Rialtas na hÉireann
Government of Ireland

A Roadmap for Pensions Reform

2018 - 2023

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Foreword

Ireland can be proud of how it protects the living standards of its pensioners. Our pension system, including the State pension and other measures like the free fuel and free travel schemes, has largely protected older people from the effects of poverty. People aged over 65 are now four times less likely to experience poverty compared to the population as a whole and are significantly less likely to be at risk of poverty than they would have been 10 years ago.

Nevertheless we need to overhaul our approach to providing for pension income in retirement.

First, because we are living longer and can expect to rely on a pension for a considerably longer period of time than previous generations.

Second, because there are significant anomalies in the design of the State pension contributory system.

Third, because personal and occupational pension coverage in Ireland lags behind other countries and many people will not be able to sustain their desired standard of living when they retire.

This Roadmap for Pensions Reform details specific measures presented under six strands that, taken together, will modernise our pension system while continuing to target resources at those most in need.

THE SIX STRANDS OF ACTION ARE:

Strand 1:
Reform of the State Pension - including the 'Total Contributions Approach'

Strand 2:
Building Retirement Readiness - A New Automatic Enrolment Savings System

Strand 3:
Improving Governance and Regulation - including the EU Pensions Directive 'IORP II'

Strand 4:
Measures to Support the Operation of Defined Benefit Schemes

Strand 5:
Public Service Pensions Reform

Strand 6:
Supporting Fuller Working Lives

There have been other pension strategies and reports published by previous Governments that have correctly diagnosed the challenges we face. This plan builds on those reports, identifies the specific actions we will take and sets out a timetable for implementation. When implemented it will eliminate anomalies in the State pension system and ensure its sustainability. It will foster and support a new culture of retirement saving to improve outcomes for all. It will provide for improvements in the governance and supervision of public and private pensions. Most importantly, all of the actions taken together, will promote the continued and active engagement of older people in society to ensure that all of us as we get older can continue to enjoy a life of security and opportunity.

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An Taoiseach

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Strand 01

Reform of the State Pension

THE THREE PILLAR FRAMEWORK

The use of 'multi-pillar' systems is a widely accepted model for pension system design and reform. Bodies such as the World Bank, the Organisation for Economic Co-operation and Development (OECD) and the International Labour Organisation, advocate a multi-pillar approach with each pillar complementing the others to reduce risk and improve total retirement income. Broadly speaking this multi-pillar approach entails a publicly managed 'first pillar' - the State pension, a 'second pillar' consisting of occupational pensions and a 'third pillar' consisting of private, individual, pension plans funded from personal savings.

PILLAR 1: THE STATE PENSION

The State's management of the first pillar – the State pension – is focused on three key objectives; adequacy, sustainability and equity.

The first objective is to ensure that the pension paid to recipients is sufficient, as a minimum, to protect them from the effects of poverty – **the adequacy objective**.

The second is to ensure that pension payments can be financed in a sustainable manner – **the sustainability objective**.

The third is to ensure equity of treatment both between current pensioners and between current pensioners and future pensioners/current workers – **the equity objective**.

ADEQUACY

Previous studies have proposed that the rate of State pension contributory payment should be set at a level of approximately 34/35% of average earnings if it is to deliver on the objective of providing a basic level of pension adequacy. The rate of payment for the State pension of €238.30 per week, (rising to €243.30 from March 2018) already meets this objective[1]. It is proposed under this plan to link future increases in payment to changes in the consumer price index and wage levels in order to ensure that the value of the State pension is maintained.

SUSTAINABILITY

Private pension funds operate on a pre-funded basis. The payments a worker makes into the fund are invested (typically on a mutual fund basis with fellow workers) and are held on account for the worker who then draws down the accumulated funds in retirement to finance their pension payments. The State pension system operates

1 Based on CSO Earnings Data – See http://www.cso.ie/en/statistics/earnings/

on a different basis – it is premised on the principle of *social* rather than *personal* insurance and operates on a Pay as You Go (PAYG) basis meaning that today's pensions are not funded by past contributions made by today's pensioners but are instead funded by the taxes and social insurance contributions of today's workers. This PAYG model works for so long as there are roughly four or more workers contributing into the Social Insurance Fund for every pensioner drawing from it (depending on the level of other benefits such as unemployment benefit and invalidity pensions paid from the fund). However, like many other developed countries, Ireland is facing demographic challenges which will see the number of pensioners more than double and the ratio of people of working age to pensioners fall to about 2.3:1 over the next 40 years. This presents significant funding challenges with the Social Insurance Fund forecast to accumulate a potential deficit of up to €400 billion over the next 50 years.

EQUITY

There are two aspects to equity insofar as the State pension system is concerned.

The first is equity in how the existing cohort of pensioners benefit by reference both to their need for a State pension and to their record of contributions made during their working lives. The second aspect of equity relates to intergenerational fairness.

In terms of fairness in how current pensioners are treated, as highlighted recently, the system as it stands features an inequity in that the design of the contributory pension is such that it results in differences in pension payments to people which are not justified by reference to their contribution histories.

The issue of intergenerational equity is related to the issue of sustainability. Any pension system, be it public or private, must be able to absorb the impact of population ageing without becoming financially destabilised. If the structural cost of the system becomes too high for current and future workers to sustain, it will not survive, at least in its present form. Whilst it might be possible to maintain a system with escalating costs for some time before reaching what might be considered a 'tipping-point', it would be inequitable to require the current generation of workers to maintain, or more likely increase, contributions to fund a pension system for current retirees that delivers significantly better payments than those that might be available to them when they retire.

Delivering a State pension that achieves the goals of adequacy, sustainability and equity against a background of an ageing population is a key goal of the Roadmap for Pensions Reform. Building on the significant reforms already undertaken to State, public service and supplementary pension provisions, the measures detailed in this reform plan mark the next stage in the process of enhancing the Irish pension system. This requires that we build a fit for purpose retirement savings infrastructure for current and future generations that caters for the diverse needs of our retirees.

BENCHMARKING FUTURE PENSION INCREASES

The current rate of State pension contributory at €238.30 per week (or 34% of average earnings), is in line with reference rates and recommendations cited in a number of previous reports. The level of income provided to pensioners in the form of the State pension is currently decided through the annual budget process. As with any other social protection payment, the recurring policy question is how much society should aim to redistribute to its pensioners to provide what it considers to be an adequate basic income and, thereafter, how best to sustain this level of payment based on contributions made to the system. The trade-off here is between maintaining the adequacy of benefits and ensuring that the contribution rates/taxes required to pay for these benefits are affordable and do not undermine competitiveness or flexibility in the labour market.

As pensioners generally have fixed incomes, and can expect 20 or more years when they may be at least partially reliant on the State pension, any uncertainty about future rates can cause anxiety, particularly among pensioners with no other source of income. In setting the rate of State pension, Ireland is currently atypical compared to other EU countries in its approach to applying discretionary increases through political decisions in the annual budgetary process. Internationally, a more formal system of automatic or semi-automatic increases has greater prevalence. Typically increases are indexed to an economic indicator, such as inflation or earnings growth. The Government believes a regime of automatic indexation would introduce greater long term certainty for our retirees. Maintaining a constant real value to the State pension would also benefit individuals by allowing for greater transparency in financial planning and improved confidence about the level of any private retirement savings required to supplement the State pension.

In order to protect pension adequacy into the future the Government intends to examine and develop proposals to;

(i) Set a formal benchmark target of 34% of average earnings for State pension contributory payments and;

(ii) Institute a process whereby future changes in pension rates of payment are explicitly linked to changes in the consumer price index and average wages.

It is intended that detailed proposals in respect of these initiatives will be developed and brought forward in Q3 2018. Implementing these proposals will ensure that future rate changes are transparent and decided on an objective basis. This will also provide some certainty to workers, pensioners and private pension providers as to the adequacy of the State pension and the level of supplementary provision that will need to be made if workers aspire to a greater level of retirement income. This will in turn be critical to supporting take-up of any automatic enrolment supplementary retirement savings system (see Strand 2). However 'locking-in' pension increases in a formulaic manner may limit discretion to implement other policy priorities in an environment where fiscal space is limited. Accordingly the development of such approaches will require careful design and could only be introduced if accompanied by complementary changes in the funding of the pension system (see Action 1.11 'Setting Social Insurance Rates' for further detail).

ENSURING SUSTAINABILITY AND EQUITY: THE 'TOTAL CONTRIBUTIONS APPROACH'

While it will remain the bedrock of the Irish pension system into the future, the State pension contributory requires reform if it is to meet the needs of future generations of pensioners and deliver on the goals of sustainability and equity.

To this end, the National Pensions Framework (2010) confirmed the intention to introduce a new method for calculating entitlement to the State pension contributory from 2020. It proposed that the current 'yearly average' system, be replaced with a 'Total Contributions Approach' (TCA), which would make the level of pension directly proportionate to the number of social insurance contributions made by a person over his or her working life, with significant pension credits granted to people who have taken time out of the workplace to perform caring duties. The TCA will eliminate the anomalies inherent in the current averaging system whereby a person can qualify for a full pension based on a small number of years payments (currently as little as 10 years contributions required) provided they have no gaps in their record whereas a person with more than 10 years contributions, but with a significant gap in their record, might be paid a reduced rate.

