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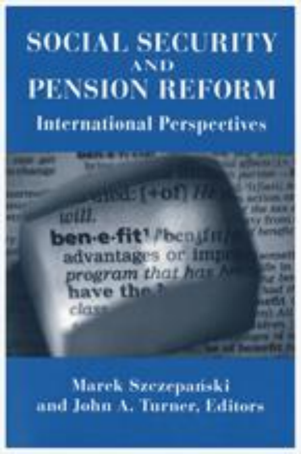

Gerard Hughes
Trinity College Dublin

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International Perspectives

Marek Szczepański
John A. Turner
Editors

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Have Personal Retirement Savings Accounts Achieved Their Objectives in Ireland?

Gerard Hughes
Trinity College Dublin

In its report *Averting the Old Age Crisis*, the World Bank (1994) argued that OECD and Eastern European economies and several Latin American economies faced imminent problems with their retirement income systems. It said that the public pillars of national social security pension systems should not be relied on to solve these problems, as high tax rates are required to finance them and they inhibit growth and reduce rates of return to workers. Believing that the social security pillar of retirement income would become more costly in the future, the report recommended that these countries make the transition to a multipillar system, which would include a privately managed, mandatory personal retirement savings plan.

In Ireland, the publication of the World Bank report coincided with a survey of occupational and personal pension coverage. The results of this survey were published in 1996 (Hughes and Whelan 1996). The report revealed that less than half of those in employment and less than one-tenth of those not economically active were covered by a pension plan. Following publication of the survey results, the Pensions Board and the Department of Social, Community and Family affairs jointly sponsored a National Pensions Policy Initiative. The purpose of this initiative was to facilitate a national debate on how to develop the national pension system. In its report *Securing Retirement Income*, the Pensions Board (1998) recommended that a legal framework be put in place that would encourage private sector financial institutions to introduce on a voluntary basis a new type of pension product, the Personal Retirement Savings Account (PRSA). The retirement income system in Ireland consists now of a mandatory social security program, a means-tested social assistance program, voluntary occupational pensions provided by employers, PRSAs provided by employers mandatorily but with voluntary participation by workers, and voluntary personal pensions.

OBJECTIVES SET FOR PRSAs

The primary objective set for the PRSA was to increase coverage of private pension plans for those aged 30 and over from 54 percent to 70 percent within 10 years of their introduction. In terms of all those at work, this objective can be expressed as a requirement to increase the coverage rate from less than half to 60 percent in a 10-year period.

A wide range of other objectives were set for PRSAs, but no systematic effort has been made to publish information that would facilitate evaluation of how successful they are in achieving these objectives. However, a number of key objectives of PRSAs for which enough information is published facilitate an evaluation of how well PRSAs have performed since their introduction. There are six key objectives set for the PRSA product:

1) It should be a lower-cost product than was available in the past.
2) In addition to traditional providers of pensions, the PRSA should be supplied by the post office and other retail outlets, such as supermarkets.
3) It should have a flexible retirement age.
4) Owners of PRSAs should eventually buy an annuity for life.
5) It should be mandatory for all employers, except those with occupational plans for all employees, to provide access for all their employees to a PRSA provider.
6) The primary market for the PRSA should be employees in nonpensionable employment, and individuals who change or lose their jobs should be able to continue contributing to their pensions.[1]

Some of the key objectives set for PRSAs can be evaluated on the basis of the terms and conditions on which the new pension saving product was introduced after negotiations between the government and pension providers, while others require data stretching back to September 2003 when the new product was introduced. We begin our evaluation by considering objectives 1–4 in the list above and then proceeding to consider objectives 5–6 together with the primary objective of increasing pension coverage from less than half to 60 percent within a 10-year period.

PRSA FEES AND PROVIDERS

The terms and conditions on which PRSA products were issued by pension providers differed in important respects from those envisaged by the Pensions Board in its report *Securing Retirement Income* (1998). Instead of one PRSA product with government certification to indicate that it met certain quality requirements, two products were introduced—the standard PRSA and the nonstandard PRSA. The difference between the two is that the fees for a standard PRSA are capped at 5 percent of PRSA contributions and 1 percent of PRSA assets, and it can invest only in unit funds, whereas a nonstandard PRSA has no cap on fees and it can invest in a wide choice of assets. Far from being a lower-cost product than personal pension products previously available, the standard PRSA turned out to have higher fees than was usual for existing personal pension products.

