



Achieving Universal Coverage – Options for Fairness and Sustainability in the Irish Pension System

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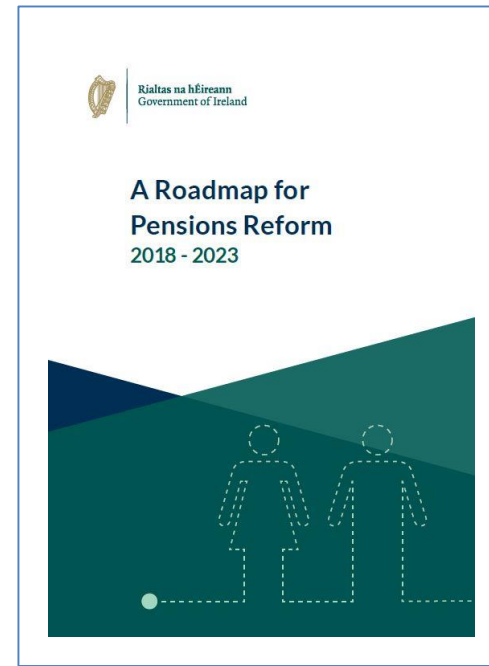
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Roadmap for Pension Reform

The Six Strands

- Reform of the State Pension
- Supplementary Pensions – Automatic Enrolment
- Improving Governance
- Measures to support DB Schemes
- Public Service Pension Reform
- Supporting Fuller Working Lives

Some things to like, some things not so much!



Universality?

Goals of the Green Paper (2007)

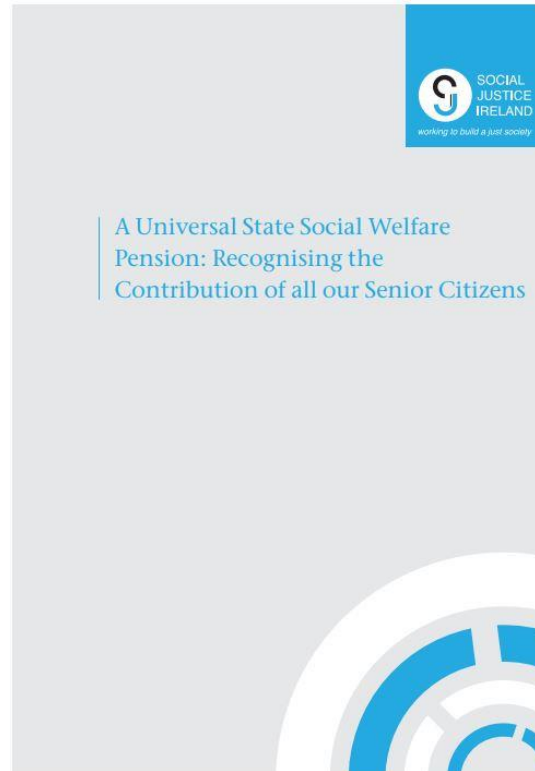
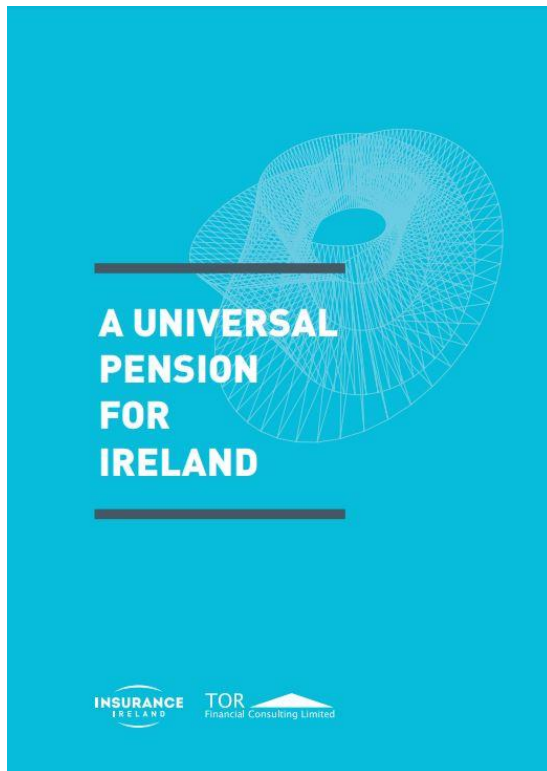
1. Provide adequate standard of living
2. Encourage pension savings
3. Improve sustainability of system
4. Modernisation

What about Universal Coverage?



