



Presentation to Pensions Forum

# Making Pensions Compelling not Compulsory

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# Why am I here ?

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- Irish Life has been selling pensions for over 65 years
- We are Ireland's largest and most experienced pension provider
- We pay more people their pension than anyone other than the State
- We manage over €18.4 billion in pension funds
- There are nearly 200,000 individuals currently saving for their retirement with Irish Life



# Why am I here ?

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- We are one of the few companies who have made a success of PRSAs
  - We targeted individuals both directly and through their employers
  - We provide a one-to-one advice service
- PRSAs have brought us to a new type of pension customer, typically
  - Age 35
  - Earning €30,000 a year
  - saving €250 a month
- We have gained an insight into what makes these customers take out a pension and what discourages them



# What is State's responsibility ?

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## Well Off

- Able to look after themselves

## Average Earners

- State obligation to avoid poverty
- State obligation to encourage income replacement

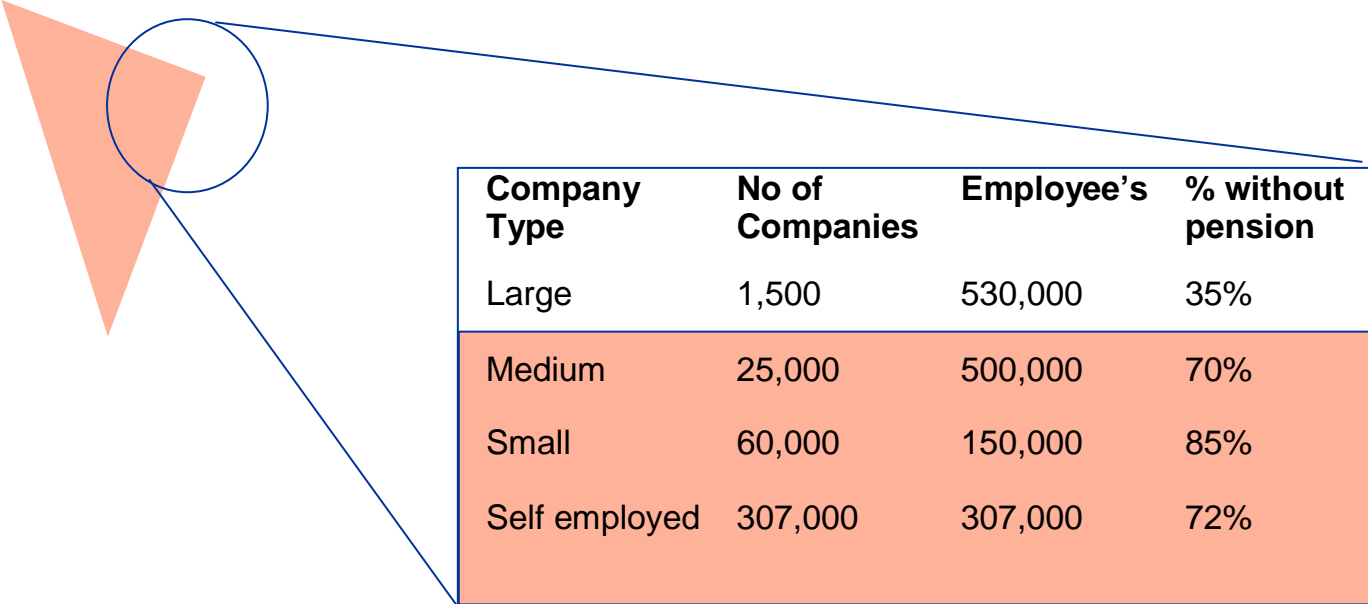
## Low paid/non-earners

- State obligation to provide for
- Covered with improved State Pension



# And looking closer ?

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<b>Company Type</b>	<b>No of Companies</b>	<b>Employee's</b>	<b>% without pension</b>
Large	1,500	530,000	35%
Medium	25,000	500,000	70%
Small	60,000	150,000	85%
Self employed	307,000	307,000	72%

Coverage lowest amongst

- ☒ Self employed
- ☒ Employees of smaller companies
- ☒ Those with irregular work patterns
- ☒ More vulnerable workers