The arguments for implementing the TCA are strong as it is a more logical and transparent system, where the individual's lifetime contribution will more closely match the benefit received. The TCA particularly encourages sustainability (by more directly rewarding people for working), and it offers a clearer path to adequacy for those who wish to increase their entitlements. Towards this end, and subject to finalisation of the scheme design following a public consultation process, it is intended that the TCA will offer a full State pension to all people with a full record of 40 years social insurance contributions with pro-rata payments for people with less than 40 years of contributions. People who have to take time out of the workforce to take up caring duties will be eligible to accumulate up to 20 years credits towards meeting the full 40 year contribution record. Similarly, unemployed people and others with an entitlement will, as now, be able to get credited contributions provided that they have a minimum number of paid contributions.

Within these broad parameters and informed by the recently published 'Actuarial Review of the Social Insurance Fund[2]' the Government commits to;

(i) Bring forward a detailed proposal for the design of a TCA system and begin a public consultation on that design in Q2 2018. In addition to setting out the scheme parameters this design will also detail the costings and the impact on social insurance funding necessary to introduce the TCA model.

(ii) Finalise the TCA design by Q4 2018.

(iii) Bring forward the necessary legislation by Q1 2019 to implement the TCA by Q3 2020.

(iv) Offer existing post 2012 pensioners on reduced rates the option of a pension review based on the TCA model to take effect from March 2018, with payments from Q1 2019.

2 http://www.welfare.ie/en/Pages/Actuarial-Review-of-The-Social-Insurance-Fund-31-December-2015.aspx

This calculation can include up to 20 years of a new HomeCaring credit for periods spent in homemaking/caring roles.

ENSURING SUSTAINABILITY AND EQUITY: LINKING FUTURE CHANGES IN THE STATE PENSION AGE TO LIFE EXPECTANCY

One of the key parameters in any pension system is setting the age at which a State pension can be drawn. To accommodate demographic ageing, all EU countries have undertaken, or have scheduled, reforms to their State pension age. In Ireland, legislation that progressively increases the Irish State pension age to 68 in 2028 has already been enacted. However, it is recognised that over the longer term, increasing life expectancy will continue to outpace the increase in pension age.

The Government believes that, to promote solidarity in our redistributive welfare system and fairness between the generations, retirees of all generations should be afforded the opportunity to spend a broadly comparable proportion of their working life contributing to the social insurance system and thereafter in retirement benefitting from that system. A policy which sees Ireland linking the State pension age with life expectancy is a policy direction for Member States advocated at EU level[3] and has been recommended by the OECD[4]. This change will provide greater certainty and sufficient 'lead in' time to allow individuals plan, both personally and financially, for their retirement. It may also assist workers and employers in their considerations regarding any amendments to the terms of employment contracts.

Therefore, to put in place a fair, transparent and clearly understandable framework underpinning the State pension age, the Government commits that;

(i) There will be no further increase in the State pension age prior to 2035 other than those already provided for in 2021 and 2028.

(ii) Any change to the State pension age after 2035 will be directly linked to increases in life expectancy. This will begin with an assessment of life expectancy in 2022 to include a review of the proportionality between time spent in working life and retirement. At that point, informed by the review and assessment, a notice period of no less than 13 years will be given in respect of any planned changes to the State pension age before implementation occurs.

(iii) Thereafter, a similar assessment of life expectancy will take place every five years (i.e. the next assessment after 2022 will take place in 2027) with the same condition of at least 13 years notice regarding any proposed changes.

ENSURING SUSTAINABILITY AND EQUITY: SETTING SOCIAL INSURANCE RATES

The changes proposed in this Roadmap will enable people to plan with confidence for their retirement and be assured that the adequacy of their State pension will be protected over time. They will also introduce greater equity into the State pension system. However the changes can only be implemented and the necessary assurances as to the maintenance of pension adequacy provided, if there is a similar level of assurance as to the funding of the system. In other words, that social insurance contribution

3 EU White Paper - An Agenda for Adequate, Safe and Sustainable Pensions. EU Commission 2012
4 OECD Reviews of Pensions Systems – Ireland 2014

rates will be adjusted to ensure that there are sufficient funds available to Government to finance the payment of pensions. At present, social insurance rates are set as part of the annual budget process. This is a process that by its nature has a short-term focus and is not suited to setting rates to fund long term liabilities, such as pensions. In response to this challenge other countries, notably New Zealand and Australia, have implemented, or are considering implementing, an actuarial approach to balancing payment and contribution rates. In Ireland we do not use actuarial analyses to set rates in an explicit manner.

In order to bring greater certainty to the funding of the State pension the Government proposes to move to a system whereby social insurance contribution rates and contribution classes are actuarially reviewed on an annual basis to determine what changes would be required to fund benchmarked increases in payment rates or expansion of benefits cover. Towards this end the Government commits to;

(i) Progress work to consider and present options for the amalgamation of USC and PRSI, via the Working Group recently established by the Minister for Finance. Q2 2018.

(ii) Publish a consultation paper on an appropriate rate-setting/funding approach for the Social Insurance Fund by the end of Q4 2018.

Strand 1 Reform of the State Pension:
Summary of Actions and Commitments

Ambition:

Before old age pensions were introduced and developed, retirement was often marked by a descent into poverty. Safeguarding the State pension is a statement about our values as a society. Everyone should be confident that upon reaching a clearly definable State pension age, they will be guaranteed an adequate basic standard of living and be secure in the knowledge that this will remain the case for the remainder of their lives.

The State pension system will be reformed to improve its transparency, fairness and sustainability. These reforms will ensure a more equitable basis for the calculation of contributory pensions, will deliver clarity regarding the age at which State pensions can be drawn down and will provide greater confidence regarding pension value over the long term. These reforms will also ensure fair outcomes for men and women, in the context of evolving work patterns.

Actions and Commitments:

(A) Indexation of the State Pension – Examine and Develop Proposals by Q3 2018 to;

1.1. Set a formal benchmark of 34% of average earnings for State pension contributory payments **by the end of 2018 (DEASP)**[5] and;

1.2. Institute a process whereby future changes in pension rates of payment are explicitly linked to changes in the consumer price index and average wages by the **end of 2018. (DEASP/ DPER)**

(B) Introduce the Total Contributions Approach (TCA) for the State Pension Contributory

1.3. Bring forward a detailed proposal for the design of a TCA system and begin a public consultation on that design in Q2 2018. In addition to setting out the scheme parameters this design will also detail the costings and the impact on social insurance funding necessary to introduce the TCA model. **Q2 2018. (DEASP)**

1.4. Finalise the TCA design by **Q4 2018. (DEASP)**

1.5. Bring forward the necessary legislation by Q1 2019 to implement the TCA by **Q3 2020. (DEASP)**

1.6. Offer existing post 2012 pensioners on reduced rates the option of a pension review based on the TCA model to take effect from March 2018, with payments from Q1 2019. This calculation can include up to 20 years of a new HomeCaring Credit for periods spent in homemaking/caring roles. **(DEASP)**

5 For abbreviations detailing the owners of each action see page 44

(C) Linking Future Changes in the State Pension Age to Life Expectancy

1.7. Ensure that there will be no further increase in the State pension age prior to 2035 other than those already provided for in 2021 and 2028.

1.8. Ensure that any change to the State pension age after 2035 will be directly linked to increases in life expectancy. This will begin with an actuarial assessment of life expectancy in 2022 to include a review of the proportionality between time spent in working life and retirement. At that point, informed by the review and assessment, a notice period of 13 years will be given in respect of any planned changes to the State pension age before implementation occurs. **2022 (DEASP)**

1.9. Undertake an actuarial assessment of life expectancy every five years to inform State pension age decisions (i.e. the next assessment after 2022 will take place in 2027) with the same condition of at least 13 years notice regarding any proposed changes. **(DEASP)**

(D) Funding State Pensions on a Sustainable Basis

1.10. Progress work to consider and present options for the amalgamation of USC and PRSI, via the Working Group recently established by the Minister for Finance. **Q2 2018. (DFIN)**

1.11. Publish a consultation paper on an appropriate rate-setting/funding approach for the Social Insurance Fund by the end of **Q4 2018. (DEASP)**

Supplementary Pensions:

Key Challenges and Strategic Direction

OVERVIEW

While the Pay As You Go State pension provides a basic and effective protection against pensioner poverty, it is not designed or intended to secure a high level of pension adequacy. As the 'first pillar', the State pension should, in most cases, be combined with individual retirement savings in the form of 'second pillar' occupational pensions and/or 'third pillar' personal pensions. In this way the combined use of public and private pension savings allows employees, employers and the State to each play a part in addressing the provision of retirement incomes.

Private savings arrangements are voluntary[6] and generally aim to secure a payment level in retirement that, when combined with the State pension, replaces a sufficient proportion (e.g. 50% – 60%) of an individual's pre-retirement earnings so as to enable the individual concerned to maintain a reasonable standard of living after retirement.

Supplementary private pensions fall in to two types, Defined Benefit (DB) and Defined Contribution (DC) which together account, in Ireland, for about €110 billion of member assets under management. Historically, in DB schemes the amount of contributions was determined by the pre-defined pension that would become payable on retirement and the level of returns (after administration costs) on invested contributions. In contrast, in DC schemes the pension that is payable is not pre-defined but is determined by the level of contributions together with the level of investment returns (again after administration costs). Assuming appropriate contribution periods and contribution rates, in both types of scheme the level of investment returns is key to determining whether or not the target pension level can be achieved and indeed, in DB schemes, whether or not the scheme itself is sustainable.