Universality?

No one definition!



Auto-enrolment as “universality”?

Perhaps something like:

- All private sector employees
- Certain age and income thresholds
- Quasi-mandatory
- Matching contributions from employers
- State top-ups

What does this mean for sustainability and fairness?

Sustainable and Fair

Hard to settle on definitions

“Sustainability”:

- State pension (changing demographics)?
- Does it provide sufficient income?
- Is there “wastage” within the system?

And what is **“fair”**, under this context?

Sustainable?

- Median contribution in 2014 was €3,300 per annum
- Would result in an annual income of about €5,200
- Combined with State Pension would give a replacement rate of 37.5% for the median contributor

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Auto-enrolment could end up costing the exchequer an additional €700m-€800m per annum

Fair?

Private Pension Coverage

<u>Decile</u>	<u>Coverage Rate</u>
Lowest	20%
2	18%
3	23%
4	34%
5	45%
6	55%
7	63%
8	75%
9	84%
Highest	94%
Overall	51%

Collins and Hughes (2017) estimated that in 2014, 72% of pension tax reliefs went to the top 20%

Figures from ESRI

Fair?

Auto-enrolment cannot achieve universality – BY DEFINITION

What about:

- Those working in the home
- Those in caring roles
- Those in precarious employment

Tens of thousands are currently not covered by any payment from the state

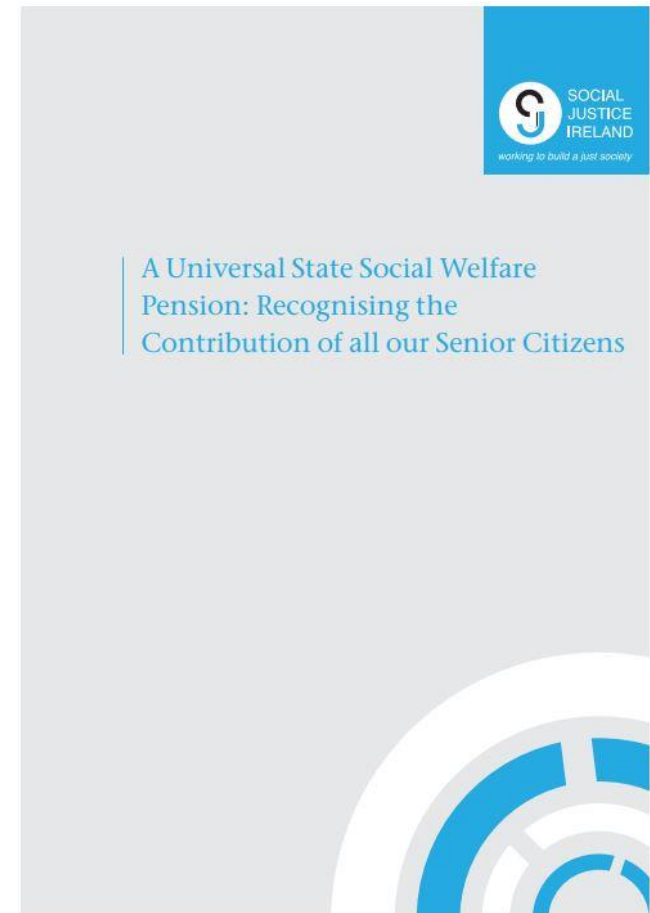
Fair?

Let's talk about Mary....



Social Justice Ireland's 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.