Table 3.1 shows how fees for a standard PRSA compare with those for an Additional Voluntary Contribution (AVC) plan for teachers operated by Cornmarket Group Financial Services, an off-the-shelf personal pension marketed by one of the largest providers of pensions in Ireland, the Irish Life Assurance Company, and fees for existing personal pension products. For an Irish Life personal pension, a flat rate fee of €3.81 per contribution was charged, whereas 5 percent of each contribution was deducted for the standard PRSA, and the annual management fee for the Irish Life pension was 0.9 percent compared with 1 percent for the PRSA. The capped fee for a standard PRSA of 5 percent of each contribution is the same as the usual fee for a personal pension contract,

Table 3.1 Maximum Charges for a Standard PRSA in 2003 and Personal Pensions in the UK, Hungary, and Poland

	Standard PRSA Maximum fees	Irish life personal pension	Personal pension contract	Cornmarket group fees for AVC for a teacher	UK stakeholder pension (2001)	Hungary mandatory and voluntary private account (2011)	Poland mandatory private account (2010)
Charge for each contribution	5%	€3.81	5%	5%	0	0.9%	3.5%
Annual management charge (%)	1	0.9	0.75	1.25	1	0.2	0.45[a]
Once off charge	0	0	0	€732	0	0	

[a]An increment of 0.05 percent can be added for the best performing funds.
SOURCE: Brady (2001a), Fultz (2012), and O'Quigley (2003).

but the annual 1 percent fee levied on the value of the fund is higher than the usual annual fee of 0.75 percent of the value of the fund for a personal pension contract. The note by O'Quigley (2003), which provides the information on the usual fees for personal pension contracts, points out that the fees for a standard PRSA are "not particularly low" and that fees per contribution for personal pensions are "frequently less" than 5 percent. Although the annual fee of 1.25 percent of the value of the fund by Cornmarket Group for an AVC for a teacher is higher than the annual fee for a standard PRSA, the source of the information for this group, Brady (2001a, p. 12), points out that they were charging "at the top end of what is normal practice in the pensions business." Fees for a standard PRSA were also higher than fees for a Stakeholder Pension in the UK, which was introduced in 2001, two years earlier than the PRSA. The only fee for a Stakeholder Pension was the 1 percent annual management fee.[2] PRSA fees are also higher than the revised maximum fees imposed in 2010 in Hungary on mandatory and voluntary private pension investment accounts and on mandatory accounts in Poland in 2012. The deductions from contributions in Ireland are nearly 40 percent greater than in Poland while the annual management fees are two-thirds greater. Both sets of fees are five times greater in Ireland than in Hungary.

Why did the standard PRSA turn out to be a higher-cost product than envisaged by the Pensions Board? The main reason appears to be that the pension providers were not prepared to offer a PRSA at a much lower cost than they previously charged for a personal pension, and they were able to insist on this because the government was not willing to offer the PRSA product without their cooperation

During the negotiations between pension providers and the government on the terms and conditions that would be attached to the new PRSA product, financial journalists discovered from their own sources that the providers were opposed to both a government certification and any cap on their fees. For example, Kerby (2001, p. 52) reports in *Business and Finance* magazine that "the pension companies lobbied hard against a kite-mark or a maximum charge (they certainly didn't want anything like the total 1 percent limit imposed on Stakeholder, the UK version of the PRSA)."

What emerged eventually from the negotiations was a compromise under which the providers would offer a standard PRSA, with fees generally higher than usual for previous personal pension products, and they would offer a nonstandard PRSA, which allowed the providers to levy higher fees than previous personal pension products. In the same article, Kerby (2001, p. 52) points out that "the non-standard PRSA is certainly a compromise—a way for the pension companies (who have had this market to themselves up to now) to earn higher margins and to reward their commission-paid brokers."

Subsequently, another journalist (Brady 2001b) investigating the negotiations between pension providers and the government, found a letter under the Freedom of Information Act from the Irish Insurance Federation that warned that "if the eventual regime does not give sufficient scope for profitability" there is a danger that "only a limited number of providers [will] choose to enter the market."

Very little additional information has emerged about the negotiations between pension providers and the government, but it is likely that the traditional pension providers were also opposed to new providers entering the pensions market. Neither the post office nor other retail outlets, such as national supermarket chain stores, entered the pensions market. The traditional providers may also have been opposed to a flexible retirement age for the PRSA product, as when it was introduced it was stipulated that owners of PRSA products could not retire before age 60. The providers also appear to have been opposed to owners of PRSAs being obliged to take out an annuity. This was a requirement when the PRSA was introduced but the pensions industry frequently insisted that owners of PRSAs should be able to avail of the Approved Retirement Fund (ARF) and Approved Minimum Retirement Fund (AMRF) options in the same way as the self-employed. This objective was achieved in 2011 when the ARF and AMRF options were extended to owners of PRSAs.[3]

The hope, expressed by the Pensions Board and others, that promoting the PRSA would help to simplify the pension system was not realized. Instead, it greatly increased the complexity of the choices that ordinary savers faced. One professional advisor, Gilhawley (2003), argued that what eventually emerged from the negotiations "isn't a pretty sight" and that it "ensured that the PRSA market will be a jungle for the ordinary saver" (p. 7).