SUPPLEMENTARY PENSIONS: KEY CHALLENGES

With 160,000 occupational pension schemes and just 1% of the EU population, Ireland is home to about 50% of all pension schemes in the EU. Notwithstanding this disproportionately high number of schemes, the proportion of employees in Ireland with supplementary pension cover is low by comparison with those countries that have mandatory/quasi-mandatory systems – just 35% of the private sector workforce has such cover (despite the availability of generous tax reliefs).

6 Whilst some employers make employee membership in a pension scheme a condition of employment, there is not a legal requirement to do so.

This suggests that a high percentage of the working population is not saving enough, or is not saving at all, for retirement.

This means that on retirement many private sector workers in Ireland cannot expect to receive a pension income that will deliver more than 34% of the average wage (i.e. State pension cover). This in turn will impact negatively on the ability of such people to maintain their desired standard of living and will ultimately, as pensioners account for a growing proportion of our population, reduce consumer spending in our economy. The low level of private pension coverage is not therefore just an individual risk but is also a macro-economic risk. It is critical that today's workers save now to accumulate wealth to fund non-employment income (and expenditure) into the future.

The high number of schemes also impacts the sustainability of, and the level of returns from, pension funds. Research clearly confirms that smaller schemes incur disproportionately larger administrative costs (as fixed costs are shared among fewer people) which in turn translate into higher charges to scheme members eroding investment returns and impacting negatively on adequacy outcomes.

The challenges posed by the low level of coverage and high number of schemes in Ireland is compounded by the historically prolonged period of low interest rates. These interest rate doldrums have meant that the cost of purchasing pension annuities is higher than had been anticipated. As a consequence many scheme members have found that pensions that they thought were secure are in fact unattainable. In addition a prolonged period of low interest rates (combined with increased longevity) has led to the closure of many DB schemes. Moreover many of the DB schemes that remain open are facing significant deficits requiring remedial action either in the form of increased contributions or reduced benefits.

In summary there are three key challenges facing supplementary pension provision in Ireland;

- The low level of supplementary pension coverage – reducing the future spending power/standard of living of today's workers.
- The disproportionately high number of schemes – increasing administrative costs and diminishing the funds available for distribution to pensioners.
- Increasing longevity and the continuing trend of historically low interest rates - increasing the cost of pension annuities, and undermining the sustainability of DB schemes.

To address these challenges the Government proposes to;

- Develop and introduce, informed by a macro-economic impact assessment, a new automatic enrolment retirement savings system to supplement the State pension and to encourage personal long-term saving and asset accumulation for retirement purposes.
- Reform and simplify existing structures for current supplementary pension savers.
- Legislate for measures to support DB scheme sustainability.

Strand 02

Building Retirement Readiness:

A New Automatic Enrolment Savings System

It is now widely accepted that reform of the current, purely voluntary approach to retirement saving, is required to improve coverage to a desired level. Support for this fundamental change in approach was reflected in the conclusions reached by the Citizens' Assembly which saw 87% of members recommend that Government should introduce some form of mandatory pension scheme to supplement the State pension.

Support for a mandatory or quasi-mandatory retirement savings system reflects the fact that whilst many people would like to begin saving for retirement, the complexities of the system and a lack of confidence in their knowledge of pensions or 'choice paralysis' prevents them doing so. To address such barriers to saving, other countries have introduced reforms to automatically enrol employees into a retirement savings system. The evidence is that such reforms have been shown highly successful at gradually increasing pension coverage. Typically such systems are designed on a quasi-mandatory, 'opt-out' rather than on an 'opt-in' basis. In such systems all workers that satisfy some basic conditions are automatically enrolled into a supplementary retirement savings scheme but with an option to 'opt-out' after a minimum period. The evidence suggests that once enrolled, inertia reduces the likelihood of many members making a decision to opt-out of retirement saving[7].

Accordingly, by 2022, the Government proposes to develop and begin implementation of a State sponsored supplementary retirement savings system in which workers will be automatically enrolled.

Automatic enrolment systems are characterised by certain design parameters. These include the target membership, the contribution rates, the financial incentives, the policy for opt-out and re-enrolment and the policy for contribution holidays. The Government will make final decisions regarding the operational and design characteristics for automatic enrolment after the completion of a public consultation process to further inform our analysis and evidence building.

In order to facilitate the design and development of a system for Ireland the Government will publish a draft or 'strawman' automatic enrolment design for public consultation in Q2 2018. This 'strawman' is currently being finalised but it is likely that the main design parameters to be offered for consultation will be as follows;

- All employees in the private sector over identified age and income thresholds (e.g. 23 years of age and €20,000 per year) and without existing private pension provision will be automatically enrolled into the system.
- Workers on lower salaries, self-employed workers and workers with existing private pension provision will be able to opt-in to the system.
- Contributions into the system will be made by both workers and employers and the State will top up contributions.

7 As at Feb 2018 the UK model of automatic enrolment, based on this approach, has seen over 9 million lower and middle income employees of 1 million employers enrolled since 2012 of which almost 90% have chosen not to opt-out.

- Those workers who are automatically enrolled in to the system will be allowed opt-out from participation following a minimum period of participation (e.g. 9 months) and any contributions made by the worker during the minimum period will be refunded.

- The exact ratio of contributions is to be determined during the design phase. As an example, starting from a modest base and automatically escalating on a scheduled basis over a period of time, employers could be asked to match worker contributions euro for euro subject to an eventual upper limit on employer contributions of 6% of gross salary. Similarly, the State might match worker contributions on a 1:3 basis. Under such a scenario a worker making a personal contribution of 6% of salary would see that contribution matched by an employer contribution of 6% and a State contribution of 2% bringing the total contribution into the fund to 14% of salary. Any contributions made by the State will replace, rather than augment existing tax reliefs.

- Retirement benefits accrued under the system will become payable at the same age as the State pension becomes payable.

- Workers with pre-existing personal or occupational pension arrangements will be able to retain those arrangements.

One of the key features of personal saving to fund future retirement income is that it represents an inter-temporal choice – the postponement of consumption now in favour of consumption at a date in the future. Therefore an automatic enrolment system to increase the rate of personal saving for retirement purposes could, if it is successful, have some macro-economic impact. Any reduction in personal consumption will reduce demand for goods and services, and GDP. However, depending on where and how the funds saved are invested these impacts could be mitigated and even, in the medium to long term, outweighed by the investment effects. The extent and nature of such macro-economic impacts will be influenced by the design of the automatic enrolment system. Accordingly the Government will, prior to finalising the design of any system, commission an economic impact assessment of introducing automatic enrolment in Ireland.

Strand 2 Building Retirement Readiness - Automatic Enrolment Reform: Summary of Actions and Commitments

Ambition:

Supplementary retirement savings coverage in Ireland is low when compared to those advanced economies that have mandatory/quasi-mandatory systems. This poses challenges both to individuals who wish to maintain a reasonable standard of living in retirement and also to society in general if it wishes to sustain a dynamic and growing economy as our population ages. Low supplementary savings coverage will also exert significant pressure on State finances as the burden of filling the 'retirement savings gap' will fall on to the Exchequer at a time when population ageing will impose other costs – in particular in healthcare.

To address these challenges the Government intends to introduce an automatic enrolment retirement savings system with the objective of helping individuals to accumulate sufficient wealth to sustain personal living standards on retirement and to help mitigate the economic impact of reduced incomes and expenditure associated with an ageing population.

Actions and Commitments:

Introduce an Automatic Enrolment Supplementary Retirement Savings System (2022)

2.1 Publish a 'strawman' automatic enrolment system for public consultation in **Q2 2018 (DEASP).**

2.2 Finalise the design of the automatic enrolment system by the end of **Q1 2019 (DEASP).**

2.3 Develop and bring forward legislation to give effect to an automatic enrolment system by the end of **Q1 2020. (DEASP)**

2.4 An Interdepartmental Automatic Enrolment Programme Board, chaired by the Department of Employment Affairs and Social Protection, will be established to provide strategic direction and ensure that the detailed operational arrangements are in place to allow the first enrolments to take effect no later than **2022.** Progress against the project timeline will be reported on a regular basis to Government via the Cabinet Committee structure. **Q1 2018 (AE Programme Board)**

2.5 To ensure that the ambitious timetable set out above is honoured the Government will ring-fence the required resources to immediately establish a new full time Automatic Enrolment Programme Management Office (PMO). Given the requirement to develop a firm evidence base to underpin all Government decisions, the PMO, which will be located within the Department of Employment Affairs and Social Protection, may require allocation of staff with a range of skills and expertise from across the public service and beyond. **Q1 2018 (DEASP)**

2.6 In order to ensure that the design of the automatic enrolment system takes due account of the macro-economic impacts of increasing savings rates the Government will commission an assessment of these impacts to be completed by the end of **Q4 2018 (DEASP).**

Strand 03

Improving Governance and Regulation

Concerns have been expressed for some time regarding the very large number of private pension schemes in Ireland, the professional fees charged to these schemes both for administration and investment advice, and the standard of governance of these schemes.

For example the Pensions Authority has made a number of recommendations to the Minister for Employment Affairs and Social Protection on foot of a national consultation process on reform which was undertaken in 2016. In making its recommendations the Authority confirmed it was prompted by;

- Evidence of low public confidence in pension outcomes and difficulty understanding pensions;
- The need for an enhanced regulatory framework which imposes rigorous obligations on providers, facilitates closer supervision and provides an improved suite of powers in order to enable intervention and address non-compliance;
- The high costs borne by many members and contributors;
- The need to raise scheme governance standards in the existing system;
- The need to provide for economies of scale and rationalise the number of pension schemes in Ireland which by international norms is excessively high (Ireland has 50% of all occupational schemes in Europe).

