An Bord Pinsean -
The Pensions Board
Authority for Pensions

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FACTORS INFLUENCING THE DEVELOPMENT OF PENSIONS

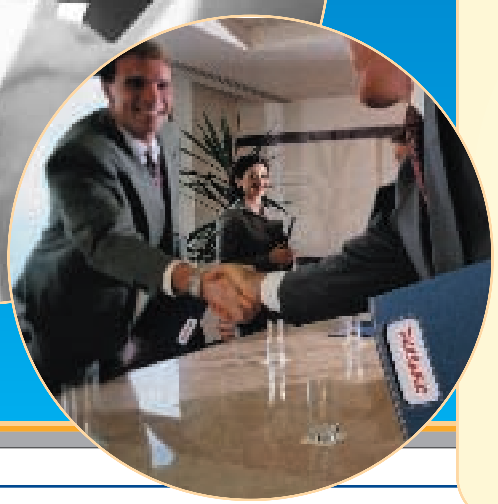
INTRODUCTION – PARTICIPATING IN THE WORKFORCE

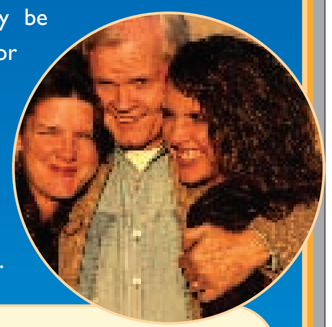
We tend to be economically active for about half of our lives. This varies of course from individual to individual, depending on the age at which we finish education and when we retire. During this time we participate in the workforce.

We spend the first part of our lives growing, developing and going to school and most people spend their later years in retirement. These are two obvious periods of economic inactivity when we are not producing goods or services that can be defined in money terms or have economic value.

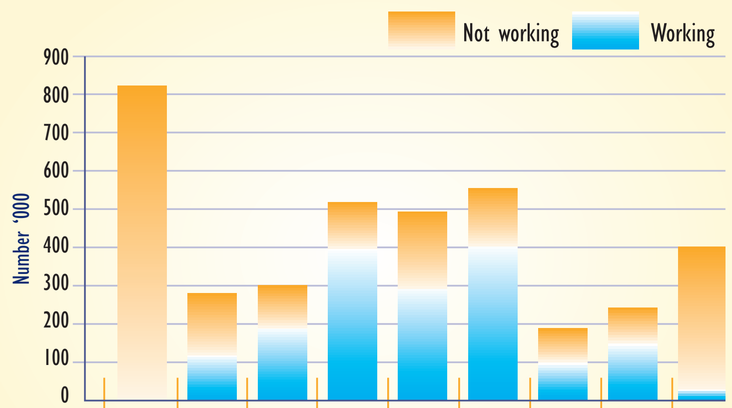
There are other times when, for one reason or another, we are not involved in the labour force and, as a consequence, do not earn an income.

Before entering the labour force we are usually supported by our parents. Many economically inactive people are involved in raising a family and may be financially supported by partners and/or extended family. They may also be entitled directly to Social Welfare benefits e.g. child benefit. Indirectly the State plays a supporting role through various subsidies paid to schools, colleges and other institutions.





Participation in Labour Force



	0-15	16-19	20-24	25-34	35-44	45-54	55-59	60-64	65+
Not Working	822.4	204.7312	73.7619	98.9667	114.2958	132.8319	82.3897	92.7469	400.7271
Working	0	113.6688	272.5381	515.7333	422.3042	343.2681	113.3103	58.5531	34.3729

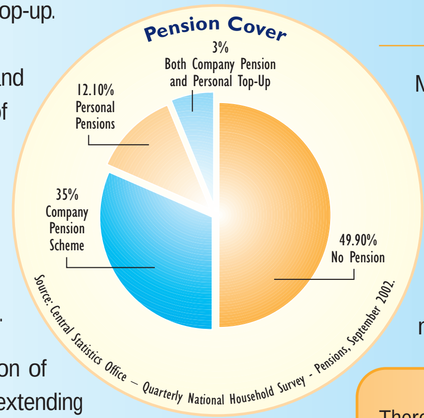
Age Groups

Source: CSO Household Survey and Population Estimates 2002.