PRSA ACCESS AND COVERAGE

Following agreement with pension providers on the terms and conditions on which a standard PRSA could be offered in the market, providers were accredited by the Pensions Board. Accredited providers started to advertise their PRSAs in April 2003 so that they would be ready to be nominated by employers as designated providers by September 2003. This was the date set by the Pensions Board by which the great majority of employers would be required by law to have nominated at least one provider to supply a PRSA to their employees.

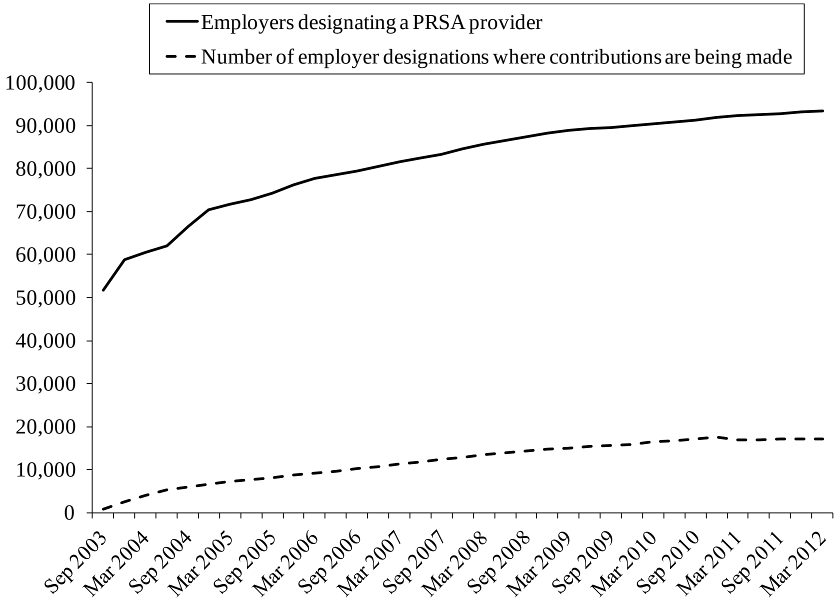
In June 2003, a few months before that date, the Irish Financial Services Regulatory Authority (IFSRA), which was jointly responsible with the Pensions Board for regulating PRSAs, issued instructions to PRSA providers that suggested the regulators were concerned to avoid a repetition in Ireland of practices by personal pension providers, which led to the pensions misselling scandal in the UK in the 1990s (Ward 2000). These instructions required providers at the point of sale to

- inform prospective clients about the difference between a standard and a nonstandard PRSA,
- have a statement signed by both parties that all risks have been pointed out and that all relevant information has been provided, and
- give clients the IFSRA consumer fact sheet about PRSAs to help them assess which type of PRSA would best suit their needs.

Kerby (2003) reports that the reason the IFSRA stipulated what information should be available to prospective purchasers of PRSAs was that the director of the consumer division of the IFSRA had said, “We do not want consumers encouraged to purchase a nonstandard PRSA when it is not required, simply to generate additional revenue for the financial institutions.”

The objective that all employers, except the 4 percent or so with occupational plans for all employees (Hughes and Whelan 1996), should designate a PRSA provider has fallen well short of target. Figures 3.1 and 3.2 show, starting in September 2003, the cumulative number and percentage of employers who have designated a PRSA provider and

Figure 3.1 Number of Employers Designating a PRSA Provider and Number of Employer Designations Where Employees Have Taken Out a PRSA Contract, 2003–2012