These views were echoed in the deliberations of the Citizens' Assembly on the future of pension provision in Ireland. The members of the Citizens' Assembly unanimously recommended that the Government should take steps to rationalise private pension schemes and to achieve greater transparency in relation to fees[8].

The Government is therefore determined to take measures to provide a more coherent and transparent environment for private pension provision with the goal of delivering a system that is trustworthy, transparent and well managed. This will be achieved by;

- Implementing a revised regulatory framework which will require higher standards in the management and governance of pension schemes;
- Empowering the Pensions Authority to take a prospective risk based approach to supervision, intervention and enforcement and to enforce an appropriate fitness and probity regime for pension schemes;
- Rationalising the number of different types of pension saving vehicles; and
- Taking steps to reduce the large number of pension schemes in operation - future pension provision by smaller employers will increasingly be by means of membership of large multi-employer structures or through pension contracts.

8 https://www.citizensassembly.ie/en/How-we-best-respond-to-challenges-and-opportunities-of-an-ageing-population/

IMPROVED REGULATION – IMPLEMENTING IORP II

Ireland was a supporter of, and played an active part in, the development of the EU Directive on the activities and supervision of institutions for occupational retirement provision - the so-called IORP II Directive (2016/2341)[9]. This Directive provides for EU wide, pension scheme standards related, for example, to;

- occupational pension scheme governance standards;
- technical rules including risk management practices, investment rules and solvency margins;
- communications with, and information to be provided to, members and prospective members;
- supervisory regulation and enforcement.

In order to ensure that Irish workers and pensioners benefit from the provisions of IORP II the Government will;

(i) develop and publish legislation by the end of Q3 2018 to transpose the IORP II Directive into Irish law with effect from 2019.

NEW POWERS FOR THE PENSIONS AUTHORITY – A FITNESS AND PROBITY REGIME FOR PENSION SCHEMES

The Government is determined that occupational pension schemes be actively managed to a high standard. Currently, the powers of the Pensions Authority as regulator are largely concerned with identifying and pursuing breaches of pensions legislation after the fact. The Government believes that the Pensions Authority should also be able to take a prospective 'risk based' approach to actively oversee scheme compliance with regulatory requirements and to enforce minimum standards with regard to the 'fitness and probity'/ governance of schemes, including the make-up of boards of trustees and the qualifications of trustees themselves.

The Government is therefore committed to ensuring that pension supervision be prudential, prospective and risk based and to introducing significant improvements to our current regulatory structure. In terms of internal scheme governance, schemes will be required to take steps to satisfy the Pensions Authority that they are fit for purpose, have the capacity to provide better member outcomes and protect members' rights and interests.

Reflecting these objectives and the provisions of IORP II reforms it is proposed to introduce a number of additional regulatory powers and requirements as follows;

(i) A new process will be developed to require all new and existing schemes gain 'authorised status' from the Pensions Authority in order to carry out activities and to obtain tax relief. This process will require trustees to demonstrate compliance with new fitness and probity requirements and governance obligations.

(ii) A personal fitness and probity benchmark (e.g. no prior judgments, conflicts of interest etc.) will be proposed for trustees to help ensure they are persons that are 'fit and proper' to carry out the functions of that office.

9 http://europa.eu/rapid/press-release_IP-16-2364_en.htm

(iii) A new set of 'professional' standards for trustees will be proposed to ensure that trustees have the appropriate knowledge and experience both collectively and individually to discharge their functions effectively.

(iv) New membership rules will be enforced such that trustee boards must consist of a minimum of two trustees, where at least one has a mandatory minimum trustee qualification at level seven in the National Framework of Qualifications and at least one other trustee would have at least two years' experience of acting as a trustee.

(v) The Pensions Authority will be granted power to remove a trustee who does not meet the new standards.

(vi) Corporate trustees, when acting as a sole trustee to a scheme, will be required to have a minimum of two Directors, one with a mandatory trustee qualification and one who meets the prescribed criteria for experience.

(vii) New standards for trustee development will be proposed whereby all trustees will be required to undertake a prescribed level of annual Continuous Professional Development.

(viii) New governance codes and standards will be published by the Pensions Authority which will detail appropriate governance and management structures including remuneration policies, systems of internal control, fit and proper key function holders, reasonable outsourcing and depositary arrangements, conflict of interest polices, risk management policies and internal audit policies along with procedures to ensure that all such policies are complied with and reviewed regularly.

(ix) The Department of Employment Affairs and Social Protection will be charged with identifying further powers/measures to enable the Pensions Authority to take pre-emptive action to address shortcomings identified on a prospective, prudential and risk based basis.

It is intended that in the future any proposed schemes will be required to provide satisfactory evidence that regulatory requirements, including those set out above, can be met at the point of commencement of the scheme. Where appropriate, existing schemes will be provided with a suitable 'lead in' time (18 – 24 months) to conform to enhanced standards.

REDUCING THE NUMBER OF PENSION SCHEMES/RATIONALISING PENSIONS PRODUCTS

With 160,000 occupational pension schemes Ireland is a significant outlier with many more small and single member schemes than any other European country. Reducing this very large number of schemes will help to improve the overall standard of scheme governance and to reduce overall pension costs and risk. In designing pension systems to provide optimum member outcomes, international best practice demonstrates, almost universally, a trend towards very large schemes (relative to the Irish experience). To this end, the Government will progress measures that will support the rationalisation of the number of pension schemes. This will include developing the environment for multi-employer pension structures for employees of unrelated employers. Also, in line with the recommendations of the Pensions Authority, the number of different types of personal pensions or individual savings vehicles[10] aimed at achieving the same objective will be rationalised to support pensions simplification.

10 Personal Retirement Savings Accounts (PRSAs), Retirement Annuity Contracts (RACs) and Buy-Out-Bonds (BOBs).

Lead responsibility for this strand of actions will be shared between the Department of Employment Affairs and Social Protection, the Department of Public Expenditure and Reform and the Department of Finance under the aegis of the Interdepartmental Pensions Reform and Taxation Group, chaired by the Department of Finance. This group will take actions to;

(i) Identify and progress measures to improve the harmonisation of rules to eliminate anomalies in the treatment of different retirement arrangements including taxation treatment.

(ii) Identify the options and develop recommendations to coherently rationalise the number of individual pension vehicles which exist at present.

(iii) Review the cost of funded supplementary pensions to the Exchequer. To inform decisions relating to financial incentives for retirement savings and underpin the development of the automatic enrolment system (see Strand 2), this will include an assessment of the economic and social benefits delivered and an evaluation of equity in the distribution of tax expenditure on pensions.

In addition to these actions the Group will consider if the arrangements in respect to Approved Retirement Funds (ARFs) can be improved. ARFs are post-retirement investment vehicles used by individual pensioners to invest the proceeds of their pension fund in retirement and draw down money as needed. The ARF option is an alternative to annuity purchase and essentially gives control over post-retirement funds to those individuals who have generally borne the investment risk on their funds in the pension growth phase.

Access to ARFs has been progressively liberalised since their introduction in 1999 and the ARF option is now available to all of those exiting Defined Contribution schemes. The sale of ARFs is not currently regulated as a pension product. The Pensions Authority has expressed the view that the lack of regulation at the point where the consumer must choose a drawdown option for their funds, is not in the best interests of consumers. Separately, research by the Pensions Council[11] has identified a wide variation in the charges associated with ARF products which in some cases reduces or even eliminates the investment return. The Pensions Council has observed that as ARF packaged products are currently only open to consumers on an individual basis as personal contracts rather than on a group basis, this likely results in a substantial inequality in information and bargaining power between providers on the one hand and the individual consumer on the other.

In order to address the deficiencies identified above the Interdepartmental Pensions Reform and Taxation Group will;

(iv) undertake a broad review of the utilisation of the ARF option and consider whether regulatory oversight of this product is fit for purpose. This will involve a review of ARF criteria set out in tax legislation including specified minimum income requirements. It will also include identifying measures to address any provider/consumer information gap and the potential to facilitate group ARF products or in-scheme drawdown.

11 The Pensions Council found that a member would save €11,720 for an ARF investment of €150,000, over 10 years by choosing the ARF product with the lowest charges over the period and holding it for the full 10 years. Report relates to charges levied on ARFs provided by life assurance companies. See http://www.pensionscouncil.ie/en/Council-Opinions

Strand 3 Improving Governance and Regulation: Summary of Actions and Commitments

Ambition:

There are a very large number of private pension schemes in operation in Ireland; this creates difficulties in terms of transparency, cost and public/employee confidence in pension provision. This confidence has been dented in the past ten years by difficulties encountered by some high-profile pension schemes – previously considered to be 'blue chip' and secure pension schemes.

In order to restore confidence in the pensions system and to support employees and employers to provide for retirement income, the Government plans to implement and build on the EU IORP II Directive to improve the governance and regulation of pension schemes in Ireland by;

- Implementing a revised regulatory framework which will require higher standards in the management and governance of pension schemes;
- Empowering the Pensions Authority to take a prospective risk based approach to supervision intervention and enforcement and to enforce an appropriate fitness and probity regime for pension schemes;
- Rationalising the number of different types of pension saving vehicles; and
- Taking steps to reduce the large number of pension schemes in operation - future pension provision by smaller employers will increasingly be by means of membership of larger multi-employer structures or through pension contracts.