# How do we increase coverage where needed ?

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- National strategy is to supplement state pension with voluntary private provision
- Developments required to simplify voluntary system have been identified
- Mandatory Private Pensions have now entered the debate as other jurisdictions *experiment* with it



# Issues with Mandatory Private Pensions

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- Adds to cost of employment
- Does the employee ultimately pay anyway ?
- Impact on pension adequacy
- Investment risk
- Additional regulations and administrative overheads
- Enforcement difficult in target sectors
- We've tried compulsory scheme in Construction Industry
- We already have a mandatory pension - PRSI



# If not Mandatory then what ?

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- Improved State Pension for low earners
- Supplemented with voluntary provision
- SSIA's were the most successful savings model ever ... learn from this !




New individual pensions in 12 months	50,000
New SSIA account holders in 12 months	1.2 million

- The success of SSIA's can be attributed to
  - The simplicity of the concept
  - The immediacy of the incentive
  - The reasonable access rules
  - The ease of purchase



# Follow through with current strategy

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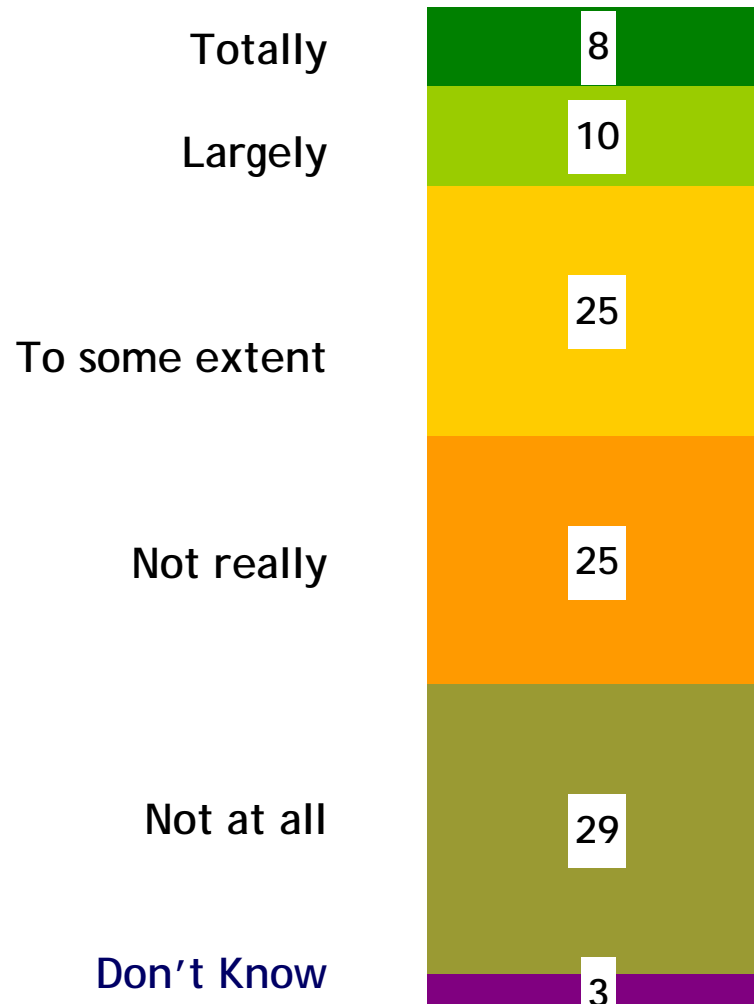
- NPPI report 1998 - make it easier for individuals to take out a pension
  - Introduce simple portable pension 
  - Simplify the tax system 
  - Regulatory regime suitable to 'new environment' 
- National Pensions Review made recommendations based on new learnings from SSIA's
  - Take incentive out of tax system - contribution matching
  - Use incentive to target lower paid
  - Allow early access to portion of funds
- Irish Life strongly advocate implementation of these initiatives
  - Market research conducted - November 2005



