 2016, was expected to be in receipt of the State Pension for 18.8 years. A 65 year-old woman would be expected to receive the State Pension for 21 years. Assuming that both males and females are starting work at age 20 and working until the current State Pension age of 66 (a working life of 46 years), we get the following table:

Gender	Working Life (years)	Expected Retired Life @ age 66	Retired Life as % of Working Life
Female	46	20	43%
Male	46	17.8	39%

The Pensions Roadmap² has targeted a State Pension of about 35% of average earnings. Applying this level of State Pension from age 66, would mean that a woman with 46 years working life would need to contribute about 16% of their annual earnings to support their own State Pension. A man would need to contribute 14%. If working life is shorter this would mean an even greater percentage of annual earnings would be required.

In addition, to this some persons may enter the work force at an older age due to remaining in education for longer periods of time. The State pension age has to accommodate a number of factors and needs to be flexible into the future.

- **Should people working later (after State Pension Age) be able to continue to pay PRSI contributions? What might be the implication of this?**

In an increasingly flexible world of work the system should accommodate those who work after the State Pension Age by facilitating deferral of pension drawdown and continuation of PSRI contributions.

- **How might we best ensure sustainable flexible retirement pathways, allowing for both early and later exits from the labour market? How might this be combined with modified State Pension arrangements to reduce poverty risk?**

Flexibility within the State Pension should be facilitated as appropriate while also maintaining appropriate equity between persons in a similar position. Individual life style choices however should not place an incrementally larger burden on other members of society.

- **What are the best ways to fill any income gaps between retirement age and State Pension Age? Will the recent introduction of the Benefit Payment for 65 year olds be sufficient to bridge the gap between retirement age and State Pension age?**

2. ²Page 5, A Roadmap for Pensions Reform 2018-2023

Legislation should be introduced to ensure that a person cannot be made retire prior to the draw down of the State Pension age and hence avoid the creation of any funding gaps. For those who chose to retire in advance of the State pension age allowing some draw down of the State pension in advance could be considered. However, in order to preserve the sustainability of the system the pension amount would have to be adjusted appropriately to reflect the early drawdown.

Sustainable Reform Proposals

All pensions reforms should be introduced incrementally to allow for a smooth transition and be notified well in advance to allow for adequate preparation. Any changes should be implemented equitably across all of society.

Conclusion

Irish Life supports all measures to ensure the State Pension remains adequate for current retirees but also any measures to ensure its sustainability for future generations.

Irish Life would welcome the opportunity to meet with to discuss any of the matters set out above.