Actions and Commitments:

3.1 The Government will develop and publish legislation by the end of Q3 2018 to transpose the IORP II Directive into Irish law with effect from 2019. **Q3 2018 (DEASP)**

3.2 A new process will be developed to require all new and existing schemes gain 'authorised status' from the Pensions Authority in order to carry out activities and to obtain tax relief. This process will require trustees to demonstrate compliance with new fitness and probity requirements and governance obligations (see below). **Q2 2018 (DEASP, PA, DFIN & RC)**

3.3 A personal fitness and probity benchmark (e.g. no prior judgments, conflicts of interest etc.) will be proposed for trustees to help ensure they are persons that are 'fit and proper' to carry out the functions of that office. **Q1 2019 (DEASP & PA)**

3.4 A new set of 'professional' standards for trustees will be proposed to ensure that trustees have the appropriate knowledge and experience both collectively and individually to discharge their functions effectively. **Q1 2019 (DEASP & PA)**

3.5 New membership rules will be enforced such that Trustee Boards must consist of a minimum of two trustees, where at least one has mandatory minimum trustee qualification at level seven in the National Framework of Qualifications and at least one other trustee would have at least two years' experience of acting as a trustee. **Q1 2019 (DEASP & PA)**

3.6 The Pensions Authority will be granted power to remove a trustee who does not meet the new standards. **Q4 2019 (DEASP & PA)**

3.7 Corporate trustees, when acting as a sole trustee to a scheme, will be required to have a minimum of two Directors, one with a mandatory trustee qualification and one who meets the prescribed criteria for experience. **Q1 2019 (DEASP & PA)**

3.8 New standards for trustee development will be proposed whereby all trustees will be required to undertake a prescribed level of annual Continuous Professional Development. **Q1 2019 (DEASP & PA)**

3.9 New governance codes and standards will be published by the Pensions Authority which will detail appropriate governance and management structures including remuneration policies, systems of internal control, fit and proper key function holders, reasonable outsourcing and depositary arrangements, conflict of interest polices, risk management policies and internal audit policies along with procedures to ensure that all such policies are complied with and reviewed regularly. **Q1 2020 (PA)**

3.10 The Department of Employment Affairs and Social Protection will be charged with identifying further powers/measures to enable the Pensions Authority to take pre-emptive action to address shortcomings identified on a prospective, prudential and risk based basis. **Q4 2019 (DEASP & PA)**

3.11 The Interdepartmental Pensions Reform and Taxation Group will identify and progress measures to improve the harmonisation of rules to eliminate anomalies in the treatment of different retirement arrangements including taxation treatment. **Q4 2018 (IDPRTG)**

3.12 Identify the options and develop recommendations to coherently rationalise the number of individual pension vehicles which exist at present. **Q2 2020 (IDPRTG)**

3.13 Review the cost of funded supplementary pensions to the Exchequer. To inform decisions relating to financial incentives for retirement savings and underpin the development of the automatic enrolment system (see Strand 2), this will include an assessment of the economic and social benefits delivered and an evaluation of equity in the distribution of tax expenditure on pensions. **Q3 2018 (IDPRTG)**

3.14 Undertake a broad review of the utilisation of the ARF option and consider whether regulatory oversight of this product is fit for purpose. This will include a review of ARF criteria set out in tax legislation including specified minimum income requirements. It will also include identifying measures to address any provider/consumer protection gap and the potential to facilitate group ARF products or in-scheme drawdown. **Q4 2018 (IDPRTG)**

Strand 04

Measures to Support the Operation of Defined Benefit Schemes

The Government has previously expressed its concern regarding the systemic challenges facing the Defined Benefit (DB) model of pension provision. DB pensions are voluntary tripartite arrangements between employers, employees (or their representatives) and trustees. Responsibility rests with the parties for ensuring that the scheme is properly managed and funded to meet the promised level of benefits. DB schemes, which aim to provide a prescribed annual level of pension at retirement, have been facing substantial funding challenges over the last two decades. This results from increasing liabilities due to longer life expectancy, record low interest rates, volatility in the stock markets and reduced expectations for future investment returns. The 2008/09 financial crisis compounded the decline of DB where increasing liabilities have not been matched by returns on assets. As a result of these challenges, the number of funded DB schemes has dropped from 2,220 in 1996 to 667 in 2016.

It is estimated that, at present, over 90% of DB schemes are closed to new entrants. However, while in decline, approximately 102,000 pensioners, 111,000 active and 415,000[12] deferred scheme members draw, or will draw, retirement income from these schemes. As such, the DB sector, with assets under management of over €62 billion, still forms a very important part of retirement provision in Ireland.

REGULATION AND OVERSIGHT OF DEFINED BENEFIT SCHEMES

In Ireland the regulatory ‘funding standard’ provides the oversight mechanism for ensuring that a DB scheme can, financially speaking, live up to the level of pension benefits promised. The funding standard is a ‘wind-up’ standard, whereby the assets in a scheme are compared to the liabilities to assess if the scheme could fund all of the accrued benefits of existing members (including those who have yet to reach the defined retirement age) if the scheme was wound up at a current date. The funding standard seeks to achieve a balance necessary to ensure that the funding requirements are not so onerous as to result in unnecessary demands on DB schemes which may lead to scheme closures, nor so lax that there would not be sufficient funds in schemes to prevent payment of the promised level of benefits to all members.

Latest annual actuarial return figures indicate that approximately 26% of schemes were reported as not meeting the funding standard[13]. Where this is the case, a ‘funding proposal’ to restore the scheme to full funding by a specified date, must be submitted by the scheme trustees to the Pensions Authority with the agreement of the sponsoring employer. Almost all of the schemes that do not currently meet the required level of funding have a funding proposal in place designed to bring the scheme into compliance on an ongoing basis.

12 Note that for frozen schemes, all non-pensioners have been classified as deferred members, even where some may still be in service with the sponsoring employer.

13 Pensions Authority Statistics on Defined Benefit

The Government will strive to ensure that the DB regulatory regime appropriately balances fairness between all generations of scheme members with the need to help sponsoring employers, employees and scheme trustees maintain the sustainability of their pension schemes. The objective of any measures must be to support the sustainability of existing DB schemes and, where possible, limit DB scheme closures and safeguard the delivery of the benefits promised to all members.

Therefore, to encourage employers to ensure that schemes are well funded and managed, the Government commits to;

(i) Advance the Social Welfare, Pensions and Civil Registration Bill 2017 and implement measures to respond to the ongoing difficulties in DB schemes and provide for improved levels of protection for scheme members and beneficiaries.

In addition, in order to underpin this legislation and to further support the DB sector, the Government will;

(ii) Identify and investigate other potential regulatory measures to improve effective oversight and transparency in the financial status of DB schemes.

Although the nature of any such measures, if any, is yet to be determined they could include;

- Requiring more frequent provision of information to the Pensions Authority to allow closer monitoring and scrutiny of scheme funding positions.
- Requiring that employers provide information more regularly to trustees to allow them to plan for future viability of their scheme.
- Providing for early notification to the Pensions Authority of any scheme difficulties or changes in the sponsoring employer that will affect the scheme.
- Giving increased powers to the Pensions Authority to take action to direct schemes and sponsoring employers to develop proposals that will allow schemes to survive, or put in place well-funded alternatives.

Any future regulatory changes considered must be in the best interest of all members and meet Ireland's legal obligations under the EU IORP II Directive to ensure a prudent approach to the valuation of scheme funding requirements. Informed by an analysis of the funding standard which has been undertaken by the Pensions Authority, further consultations will take place with sectoral representatives to identify any potential alternative approaches that may improve the standard's capacity to better accommodate scheme specific considerations without compromising its core role to ensure adequate advance funding and regulatory oversight.

Accordingly the Government will arrange;

(iii) Further consultations to take place with sectoral representatives to identify any appropriate and sustainable funding standard reform options.

Strand 4 Supporting the Operation of Defined Benefit Schemes:

Summary of Actions and Commitments

Ambition:

Although Defined Benefit pension arrangements are gradually being phased out in favour of Defined Contribution arrangements they continue to play an important role – in particular for existing pensioners and employees/members in longstanding schemes. It is estimated that over 600,000 people draw, or will draw, retirement income from such schemes. Accordingly the Government is determined that, insofar as it is practicable to do so while protecting the solvency of the sponsoring employer and the employment of existing workers, the rights and legitimate expectations of these pensioners and members will be protected.

Actions and Commitments:

4.1 Advance the Social Welfare, Pensions and Civil Registration Bill 2017 to give effect to new controls in relation to funding of DB schemes. **Q2 2018 (DEASP)**

4.2 Identify and investigate other potential regulatory measures to improve effective oversight and transparency in the financial status of DB schemes. **Q3 2018 (DEASP & PA)**

4.3 Arrange for further consultations to take place with sectoral representatives to identify any appropriate and sustainable funding standard reform options. **Q4 2018 (DEASP & PA)**

Strand 05

Public Service Pensions Reform

The past quarter century has seen sustained and far-reaching public service pension reforms the cumulative impact of which will be to improve the sustainability of the system and significantly reduce the State's long term liabilities in this area. These include;

- Integrating, from April 1995, public service pensions with the State pension contributory, with post 1995 entrants to the public service paying full rates of PRSI compared to the modified rates applicable to most permanent public servants up to that point.
- Increasing the minimum pension age for the generality of new entrants to the public service from age 60 to 65 under the Public Service Superannuation (Miscellaneous Provisions) Act 2004.
- Introducing a Single Public Service Pension Scheme for all new entrants to the public service from 1 January 2013. The 'Single Scheme' will deliver significant savings by calculating pension entitlements on the 'career average' of earnings and replacing the previous final salary approach. It will also link post-retirement pension increases to consumer price index rather than pay.
- Aligning minimum pension age in the public service with the increases in the State Pension age for new entrants from 1 January 2013. Under the Single Scheme the minimum pension age was set at 66 from scheme start-off in 2013, and will rise in step with State pension age increases to 67 in 2021 and 68 in 2028; and
- Introducing a more restrictive approach to pensionable service and abatement for existing public servants. The net effect of these measures is that there will be a 40 year limit on pre-Single Scheme pensionable service, even where a public servant has been a member of more than one scheme. Abatement will apply on re-entry to any part of the public service, not just the sector from which a public servant retired.