# CLAIMED TO UNDERSTAND CURRENT TAX TREATMENT OF PENSIONS

Private sector workers, ages 30 - 50, no pension

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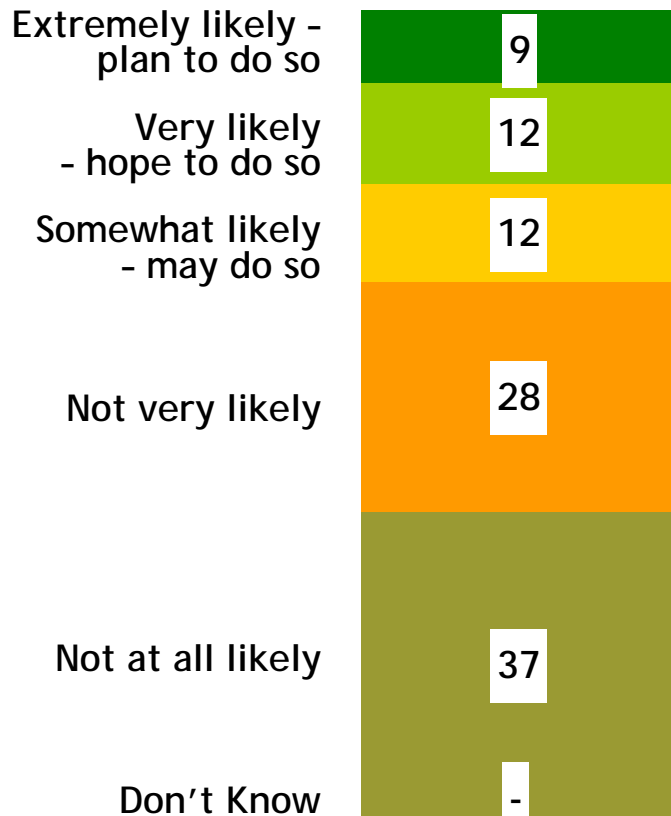


# LIKELIHOOD OF TAKING OUT A PRIVATE PENSION IN NEXT YEAR

Private sector workers, ages 30 - 50, no pension

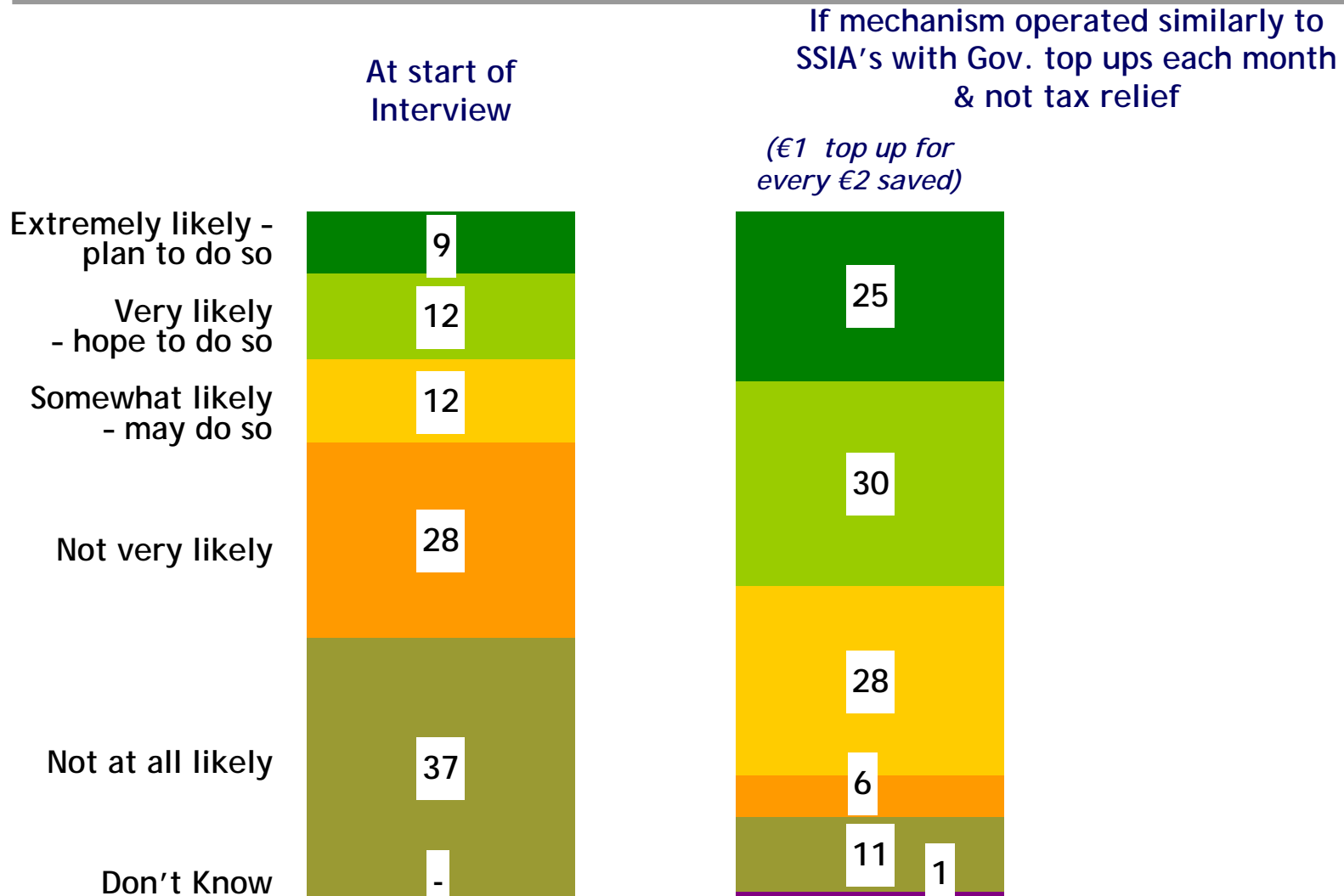
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At start of  
Interview