In retirement people rely on a range of income sources. Some pensioners have personal savings and investments that can provide them with some income, but generally this is not enough to meet all their needs. For the bulk of their income most rely on a pension or a mix of pensions. The vast majority of people aged over 65 are entitled to a Social Welfare pension paid by the State. It may either be a ***Contributory Pension*** based on contributions made to the Pay Related Social Insurance (PRSI) scheme or a ***Non-contributory Pension***, which is means tested.

Many retired people also draw pensions from private pension schemes to which they and/or their previous employers made contributions. There are ***occupational pension schemes*** covering employees in a particular enterprise or group of enterprises, and ***personal pension schemes*** taken out by individuals who are either self-employed or working for an employer who does not provide a pension scheme.

About half of the workforce has pension cover in addition to their Social Welfare entitlement. A survey carried out for the Pensions Board by the Central Statistics Office (CSO) in 2002 revealed that only 1 in 2 workers (50.7%) have private pension cover. That includes 35% in company pension schemes and 12.1% with personal pensions. About 3% have both a company pension and a personal top-up.



The survey covered both employees and the self-employed. The vast majority of public servants are in pension schemes but private sector coverage is well below 50%. Only 12% of those working in catering are covered and only 23% of other service sector workers, 33% of construction workers and 16% of farmers.

The Government, on the recommendation of the Pensions Board, has set a target of extending supplementary pension coverage and moving towards a target of 70% of the workforce aged 30 or over.

THE PENSIONS BOARD

About €44.8 billion is invested in Irish pension funds, belonging to around 900,000 people. The regulation of occupational pension schemes and Personal Retirement Savings Accounts (PRSAs) is the responsibility of the Pensions Board; a statutory body set up by the Government, under the Pensions Act, 1990.

Part of the Board's job is to protect the interests of Irish pension scheme members and those contributing to PRSAs. It performs this task by monitoring and supervising the administration of schemes and the operation of PRSAs.

The Board also promotes the extension of pension cover so that more people can look forward to adequate income in retirement. In this regard it has acted as adviser to the Minister for Social and Family Affairs. It is heavily involved in the National Pensions Awareness Campaign which is aimed at heightening awareness with a view to increasing pension coverage in Ireland.

The Pensions Board includes representatives of trade unions, employers, Government, pension scheme trustees, the pensions industry, consumer interests, pensioner interests and various professional groups involved with occupational pension schemes and PRSAs.

OCCUPATIONAL PENSION SCHEMES

Most pension schemes are based on a simple concept. Money is put aside in the pre-retirement years in order to fund a pension in retirement. By way of an incentive the State provides tax relief on contributions to this fund, so someone liable for income tax at 42 per cent, will save 42 cent for every €1 that is contributed to a pension scheme. To qualify for that relief, however, the pension scheme must meet certain conditions. In general the invested money cannot be touched until retirement.

There are many different aspects of occupational pension schemes:

- Non-contributory: the employer makes all the contributions.
- Contributory: the worker and the employer make the contributions.
- Defined Contribution: the eventual pension depends solely on the amount that has been accumulated in the pension fund over the years.
- Defined Benefit: the pension is based on final salary and number of years service. Very often the calculation is based on the formula: one-sixtieth of final pay for every year of service up to a maximum of forty-sixtieths.

PERSONAL PENSION PLANS

Personal pension plans are taken out by individuals who may be self-employed or employed in an enterprise that does not have an occupational scheme.

THE NEW PERSONAL RETIREMENT SAVINGS ACCOUNTS (PRSAs)

Personal Retirement Savings Accounts (PRSAs) are a type of personal pension plan designed to be flexible, simple to understand and easy to administer. Introduced in 2003, they are expected to play a major role in significantly increasing supplementary pension coverage. By 15th September 2003 an employer who does not operate a pension scheme or who operates a pension scheme which limits eligibility for membership or imposes a waiting period for membership (which is greater than 6 months from the date of commencement of employment), will have had to enter into a contractual arrangement to provide access to a Standard PRSA for the benefit of all excluded employees. This will enable those employees to participate in a PRSA. Also, where there is no provision in the employer's occupational pension scheme for Additional Voluntary Contributions (AVCs), a Standard PRSA must also be offered for AVCs.