The OECD has found that, by international comparison, Ireland has already undertaken significant reforms in public service pensions and belongs to the group of more advanced countries in this area[14].

To ensure the sustainability of pension liabilities whilst safeguarding the delivery of retirement benefits promised and to provide greater flexibility in the retirement decision to public servants who may wish to extend their working lives, the Government confirms that it will implement the following reforms to public service pension provision.

14 http://www.welfare.ie/en/downloads/OECD-Review-of-the-Irish-Pensions-System.pdf

REVIEW MANDATORY RETIREMENT IN THE PUBLIC SERVICE IN ADVANCE OF STATE PENSION AGE

As outlined above, the minimum pension age for members of the 'Single Public Service Pension Scheme', introduced for new entry public servants from 2013, is now linked to the prevailing State pension age with a compulsory retirement age of 70 applying. The same does not currently apply to those who joined the public service before 2004, whose compulsory retirement age at 65/66 precede the age of eligibility for the State pension. To this end, in the context of the age of entitlement to the State pension (currently 66 and scheduled to increase to 67 in 2021 and 68 in 2028), an Interdepartmental Group on Fuller Working Lives[15] examined the issues arising from prevailing retirement ages for workers (in both the public and private sectors) now and in the future.

On foot of one of the recommendations of the group specifically relating to the public service workforce, the Department of Public Expenditure and Reform, with public service employers, reviewed existing statutory and operational considerations that give rise to barriers to extended participation in the public service. Central to this review was consideration of the various mandatory retirement ages in the public service and whether a new regime would be appropriate to allow employees, whose compulsory retirement age is currently 65, to stay beyond that age and if so, what their new compulsory retirement age should be.

Informed by this review, the Government commits that it will;

(i) Introduce legislation to increase the compulsory retirement age for the public service workforce to 70 for public servants recruited before 1st April 2004.

In advance of the enactment of this legislation, interim arrangements have already been introduced to allow public servants recruited before the 1st April 2004, who reach the age of 65 to retire and be re-hired for the period until they reach the age of eligibility for the State pension.

INTRODUCE A NEW PERMANENT ADDITIONAL SUPERANNUATION CONTRIBUTION FOR PUBLIC SERVANTS

Under the terms of the Public Service Stability Agreement 2018-2020 and, as provided for in the Public Service Pay and Pensions Act 2017, the Pension Related Deduction, introduced as part of the Financial Emergency legislation in 2009, will be converted into a permanent Additional Superannuation Contribution (ASC). The introduction of the ASC, which is an additional pension contribution by public servants over and above their standard contribution rates to this point, is a measure aimed at improving the sustainability of public service pensions. It will deliver an estimated €550 million annually in added contributions when fully implemented in 2020. This will be in addition to existing employee pension contributions of €700 million annually, i.e. an increase of nearly 80% in the amount that public servants contribute towards their superannuation benefits. Accordingly the Government commits that;

(ii) In accordance with the Public Service Pay and Pensions Act 2017 and the Public Service Stability Agreement 2018-2020, the Pension Related Deduction will be converted into a permanent Additional Superannuation Contribution (ASC) for public servants beginning on 1st January 2019.

15 http://www.per.gov.ie/en/report-of-the-interdepartmental-group-on-fuller-working-lives.

Strand 5 Public Service Pensions Reform: Summary of Actions and Commitments

Ambition:

The contribution that public service employees make to the lives of everybody in our society cannot be overstated; nor can the commitment and dedication that they show routinely - often in difficult circumstances. During the period of the recession, public service employees demonstrated high levels of solidarity with their fellow citizens through reductions in pay, increases in working hours and reductions in staff numbers. It is important that the skills and values of these workers are properly reflected in their remuneration arrangements – including in their pension arrangements. However it is equally important that these arrangements reflect the capacity of the State to finance pay and pensions, the arrangements that apply to workers in the private sector and the competitive external environment faced by Ireland as a State.

To ensure the sustainability of pension liabilities whilst safeguarding the delivery of retirement benefits promised and to provide greater flexibility in the retirement decision to public servants who may wish to extend their working lives, the Government confirms that it will implement the following reforms to public service pension provision.

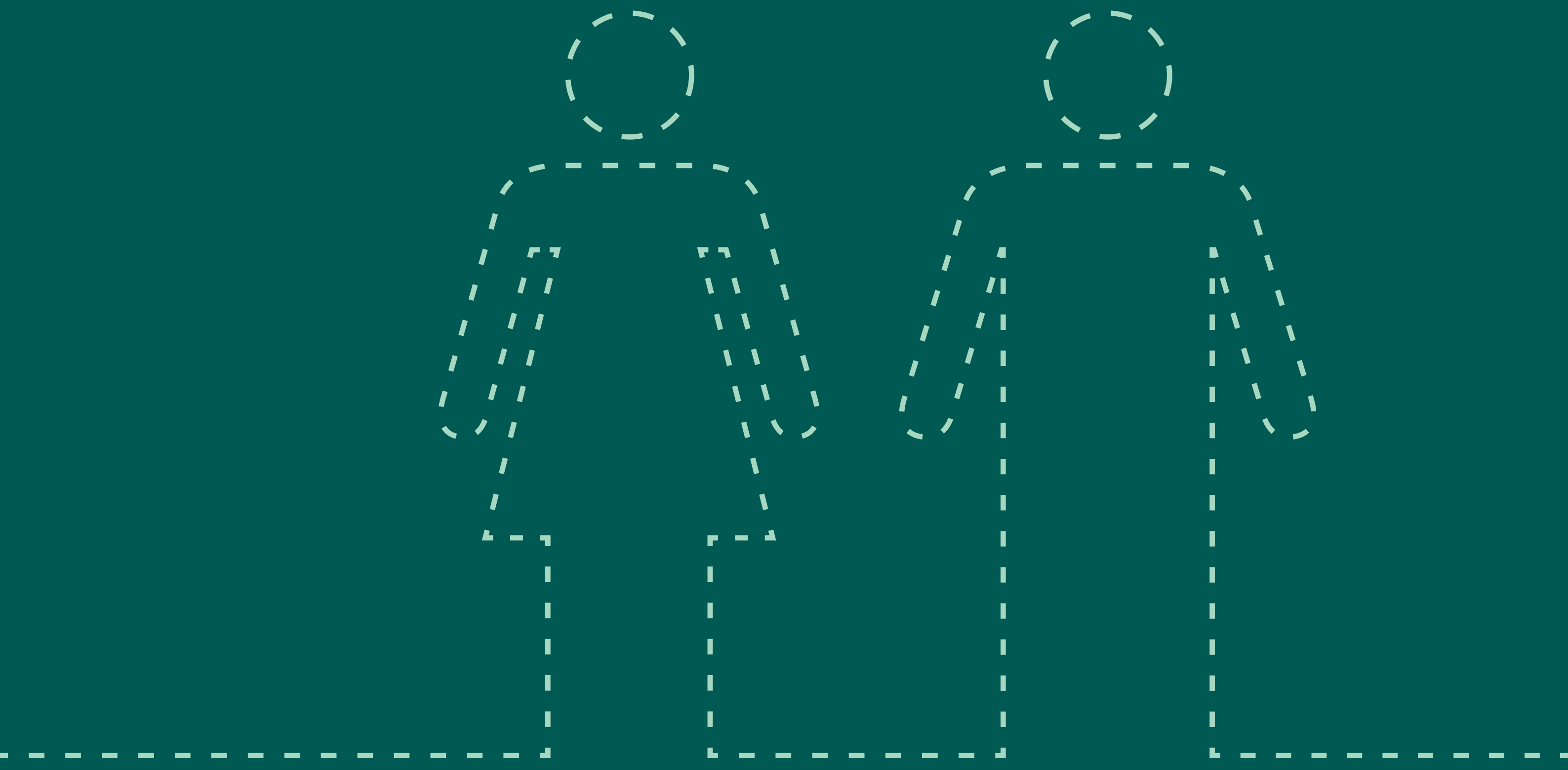
Actions and Commitments:

5.1 Introduce legislation to increase the compulsory retirement age for the public service workforce to 70 for public servants recruited before 1st April 2004.
Q2 2018 (DPER)

5.2 In accordance with the Public Service Pay and Pensions Act 2017 and the Public Service Stability Agreement 2018-2020, the Pension Related Deduction will be converted into a permanent Additional Superannuation Contribution (ASC) for public servants beginning on 1st January 2019. **Q1 2019 (DPER)**

Strand 06

Supporting Fuller Working Lives



People are living longer and healthier lives and many, who are in a position to do so, regard working further in to their later years and beyond the traditional retirement age, as something that is both possible and desirable. Ireland should be a society that supports older peoples' continued engagement in economic and social life. The Government is determined to alter perceptions around retirement age and support a positive ageing environment, where older people are, to the greatest extent possible, encouraged and facilitated in working, if they wish to, beyond the 'normal' retirement age. Greater flexibility around working and retirement decisions will empower older people. It will allow them to optimise their own arrangements in a way that can improve their financial retirement readiness. It will enable our society to continue to benefit from the skills and experience of our older workers and it will help sustain the viability of the wider pension system.

