



*working to build a just society*

# Alternative Approach

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# Our thoughts on Auto Enrolment

- Poor value for money.
- Inefficient in meeting most basic needs of pensioners.
- Little to no financial benefit for the State.
- Could have unforeseen negative consequences for low-income savers.
- “Financial burden” can only be reduced if value of the State Pension eroded over time.

# Typical arguments in favour of Auto Enrolment

“We need to encourage people to save for their retirement”

Why?

- So that people's living standards don't drop dramatically.
- To reduce the long-term financial burden on the State.

# Maintaining Living Standards

What's a reasonable benchmark of maintaining living standards?

Pensions Board's *National Pensions Policy Initiative* target:

“Pensions from all sources - State or private - should replace  
50% of an individual's pre-retirement income”

# How feasible is this?

*Supporting pension contributions through the tax system:  
outcomes, costs and examining reform*

by Micheál Collins and Gerry Hughes (2014)

- Median pension contribution = €3,300 / year
- 40 years of contributions, retirement income = €5,200 / year
- Gives a replacement rate (with State Pension) of 37.5%

# TILDA research

- Actual income in retirement most affects quality of life.
- “all aspects of quality of life, including control, autonomy, self-realisation and pleasure, increase consistently with household income”.
- That's actual income, not proportions of previous income.
- A minimum floor is a goal that makes more sense.

# Key Policy Conclusion

A more sensible policy goal:

- a flat-rate pension, universal pension to those over 66.
- at a level that can provide basic needs.

# Reducing the Burden on the State – the rationale

1. The number of older people is increasing.
2. The ratio of workers to pensioners falling
3. The cost of the State Pension will become unsustainable.
4. Automatic Enrolment will reduce this burden on the state and ensure people save for their retirement.



# But it won't work that way

How do you qualify for a State Pension?

- Labour market history / social insurance payments
- Means test

# Saving for a pension is expensive...

- ... and not everyone can afford to
- Every €25 saved will buy a pension of €1 per year.
- No increases over time
- People with good occupational pensions usually qualify for a full State Pension as well.
- Plus the substantial subsidy from the taxpayer.

**So where is the saving to the State?**

# Means-tested state pensions

- The State Pension (Non contributory)
  - Insufficient PRSI contributions
  - Insufficient means
- Loose connection to the labour market, inability to save

**So where is the saving to the State?**

# Private pension tax reliefs are inequitable

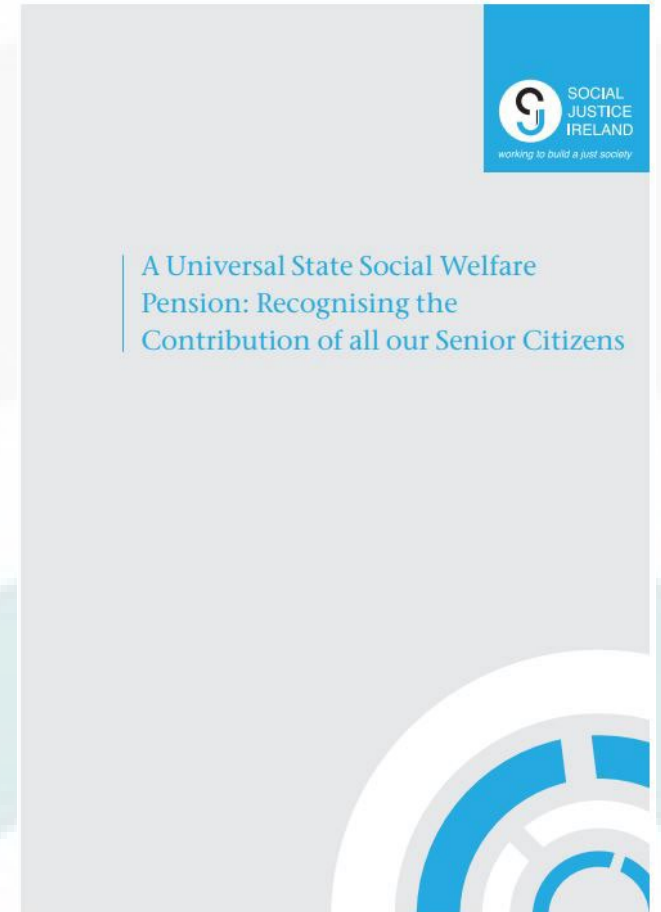
- 70 per cent of pension tax reliefs go to the top 20 per cent of earners.
- Cost billions of euros (but we are unsure how much because the data collected is not good enough)

# Conclusion

- An expensive way to subsidise retirement savings for the better off in society
- Little or no financial benefit to the State.
- Unless.... Is there a plan to erode the value of the State Pension?
- A flat rate universal pension would achieve the goals of the system far better than auto-enrolment.

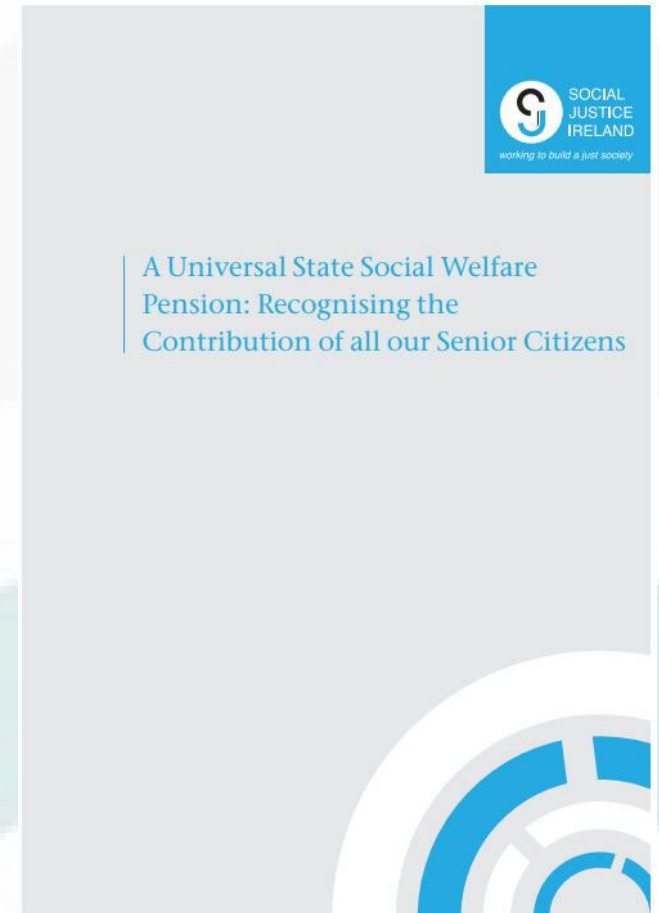
# Universal Pension proposal

- To provide older citizens with a guaranteed income in old age, regardless of means or employment history;
- To provide those older people who do not currently receive any support through the state pension system with a pension:  
**achieving universal coverage;**
- To alter the distribution of money within the pension system in a way that we deem more fair.



# Universal Pension proposal

<b><u>Reform type</u></b>	<b><u>€m</u></b>
<ul style="list-style-type: none"><li>• Reduce rate of tax relief to 20%</li><li>• Reduce earnings cap to €72,000</li></ul>	523
<ul style="list-style-type: none"><li>• Increase of 0.5% in Employer PRSI</li></ul>	422
<b>Total additional funds raised</b>	<b>949</b>
<b>Projected (additional) cost of universal pension, 2019</b>	<b>727</b>





# Thank You