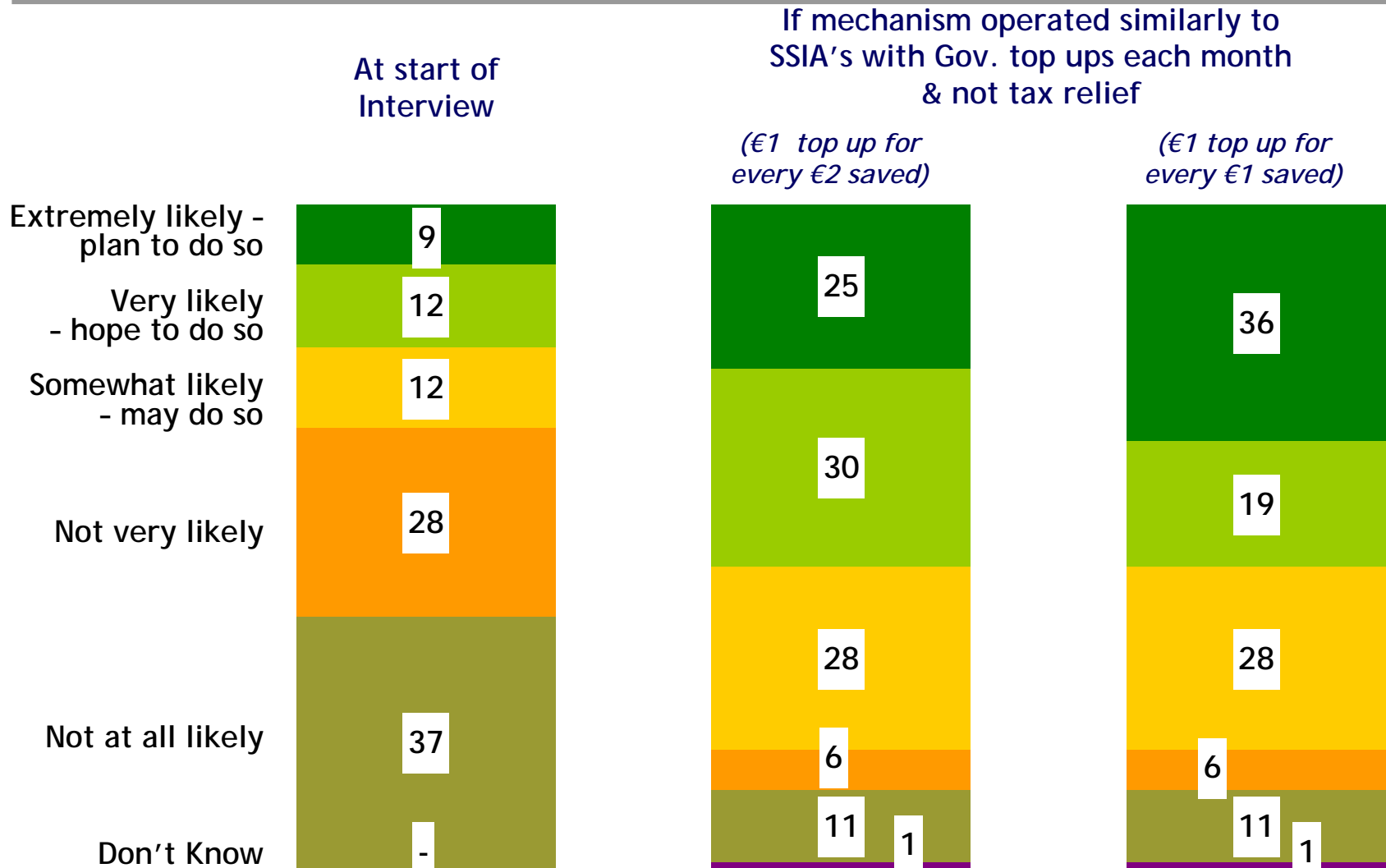
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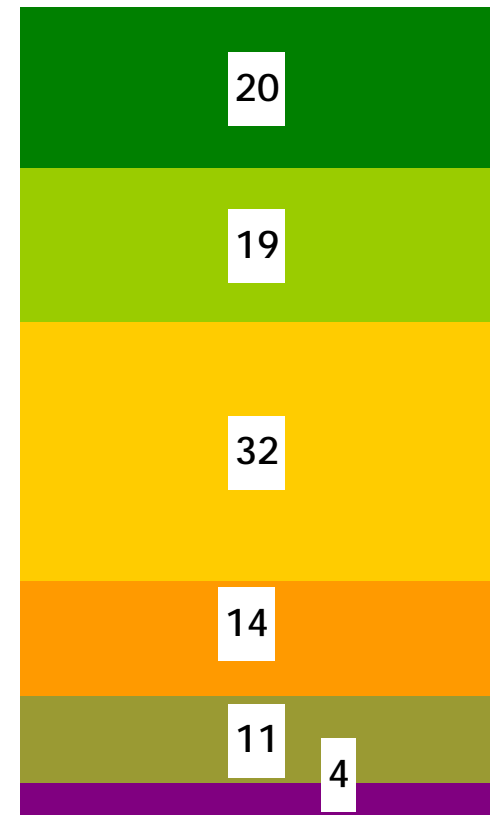


# LIKELIHOOD OF TAKING OUT A PRIVATE PENSION IN NEXT YEAR

Private sector workers, ages 30 - 50, no pension



If able to cash 30% at 45  
and further 20% at 65  
(versus 25% currently)



# Why we need to implement Review recommendations

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- Re-packaging tax benefits increases marketability
  - Can be cost neutral to exchequer
- Increased incentives can be targeted at lower earners
  - Matching contributions €1 for €1 up to relatively low ceiling
  - Matching €250 pm for a 40 year old would give pension of 32% of average earnings at 65 (on top of the State pension)
  - Increases to 35% if combined with €7,500 SSIA transfer scheme
- Early access to funds combines saving and retirement planning needs
  - Cost neutral to exchequer
- Radical review of regulatory Infrastructure
  - Make pensions as easy to take out as SSIAAs were



# Summary

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- We are lucky because we are different
  - We have time to get it right
  - We have already created a savings habit
- Learn our lessons from the success of SSIA's
- We have a strategy of State pension supplemented with voluntary provision - too soon to abandon it
- Before we adopt a mandatory private system - let other countries road test it for us
- It takes courage to see through all aspects of the strategy