A PRSA is essentially a personal savings account. They are offered by financial institutions, mostly banks and insurance companies. Once a PRSA is opened the holder can deposit money into it, in other words, make contributions. The money is combined with the contributions of other savers and invested on their behalf by fund managers.

In general, the money cannot be withdrawn until the saver retires. Then his or her share of the overall fund is returned and used to provide an income in retirement. The amount of money available at that stage depends both on the amount contributed and the performance of the investments made by the fund. Some funds perform better than others but holders of PRSAs can switch without cost from one fund to another.

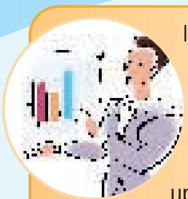
Fund managers have to be paid, of course, so some charges are imposed on the holders of PRSAs. These are an initial charge deducted from each contribution made and an ongoing annual management charge calculated as a percentage of the money in the PRSA. On a Standard PRSA the maximum initial charge is 5% of the contribution paid and the maximum management charge is 1% of the PRSA assets per year. On non-Standard PRSAs there are no maximum limits on charges.

AN ADEQUATE PENSION?

Being entitled to a pension does not, of course, mean that the pension will be adequate. There is no objective definition of what is adequate. The Pensions Board has suggested, as a benchmark, an income in retirement of 50 per cent of gross pre-retirement income subject to a minimum of one-third of average industrial earnings.

In 2003 the Society of Actuaries in Ireland expressed concern that the level of contribution to ***defined contribution*** pension schemes was inadequate to meet the benchmark level suggested by the Pensions Board. It pointed out that:

- The investment returns on savings may be lower in the future than they were in the past.
- People are living longer.
- Low interest rates are making it more expensive to buy a pension on retirement.



It is estimated that a 25-year-old with an annual salary of €30,000 should put aside 14% of that salary each year to fund a pension at 65 equivalent to €11,836 in today's money. That together with the Social Welfare pension (currently €8,164 a year for a single person) would make up a total pension of €20,000 or two-thirds of salary.

Age: 25
Annual Salary: €30,000
Requirement: To fund a pension at 65 years of age that will meet with 2/3 rds of current salary or €20,000
Social Welfare Pension: The Social Welfare pension is currently €8,164 a year for a single person.
Shortfall: To make up the shortfall of €11,836 in today's money the saver needs to put aside 14% of his or her present salary each year to fund a pension at 65 (equivalent to €11,836 in today's money).

1. The savings are expected to yield an annual return of 2% in excess of inflation each year.
2. On retirement it is assumed that the accumulated money will be used to buy a pension for the life of the pensioner with a half pension continuing for the life of a surviving spouse.
3. In retirement the pension is expected to rise by 3% each year to protect its purchasing power against inflation.

The table shows the estimated savings required to provide a pension of two-thirds salary including Social Welfare for people starting to save at different ages and income levels. The older people are when they start contributing to a pension fund, the higher the proportion of their income they have to put aside.

Estimated contribution rates required to target a post-retirement income of two-thirds of pre-retirement income at age 65

Annual salary	Target pension in today's money	25 year old	30 year old	35 year old	40 year old	45 year old
€20,000	€13,333	9%	11%	14%	17%	23%
€25,867*	€17,245	13%	15%	19%	24%	31%
€30,000	€20,000	14%	17%	21%	27%	35%
€40,000	€26,667	17%	20%	25%	31%	41%
€50,000	€33,333	18%	22%	27%	34%	45%

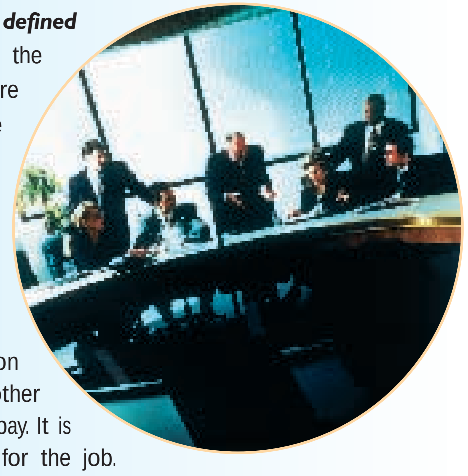
*Represents the average industrial wage at end 2002 - €497 a week

Source: The Society of Actuaries in Ireland.