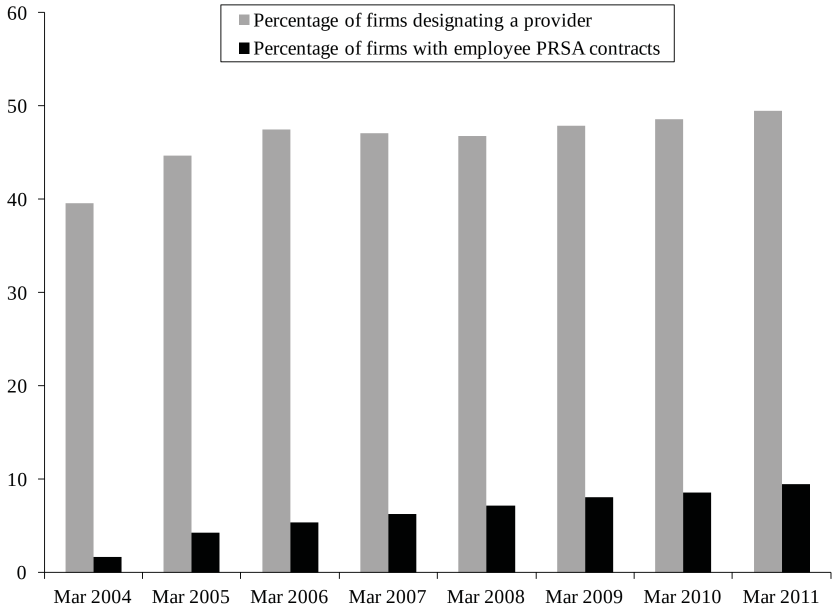


SOURCE: Pensions Board Web site: http://www.pensionsboard.ie/en/Regulation/PRSAs (accessed November 14, 2013).

the cumulative number and percentage of firms in which employees have taken out PRSA contracts. It should be noted that we do not know how many employees continue to make PRSA contributions because the Pensions Board does not publish this information. Experience in the UK shows that about half of contributors to personal pensions have ceased to make contributions within four years of taking out a contract (Financial Services Authority 2006).

By the end of 2003, when all employers were legally obliged to designate a PRSA provider, only 58,770, or less than half of all the firms listed in the Companies Registration Office, had nominated a provider. In those firms that had a designated provider, only 2,502, or less than 2 percent of all firms, had employees who had taken out a PRSA contract. This outcome of the long planning stage for the designation

Figure 3.2 Percentage of Firms Designating a PRSA Provider and Percentage of Firms Whose Employees Have Taken Out a PRSA Contract, 2004–2011

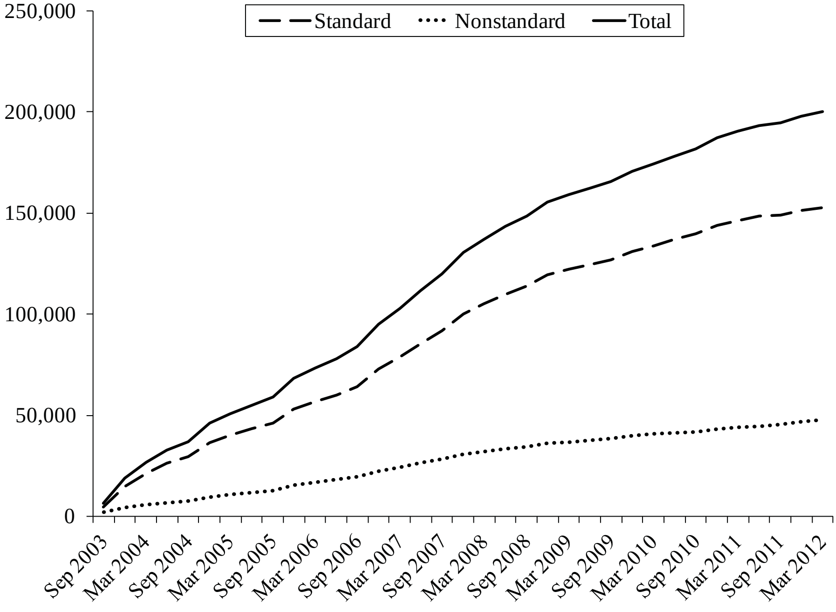


SOURCE: Pensions Board Web site: http://www.pensionsboard.ie/en/Regulation/PRSAs (accessed November 14, 2013).

of PRSA providers was so abysmal that in September 2004, a year after the launch, the Pensions Board contacted 64,000 firms to remind them of their legal obligation to designate a PRSA provider for their employees. In the period up to March 2012, about a decade after the launch of PRSAs, there has been an increase in the number of employers designating a provider and in the number of these firms in which employees have taken out a PRSA contract to 93,401 and 17,209, respectively. However, after an initial spurt in the number of employers designating a provider up to December 2005, the percentage of employers designating a provider has remained fairly stable at less than 50 percent, while the percentage of firms in which employees have taken out a PRSA contract has increased from less than 2 percent to around 10 percent. Looking at the figures in terms of employers who have designated a PRSA provider, they show that 81 percent of employer-designated plans have no one contributing to them. Where employers do have employees who have taken out a PRSA contract, the average number of employees with contracts is about four.