Accordingly the Government is determined to take the following measures to support and encourage fuller working lives.

DEFERRAL OF THE STATE PENSION CONTRIBUTORY

The Government will seek to further modernise the State pension by developing proposals for a State pension deferral scheme. This scheme would allow people reaching the State pension age of 66 defer the draw-down of their contributory pension on an annual basis. In return, an actuarial adjustment would be applied to increase the rate they receive when claiming their pension. This commitment will be delivered by the following actions;

(i) The recently published 'Actuarial Review of the Social Insurance Fund 2015' will be used to inform the preparation of an options paper to allow deferral of the State pension contributory on an annual basis to include actuarial increases in payment.

(ii) Subject to Government approval, legislation will be drafted and brought through the Oireachtas to effect the changes.

(iii) In line with Action 1.11 of this reform plan regarding the future funding approach for the Social Insurance Fund, consideration will be given to allowing those without a full Social Insurance contribution record increase their retirement provision by choosing to continue making PRSI contributions beyond State pension age and up to the actual date of retirement.

CLARIFY MANDATORY RETIREMENT AGE PROVISIONS

Ireland does not have a default age at which employees must retire and the setting of retirement age remains a matter for agreement between employers/employees and the employment contract. The Equality (Miscellaneous Provisions) Act 2015 provided improved safeguards for workers in confirming that, in setting any compulsory retirement age, an employer must be able to demonstrate that it is objectively and reasonably justified by a legitimate aim, and that the means of achieving that aim must be appropriate and necessary.

The Government recognises that measures which may support longer working include encouraging employers to more closely consider the logic of, and justification for, mandatory retirement ages in employment contracts. Given the often complex issues involved, employers/employees and their representatives have indicated difficulty in interpreting and engaging on matters relating to retirement age in the absence of an overarching guidance or framework. Anecdotal evidence indicates that there are a variety of practices in this area which generally, but not necessarily, reflect sectoral/industry norms. The resulting lack of clarity can lead to misunderstandings on the rights, responsibilities and options available to the parties involved in the process.

To help address these issues, the Workplace Relations Commission has recently published a 'Code of Practice' around the issue of longer working[16]. The code informs best practice in managing the engagement between employers and employees in the run up to retirement, including requests to work beyond what would be the normal retirement age in the employment concerned. Facilitating the development of a Code of Practice is an important support to the parties involved in the retirement decision. Following publication of this code, the Irish Human Rights and Equality Commission (IHREC) will now prepare and publish guidance material for employers on the use of fixed-term contracts beyond normal retirement age.

The Government recognises general concerns have been raised regarding the use of mandatory retirement ages in employment contracts given the reforms to gradually increase State pension age. This thinking was reflected in the July 2017 conclusion of the Citizens' Assembly that mandatory retirement of employees should be abolished. The Government also recognises that any widespread practice which sees the continuation of any prevailing mandatory retirement age of 65 would be inconsistent with strategies to remove obstacles to working to an older age[17].

We are determined that the provisions detailed in this reform plan will combine to result in greater employee flexibility to work beyond what may be considered the traditional retirement age of 65. To ensure this is the case, employment practices in this area will be kept under close review in the near term. Should it appear that these provisions are not resulting in improved flexibility for workers, by the end of 2018 the Government will consider the merits of restricting the capacity to use mandatory retirement provisions relative to the prevailing State pension age.

The Irish Human Rights and Equality Commission (IHREC) will now prepare and publish guidance material for employers on the use of fixed-term contracts beyond normal retirement age.

(iv) An Interdepartmental Group chaired by the Department of Employment Affairs and Social Protection will be convened to review mandatory retirement age practices.

16 https://dbei.gov.ie/en/Legislation/SI-No-600-of-2017.html

17 See previous Strand 5 regarding compulsory retirement and public service reform actions in this area.

REVIEW PENSION DRAWDOWN RULES

The rules regarding the tax treatment of different pension arrangements and the age restrictions at benefit draw down can vary depending on whether a person contributes to an occupational scheme, a PRSA, a Retirement Annuity Contract (RAC) or has deferred benefits in a Buy-out-Bond. Whilst some of the differences may be warranted because of the nature of the products and the person for whom they are intended, it can make the decision as to which product is most suitable unnecessarily difficult. For example, an occupational pension scheme must provide for retirement at a specific age generally between 60 and 70. A PRSA or RAC must generally provide for withdrawals to begin not earlier that 60 and not later than 75 whereas the benefits from a Buy-out-Bond can normally be drawn between the ages of 50 and 70. While there are operational differences between these vehicles, the different retirement age ranges that apply will be reviewed with the objective of establishing greater consistency. The various ages governing the time at which benefits must begin to be taken date back to 1972 and warrant being reviewed in light of increased life expectancy since then. A greater standardisation of drawdown rules will, where practicable and appropriate, help simplify the pensions environment, reduce arbitrarily different conditions attaching to pension vehicles and may incentivise longer working and provision of retirement savings. Therefore, the Government confirms that;

(v) The Interdepartmental Pension Reform and Taxation Group (see Action 3.11) will review the legislation governing the various ages at which pensions can be drawn down together with any apparent anomalies arising in the treatment of different retirement arrangements with a view to a standardised upper age limit.

COMBINING RETIREMENT, WORK AND PENSIONS: THE FINANCIAL IMPLICATIONS AND THE RETIREMENT DECISION

It is commonly accepted that if taxes and social contributions on incomes earned on top of pensions are high, the incentive to continue working may be lower. At present, there is a range of incentives available to older persons who continue working (which are not available to their younger counterparts).

Income arising from pensions is subject to taxation under the Pay As You Earn (PAYE) system. Those in receipt of the State pension contributory can continue to work without affecting their entitlement. In most circumstances, those receiving an occupational or personal pension may work or be self-employed while receiving that pension. For income tax purposes, the total income from pensions (State and supplementary) and employment is combined in the calculation of income tax liabilities. A range of tax credits and reliefs is available to those aged over 65 which may incentivise longer working (though incentives may not be directly linked to employment)[18]. This includes an annual Age Tax Credit of €245 for a single person or €490 for a couple, which means that tax payers on the 20% band can earn an additional €1,225 or €2,450 respectively free of tax.

In addition those aged over 66 are not liable for PRSI contributions on any income including employment earnings or pensions which should

18 https://www.revenue.ie/en/life-events-and-personal-circumstances/older-persons/index.aspx

act as an incentive to longer working. Incentives are also available to employers for those aged 66 and over and in employment, as they pay a reduced 'Class J' PRSI contribution of 0.5% to cover occupational injuries[19]. Budget 2018 provides that reduced rates of Universal Social Charge (USC) of a maximum of 2% applies to people over 70 with aggregate incomes of €60,000 or less. The Government believes a lack of awareness of positive financial incentives to longer working may in itself limit the engagement of older workers. To improve levels of awareness and understanding the Government will;

(vi) Undertake a communication campaign targeting employers and employees outlining the financial incentives available to those who may wish to continue working in to their later years.

19 https://www.revenue.ie/en/life-events-and-personal-circumstances/older-persons/index.aspx

Strand 6 Supporting Fuller Working Lives: Summary of Actions and Commitments

Ambition:

The pensions system should reflect the reality that as we live longer and healthier lives many people wish to, and can, continue to work to an older age and make a positive contribution through their work to our society.

Accordingly the Government will take steps to make changes to the pension system to support a positive ageing environment, where older people are, to the greatest extent possible, encouraged and facilitated in working, if they wish to, beyond, the 'normal' retirement age**.**

Actions and Commitments:

6.1 The recently published 'Actuarial Review of the Social Insurance Fund 2015' will be used to inform the preparation of an options paper to allow deferral of the State pension contributory on an annual basis to include actuarial increases in payments. **Q4 2018 (DEASP)**

6.2 Subject to Government approval, legislation will be drafted and brought through the Oireachtas to effect the changes. **Q2 2019 (DEASP)**

6.3 In line with Action 1.11 of this reform plan regarding the future funding approach for the Social Insurance Fund, consideration will be given to allowing those without a full social insurance contribution record increase their retirement provision by choosing to continue making PRSI contributions beyond State pension age and up to the actual date of retirement. **Q4 2019 (DEASP)**

6.4 The Irish Human Rights and Equality Commission (IHREC) will now prepare and publish guidance material for employers on the use of fixed-term contracts beyond normal retirement age. **Q2 2018 (IHREC)**

6.5 An Interdepartmental Group chaired by the Department of Employment Affairs and Social Protection will be convened to review mandatory retirement age practices. **Q4 2018 – Q1 2019 (DEASP)**

6.6 The Interdepartmental Pensions Reform and Taxation Group (see Action 3.11) will review the legislation governing the various ages at which pensions can be drawn down together with any apparent anomalies arising in the treatment of different retirement arrangements with a view to a standardised upper age limit. **Q4 2018 (IDPRTG)**

6.7 Undertake a communication campaign targeting employers and employees outlining the financial incentives available to those who may wish to continue working in to their later years. **Q4 2018 (DEASP/DFIN)**

Table of Actions

Abbreviations for Action Owners:

AE PMO
Automatic Enrolment Programme Management Office within DEASP to undertake project work and support the AE Programme Board.