PENSIONS AS REMUNERATION

Most employers providing pension schemes for their workers make some contribution to the scheme. Where the benefit is specified at the outset, this is a ***defined benefit*** scheme. Typically the employee may be required to contribute 5% of his or her salary to the scheme. The employer contributes whatever else is needed to finance the promised benefits. Those contributions will be less if the fund's investments do well. If they do badly the employer will have to contribute more.

At present there are approximately 108,000 occupational pension schemes in Ireland, with over 709,000 members. Approximately 67% of members are in ***defined benefit*** (DB) schemes with 33% in ***defined contribution*** (DC) schemes.



Most new schemes are of the ***defined contribution*** type where the employer's contributions are fixed as a percentage of the employees' pay. Employers are not required to make contributions to the new PRSAs although they can do so if they like.

An occupational pension scheme can be seen as another element of an employee's pay. It is part of the remuneration for the job.
From an economics perspective, the positive relationship between the wage rate and the supply of labour is enhanced by providing a pension scheme as a part of an employee's remuneration.

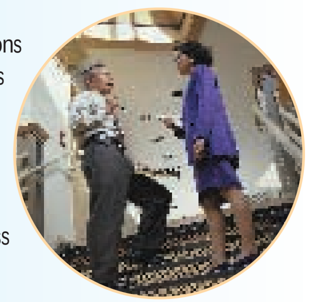
From the employer's point of view a good pension scheme can help to attract, keep and motivate high class employees. From the employee's point of view it is a way of saving for retirement in a tax advantageous manner.

If the employer puts €100 into a pension scheme on behalf of an employee, 100% of the amount is invested. The same €100 paid as wages would be taxed at either 20% or 42%, depending on the income level of the recipient and it might also be liable for Pay Related Social Insurance (PRSI) contributions and health levies.

NATIONAL PENSIONS AWARENESS CAMPAIGN

In its report on the National Pensions Policy Initiative "Securing Retirement Income", published in May 1998, the Board recommended that a "Government-driven pension awareness campaign be conducted in conjunction with the relevant Public and Private Sector bodies". The Board has been asked by the Minister for Social and Family Affairs to conduct this campaign on behalf of Government and a budget allocation of €500,000 was made available for this purpose.

The primary objective of the campaign is to heighten pension awareness with the view to increasing pension coverage in Ireland. The campaign will focus on the general public and particularly those sectors of the population identified in the CSO Survey 2002 as having consistently low coverage. Campaign activity will inform the general public of the need for supplementary pension provision in order to provide replacement income in retirement. This will include all aspects of pension provision, including PRSAs.



The campaign will use a mix of communications initiatives including direct marketing materials (information booklets), targeted national and regional radio advertising, alternative advertising and promotions, media relations, participation in key industry events and the holding of a National Pensions Awareness Week.

In 2003 the campaign will run from July to December.

GLOSSARY OF TERMS

Participation Rate – This is the proportion of the population aged between 15 and 64 who are in the labour force. The higher the rate of participation, the greater the supply of labour (a factor of production) available in a country.
Labour Force - This comprises those who are either working or available for work producing goods or services of economic value. The proportion of the population participating in the labour force varies greatly with age. It is zero under the age of 15 and very low among those over 65.
Fund Manager – Manager responsible for making decisions related to any portfolio of investments (often a mutual fund, pension fund, or insurance fund) in accordance with the goals of the fund.

TASKS & ACTIVITIES

1) One of the objectives of the Pensions Board is to increase awareness of the need to save for retirement. Is this a marketing exercise? If so, suggest two different market segments that an awareness campaign might be aimed at.
2) Visit the website of the Pensions Board at www.pensionsboard.ie and find its Mission Statement.
3) Using this as an example, describe what a Mission Statement is.
4) Explain the following terms:
   - economically active
   - labour force
   - occupational pension scheme
   - PRSA
   - tax relief
5) The Pensions Board is a statutory non-commercial State body. There are also commercial State bodies such as the ESB. What are the essential differences between the two?
6) Suggest three ways that an employer might benefit from providing a pension scheme for employees.
7) If consumer prices were to rise by 3 per cent a year, how much would workers currently on €30,000 a year need to be earning in 40 years time just to maintain the purchasing power of their income?
8) Advertising messages can appear in different formats. List and describe 5 different formats for communicating a message in an advertising campaign.