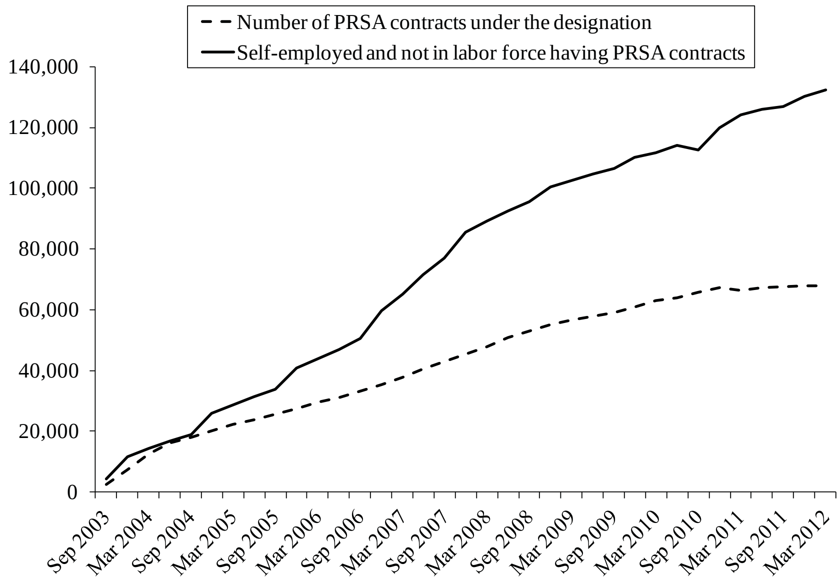
Figure 3.3 shows the cumulative number of standard, nonstandard, and total PRSAs sold. Sales were slow at first but they increased rapidly so that by December 2012 over 200,000 PRSA contracts had been sold, of which over 150,000, or three-quarters, were standard, and almost 50,000, or one-quarter, were nonstandard. On the face of it, this looks like a satisfactory outcome. That is what the Pensions Board implies in its quarterly press releases about the sales figures. However, the group for which PRSAs were originally intended are employees in nonpensionable employment. But this is not the group to which most PRSAs have been sold. Figures 3.4 and 3.5 show the number of employees and

Figure 3.3 Number of Standard, Nonstandard, and Total PRSAs Sold, 2003–2012



SOURCE: Pensions Board Web site: http://www.pensionsboard.ie/en/Regulation/PRSAs (accessed November 14, 2013).

Figure 3.4 Number of Employees and Self-Employed and Those Not in the Labor Force Who Have Taken Out a PRSA Contract, 2003–2012

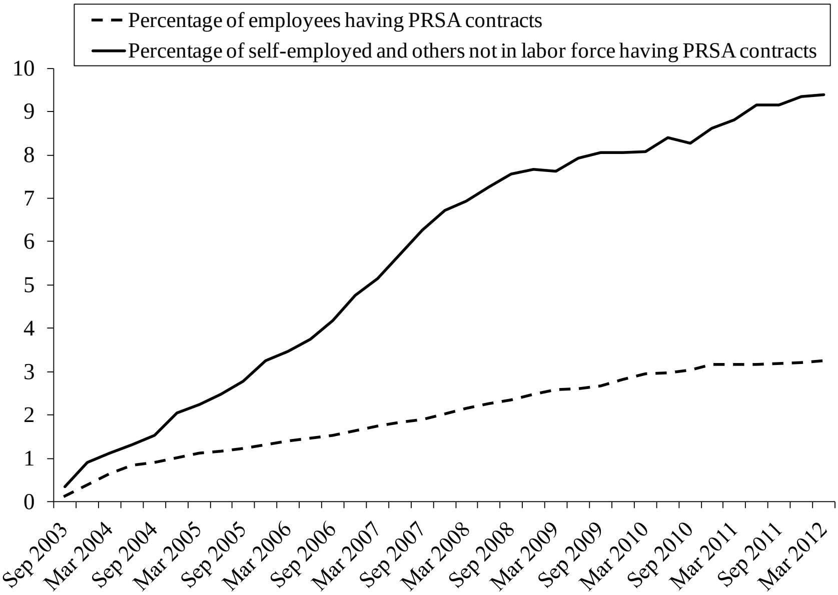


SOURCE: Pensions Board Web site: http://www.pensionsboard.ie/en/Regulation/PRSAs (accessed November 14, 2013).

self-employed and other individuals not in the labor force who have taken out PRSA contracts.

In the first year following their introduction, the number and percentage of employees and self-employed and those not in the labor force taking out a PRSA contract were about the same. After September 2004, the number and percentage of self-employed and purchasers not in the labor force began to increase much more rapidly than employees. By March 2012, the cumulative number of purchasers of PRSA contracts who were self-employed or not in the labor force was double the number of employees who had taken out contracts—132,345 versus 67,973—while the percentage of self-employed and purchasers not in the labor force relative to all those not in the labor force was three times greater, 9.4 percent versus 3.2 percent.