AE Programme Board
An Interdepartmental Automatic Enrolment Programme Board, chaired by the Department of Employment Affairs and Social Protection will provide strategic direction.

Cabinet Committee A - Economy
Chaired by An Taoiseach and consisting of Ministers with responsibility for pension related matters and automatic enrolment.

DEASP
Department of Employment Affairs and Social Protection.

DFIN
Department of Finance.

DPER
Department of Public Expenditure and Reform.

IDPRTG
The Interdepartmental Pensions Reform and Taxation Group.

IHREC
The Irish Human Rights and Equality Commission.

PA
The Pensions Authority.

RC
The Revenue Commissioners.

ACTION NO.	ACTION AND OWNER	DUE DATE
1.1	Set a formal benchmark of 34% of average earnings for State pension contributory payments. (DEASP)	Q4 2018
1.2	Institute a process whereby future changes in pension rates of payment are explicitly linked to changes in the consumer price index and average wages. (DEASP/DPER)	Q4 2018
1.3	Bring forward a detailed proposal for the design of a TCA system and begin a public consultation on that design in Q2 2018. In addition to setting out the scheme parameters this design will also detail the costings and the impact on social insurance funding necessary to introduce the TCA model. (DEASP)	Q2 2018
1.4	Finalise the TCA design. (DEASP)	Q4 2018
1.5	Bring forward the necessary legislation by Q1 2019 to implement the TCA by Q3 2020. (DEASP)	Q1 2019/ Q3 2020
1.6	Offer existing post 2012 pensioners on reduced rates the option of a pension review based on the TCA model to take effect from March 2018. This calculation can include up to 20 years of a new HomeCaring credit for period spent in homemaking/caring roles.	Q1 2018 - Payments from Q1 2019
1.7	Ensure that there will be no further increase in the State pension age prior to 2035 other than those already provided for in 2021 and 2028.	Ongoing
1.8	Ensure that any change to the State pension age after 2035 will be directly linked to increases in life expectancy. This will begin with an actuarial assessment of life expectancy in 2022 to include a review of the proportionality between time spent in working life and retirement. At that point, informed by the review and assessment, a notice period of 13 years will be given in respect of any planned changes to the State pension age before implementation occurs. (DEASP)	First review 2022
1.9	Undertake an actuarial assessment of life expectancy every five years to inform pension age decisions, with the same condition of 13 years notice regarding any proposed changes. (DEASP)	Ongoing
1.10	Progress work to consider and present options for the amalgamation of USC and PRSI, via the Working Group recently established by the Minister for Finance. (DFIN)	Q2 2018
1.11	Publish a consultation paper on an appropriate rate-setting/funding approach for the Social Insurance Fund. (DEASP)	Q4 2018
2.1	Publish a 'strawman' automatic enrolment system for public consultation. (DEASP)	Q2 2018
2.2	Finalise the design of the automatic enrolment system. (DEASP)	Q1 2019

ACTION NO.	ACTION AND OWNER	DUE DATE
2.3	Develop and bring forward legislation to give effect to an automatic enrolment system. (DEASP)	Q1 2020
2.4	An Interdepartmental Automatic Enrolment Programme Board, chaired by the Department of Employment Affairs and Social Protection, will be established to provide strategic direction and ensure that the detailed operational arrangements are in place to allow the first enrolments to take effect no later than 2022. Progress against the project timeline will be reported on a regular basis to Government via the Cabinet Committee structure. (AE Programme Board)	Q1 2018 (for establishment of Group)
2.5	To ensure that the ambitious timetable set out above is honoured, the Government will ring-fence the required resources to immediately establish a new full time Automatic Enrolment Programme Management Office (PMO). (DEASP)	Q1 2018
2.6	To ensure that the design of the automatic enrolment system takes account of the macro-economic impacts of increasing savings rates the Government will commission an assessment of these impacts. (DEASP)	Q4 2018
3.1	The Government will develop and publish legislation to by the end of Q3 2018 to transpose the IORP II Directive into Irish law with effect from 2019. (DEASP)	Q3 2018
3.2	A new process will be developed to require all new and existing schemes gain ‘authorised status’ from the Pensions Authority in order to carry out activities and to obtain tax relief. This process will require trustees to demonstrate compliance with new fitness and probity requirements and governance obligations (see below). (DEASP, PA, DFIN & RC)	Q2 2018
3.3	A personal fitness and probity benchmark (e.g. no prior judgments, conflicts of interest etc.) will be proposed for trustees to help ensure they are persons that are ‘fit and proper’ to carry out the functions of that office. (DEASP & PA)	Q1 2019
3.4	A new set of ‘professional’ standards for trustees will be proposed to ensure that Trustees have the appropriate knowledge and experience both collectively and individually to discharge their functions effectively. (DEASP & PA)	Q1 2019
3.5	New membership rules will be enforced such that Trustee Boards must consist of a minimum of two trustees, where at least one has mandatory minimum trustee qualification at level seven in the National Framework of Qualifications and at least one other trustee would have at least two years’ experience of acting as a trustee. (DEASP & PA)	Q1 2019
3.6	The Pensions Authority will be granted power to remove a trustee who does not meet the new standards. (DEASP & PA)	Q4 2019

ACTION NO.	ACTION AND OWNER	DUE DATE
3.7	Corporate trustees, when acting as a sole trustee to a scheme, will be required to have a minimum of two Directors, one with a mandatory trustee qualification and one who meets the prescribed criteria for experience. (DEASP & PA)	Q1 2019
3.8	New standards for trustee development will be proposed whereby all trustees will be required to undertake a prescribed level of annual Continuous Professional Development. (DEASP & PA)	Q1 2019
3.9	New governance codes and standards will be published by the Pensions Authority which will detail appropriate governance and management structures including remuneration policies, systems of internal control, fit and proper key function holders, reasonable outsourcing and depositary arrangements, conflict of interest polices, risk management policies and internal audit policies along with procedures to ensure that all such policies are complied with and reviewed regularly. (PA)	Q1 2020
3.10	The Department of Employment Affairs and Social Protection will be charged with identifying further powers/measures to enable the Pensions Authority to take pre-emptive action to address shortcomings identified on a prospective, prudential and risk based basis. (DEASP & PA)	Q1 2019
3.11	The Interdepartmental Pensions Reform and Taxation Group will identify and progress measures to improve the harmonisation of rules to eliminate anomalies in the treatment of different retirement arrangements including taxation treatment. (IDPRTG)	Q4 2018
3.12	Identify the options and develop recommendations to coherently rationalise the number of individual pension vehicles which exist at present. (IDPRTG)	Q2 2020
3.13	Review the cost of funded supplementary pensions to the Exchequer. To inform decisions relating to financial incentives for retirement savings and underpin the development of the automatic enrolment system (see Strand 2), this will include an assessment of the economic and social benefits delivered and an evaluation of equity in the distribution of tax expenditure on pensions. (IDPRTG)	Q3 2018
3.14	Undertake a broad review the utilisation of the Approved Retirement Fund (ARF) option and consider whether regulatory oversight of this product is fit for purpose. This will include a review of ARF criteria set out in tax legislation including specified minimum income requirements. It will also include identifying measures to address any provider/consumer protection gap and the potential to facilitate group ARF products or in-scheme drawdown. (IDPRTG)	Q4 2018
4.1	Advance the Social Welfare, Pensions and Civil Registration Bill 2017 to give effect to new controls in relation to funding DB schemes. (DEASP)	Q2 2018

ACTION NO.	ACTION AND OWNER	DUE DATE
4.2	Identify and investigate other potential regulatory measures to improve effective oversight and transparency in the financial status of DB schemes. (DEASP & PA)	Q3 2018
4.3	Arrange for further consultations to take place with sectoral representatives to identify any appropriate and sustainable funding standard reform options. (DEASP & PA)	Q4 2018
5.1	Introduce legislation to increase the compulsory retirement age for the public service workforce to 70 for public servants recruited before 1st April 2004.[20] (DPER)	Q2 2018
5.2	In accordance with the Public Service Pay and Pensions Act 2017 and the Public Service Stability Agreement 2018-2020, the Pension Related Deduction will be converted into a permanent Additional Superannuation Contribution (ASC) for public servants beginning on 1st January 2019. (DPER)	Q1 2019
6.1	The recently published 'Actuarial Review of the Social Insurance Fund 2015' will be used to inform the preparation of an options paper to allow deferral of the State pension contributory on an annual basis to include actuarial increases in payments. (DEASP)	Q4 2018
6.2	Subject to Government approval, legislation will be drafted and brought through the Oireachtas to effect the changes. (DEASP)	Q2 2019
6.3	In line with Action 1.11 of this reform plan regarding the future funding approach for the Social Insurance Fund, consideration will be given to allowing those without a full Social Insurance contribution record increase their retirement provision by choosing to continue making PRSI contributions beyond State pension age and up to the actual date of retirement. (DEASP)	Q4 2019
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6.7	Undertake a communication campaign targeting employers and employees outlining the financial incentives available to those who may wish to continue working in to their later years. (DEASP/DFIN)	Q4 2018

20 Excluding Permanent Defence Forces, Firefighters, An Garda Síochána and Prison Officers who are currently required to retire early due to the nature of their work.