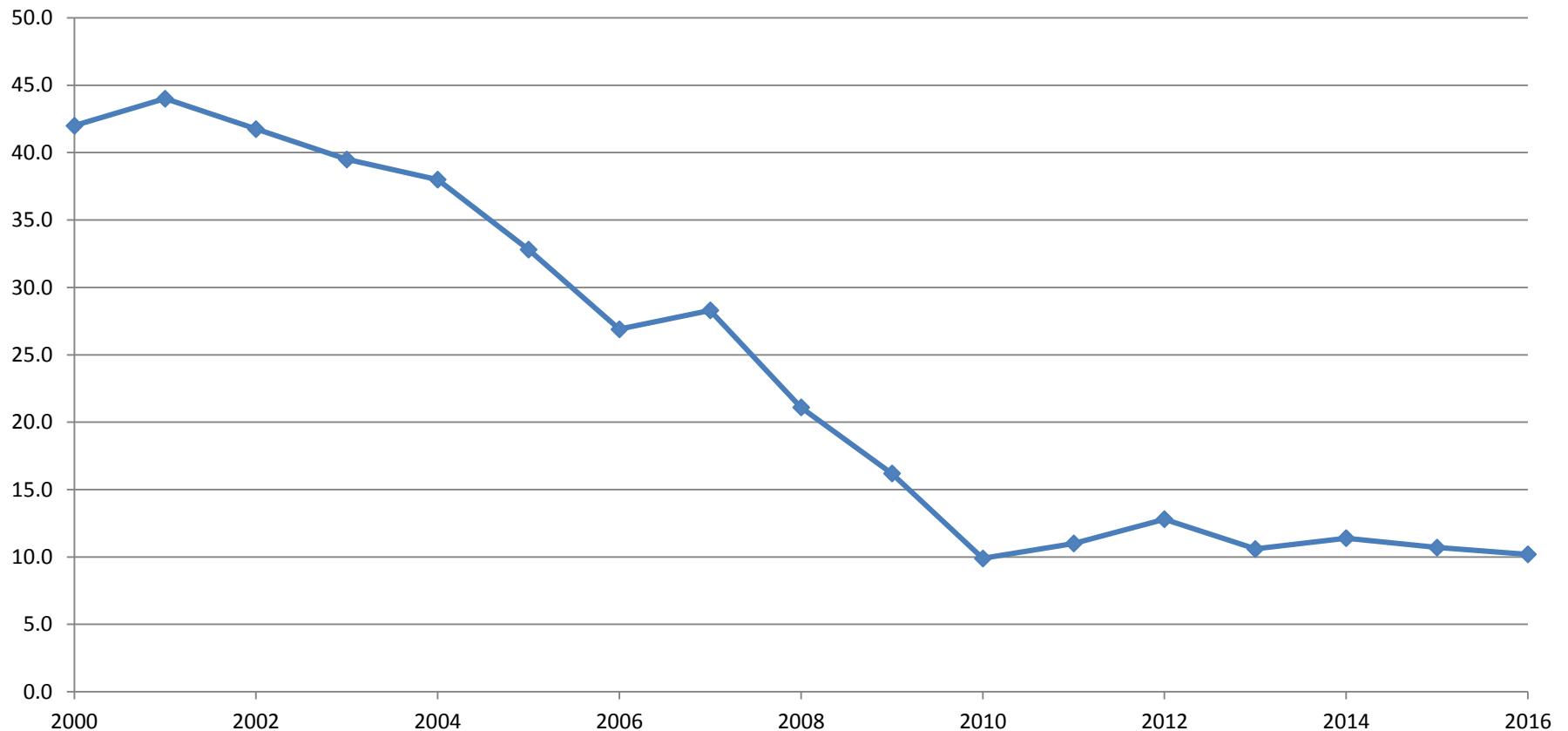
How?

- Alter the structure of tax-reliefs
- Change direction away from auto-enrolment.
- A universal pension should be based on residency
- *Social Justice Ireland* proposal: $1/40^{\text{th}}$ of the total benefit for every year spent living in Ireland between the ages of 16 and the State Retirement Age.

The Policy Context:

The Importance of the State Pension

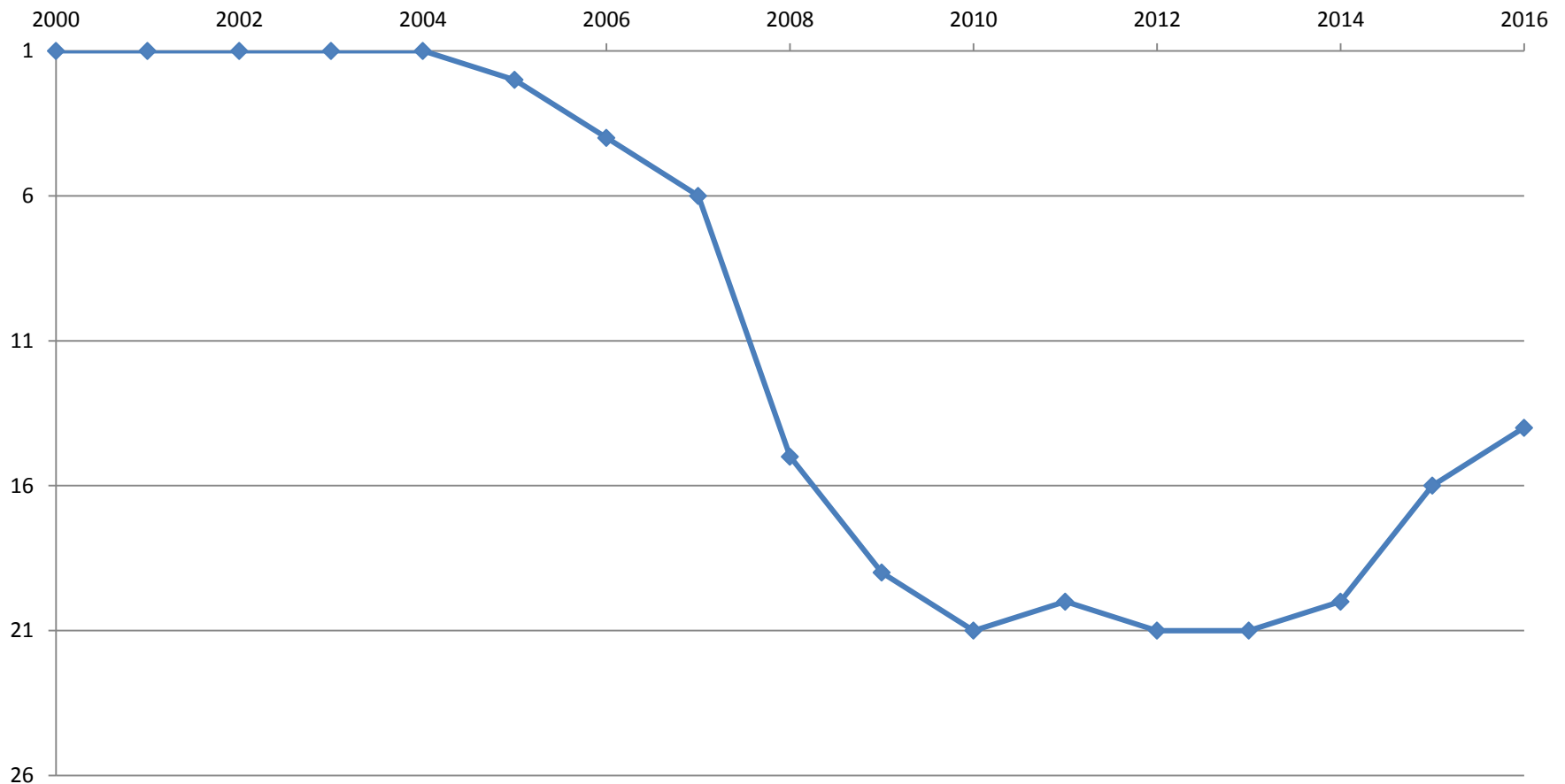
At-risk-of poverty rate in Ireland - Over 65s



The Policy Context:

The Importance of the State Pension

At-risk-of poverty rate for over 65s - Ireland's EU ranking



Costing Overview

- Cost an extra **€727m** approximately in 2019

<u>Reform type</u>	<u>Potential Savings</u> <u>€m</u>
Reduce rate of tax relief to 20%	483
Reduce earnings cap to €72,000	44
Increase of 0.5% in Employer PRSI	422
Total	949

- Proposal is cost-neutral **or better** at initial stage

Some interesting numbers

<u>Estimate</u>	<u>Numbers</u>
Projected number of beneficiaries in 2019	702,000
<i>Green Paper (2007)</i> Projected Cost (additional)	€1,175m
Social Justice Ireland Projections (additional)	€727m
Savings over <i>Green Paper</i> proposal	€448m

Some interesting numbers

<u>Estimate</u>	<u>Numbers</u>
Projected cost of Universal Pension in 2019	€727m
Approximate yearly cost of Auto-enrolment	€700-€800m

Universality could be achieved for the cost of Auto-enrolment