Figure 3.5 Percentage of Employees and Self-Employed and Those Not in the Labor Force Who Have Taken Out a PRSA Contract, 2003–2012

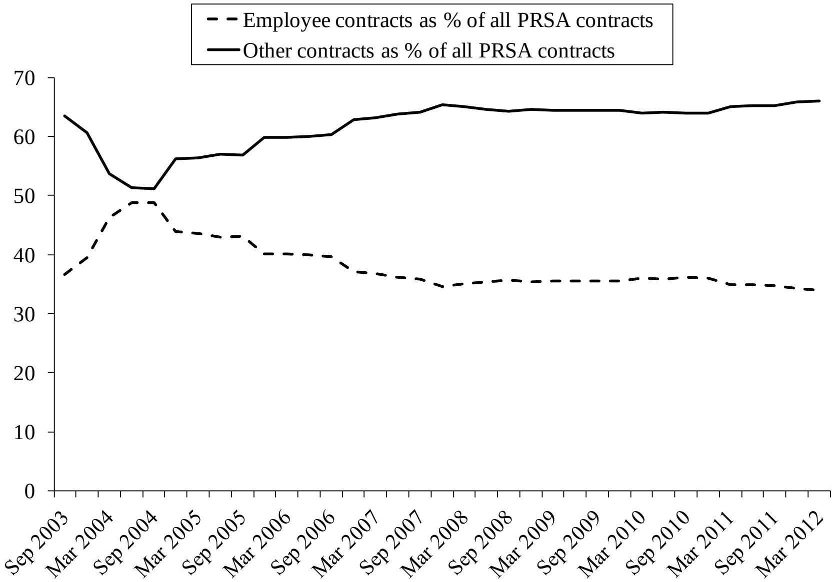


SOURCE: Pensions Board Web site: http://www.pensionsboard.ie/en/Regulation/PRSAs (accessed November 14, 2013).

Gilhawley (2007) has identified four separate markets where PRSAs are being sold: 1) employees in nonpensionable employment—the target group for which PRSAs were originally intended; 2) self-employed individuals who can contribute to a Retirement Annuity Contract or a PRSA or both; 3) employees who are already in pensionable employment who have an AVC plan; and 4) employees and the self-employed who already have either an occupational pension or a Retirement Annuity Contract who can transfer their pension funds to a PRSA. The Pensions Board has not published sufficient information to identify how many PRSA contracts have been taken out by each of these groups or by those not in the labor force who can also contribute to a PRSA. However, as employer-designated plans are obliged to offer at least one standard PRSA, it is reasonable to assume, as Gilhawley (2007) does, that all PRSAs purchased through an employer-designated plan are standard PRSAs. This assumption also enables us to identify how many standard and nonstandard PRSAs have been sold to the self-employed and other individuals not in the labor force.

Figure 3.6 shows that when the PRSA product was launched in September 2003, about one-third of all PRSA contracts were taken out by employees for whom they were intended, and about two-thirds were taken out by self-employed and others who were not in the labor force. In the first two years of operation, there was a significant increase in the percentage of all contracts bought by employees and a significant decrease for the other group to almost 50 percent in each case. Thereafter, the percentage of all PRSA contracts sold to employees gradually

Figure 3.6 Standard PRSA Contracts Taken Out by Employees and PRSA Contracts Taken Out by Self-Employed and Those Not in the Labor Force as Percentage of All PRSA Contracts, 2003–2012

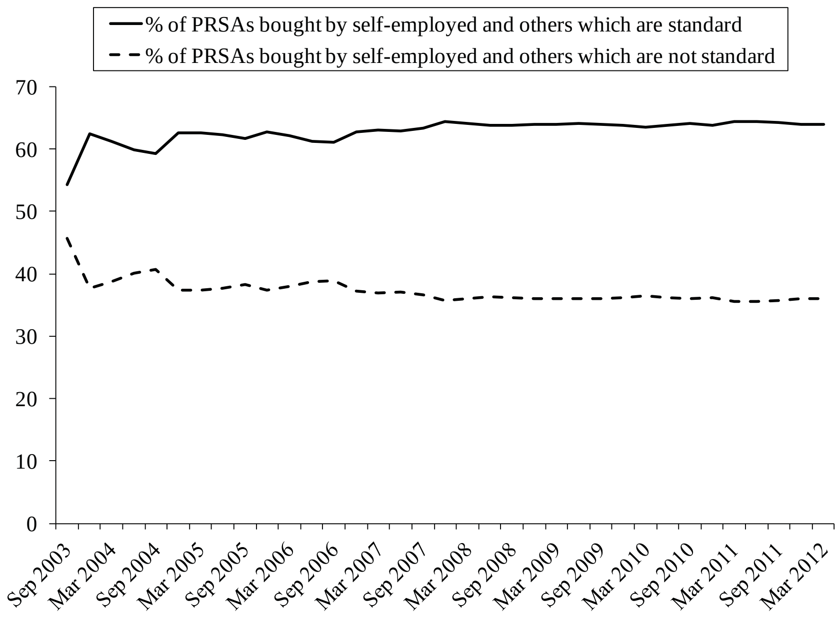


SOURCE: Pensions Board Web site: http://www.pensionsboard.ie/en/Regulation/PRSAs (accessed November 14, 2013).

decreased to around one-third, while the percentage sold to the self-employed and others gradually increased to about two-thirds. In December 2011, the cumulative figures for PRSA contracts sold indicated that only one-third of the contracts have been sold into the target market, while two-thirds have been bought by individuals for whom the PRSA product was not intended.

Figure 3.7 shows the percentage of PRSA contracts purchased by the self-employed and individuals outside the labor force that are standard and nonstandard. In September 2003, when the PRSA was launched, about 54 percent of the contracts bought by people who were not working were standard PRSAs, while 46 percent were nonstandard. However, in the next quarter ending in December 2003, about two-thirds of the PRSA products bought by the self-employed and others

Figure 3.7 Percentage of PRSA Contracts Sold to Self-Employed and Those Not in the Labor Force That Are Standard and Nonstandard, 2003–2012



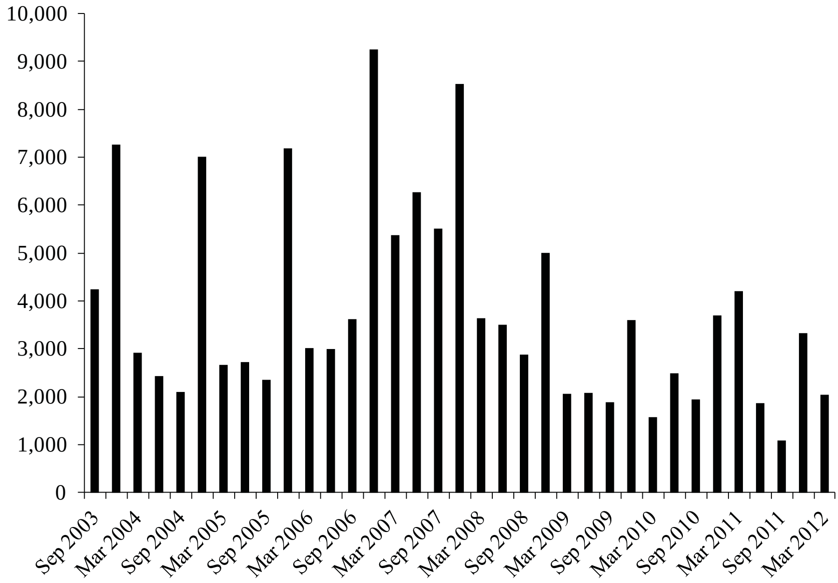
SOURCE: Pensions Board Web site: http://www.pensionsboard.ie/en/Regulation/PRSAs (accessed November 14, 2013).

not in the labor force were standard PRSAs while one-third were nonstandard. Subsequently, these proportions did not change much, so that by December 2011, about two-thirds of the PRSAs bought by the self-employed and those not in the labor force were standard PRSAs, while one-third were nonstandard.

The influence of the self-employed on sales of PRSAs can be seen, as Gilhawley (2007) has noted, from the spikes in the quarterly figures for nonemployer designated sales, which occur in the last quarter of the year (Figure 3.8). These spikes are related to the October 31 tax deadline for backdating pension contributions by the self-employed to the previous tax year.

Before the property bubble burst in Ireland in 2007, sales in the first three quarters averaged around 3,000 per quarter, but this figure jumped to around 7,000 in the last quarter. After the property collapse, sales in

Figure 3.8 Quarterly Sales of PRSA Contracts to Self-Employed and Those Not in the Labor Force, 2003–2012



SOURCE: Pensions Board Web site: http://www.pensionsboard.ie/en/Regulation/PRSAs (accessed November 14, 2013).

the first three quarters of the year fell back to around 2,000, while sales in the last quarter were about double this at around 4,000.

Almost 10 years after their introduction, sales of PRSAs to employees in nonpensionable employment, who are the target market, have been and continue to be low. On the other hand, sales to the self-employed and others not in the labor force, for whom they were not intended, account for the significant growth in sales of PRSAs.

EFFECT OF PRSAs ON PENSION COVERAGE

The primary objective that was set for PRSAs by the Pensions Board was that within 10 years of their introduction they would help to increase the coverage rate of private pension plans to 60 percent of those in employment. Special surveys of pension coverage in 2002, 2005, and 2009 have been undertaken by the Central Statistics Office (2004, 2006, 2011). These surveys enable us to evaluate whether PRSAs have helped to increase the coverage rate of private pension plans in a way that will lead to the achievement of the 60 percent target by the end of 2013. Table 3.2 shows that, contrary to expectations, there was no increase in the coverage rate of personal pension plans between 2002 and 2005, whereas there was an increase in the coverage rate of occupational plans.

We know from the quarterly PRSA sales figures that 1.3 percent of employees had taken out a PRSA contract by the end of 2005, which

Table 3.2 Coverage of Occupational and Personal Pension Plans as a Percentage of Those in Employment (ILO) Aged 20–69, 2002, 2005, and 2009

Category	Pension coverage Q1 2002	Pension coverage Q4 2005	Pension coverage Q4 2009
Occupational pension only	35.4	40.1	38.9
Personal pension only	12.9	12.1	9.6
Both	2.9	2.8	2.5
Total pension coverage	51.2	55.0	51.0

SOURCE: Central Statistics Office (2004, 2011) and author's calculations.

should have resulted in an increase in the personal pension coverage rate. The fact that the Central Statistics Office survey did not pick up such an increase but instead recorded a much bigger increase in the occupational pension coverage rate suggests that the coverage of occupational pensions increased independently of the introduction of PRSAs. It may also indicate that many respondents to the survey who purchase a personal pension through an employer-designated plan may identify it as an occupational rather than a personal pension.

In 2007, the Irish property market collapsed, and a year later the global financial crisis began. Both of these events resulted in massive financial and job losses across the Irish economy. For example, total employment fell by over 300,000, or by 15 percent, between the beginning of 2008 and the end of 2010, and the real value of pension fund assets fell by 37.5 percent in 2008 compared with 22.3 percent in Hungary, 17.7 percent in Poland, and a weighted average of 23.7 percent in the OECD as a whole (OECD 2011). The effect of these losses was that the gains made in private pension coverage between 2002 and 2005 were lost so that the coverage of occupational and personal pension plans fell from 40 percent to 39 percent and from 12 percent to 10 percent, respectively. Overall the private pension coverage rate fell from 55 percent in 2005 to 51 percent in 2009. This brought the coverage rate in 2009 back to its level in 2002 before PRSAs were introduced.

PRSAs HAVE REINFORCED EXISTING INEQUITIES

In order to promote PRSAs, the government gave them entitlements similar to other pension plans to tax reliefs (preferential tax treatment) on employer and employee contributions and investment income and capital gains, and made the PRSA pension taxable on payment. Table 3.3 shows estimates of the cost of tax relief on PRSA contributions since 2004 together with the number of contributors who claimed tax relief. These figures do not include contributions made by employers or by employees through their employer-designated PRSA for reasons explained in the note to Table 3.3. As employees contributing to a PRSA through an employer-designated plan are excluded from these figures, they refer to the cost of tax reliefs for contributors who are self-

Table 3.3 Cost of Tax Relief on PRSA Contributions and Number of Beneficiaries, 2006

Year	Cost of tax relief (€million)	No. of beneficiaries
2004	13.7	6,300
2005	42.2	32,900
2006	56.4	45,200
2007	61.1	46,600
2008	73.8	53,900
2009	77.0	56,200

NOTE: The figures do not include contributions made by employees through employers' payroll systems and in respect of which tax relief is provided on the net pay basis. Information on such contributions is not captured in such a way as to make it possible to provide disaggregated figures.

SOURCE: Revenue Commissioners Statistical Reports 2007–2010.

employed or not in the labor force. An estimate of the extent to which the figures in Table 3.3 are underestimated can be derived from additional information that the Revenue Commissioners sought in 2006 from employers about employer and employee contributions to PRSA and other pension plans. The improved data for 2006 show that the cost of tax reliefs for PRSA contributions amounted to €120 million and that there were 71,500 beneficiaries (Government of Ireland 2007, Table 7.2). In 2006, therefore, the cost of tax reliefs for PRSAs appears to have been twice as great as the figure published in the Revenue Commissioners' report, and the number of beneficiaries appears to have been nearly 60 percent greater.

Table 3.3 shows that between 2004 and 2009, the Exchequer (the government treasury) has subsidized PRSAs by at least €320 million in the form of foregone tax. PRSA employer and employee contributions in 2006 amounted to €330 million, so in that year the Exchequer subsidy for PRSAs of €120 million amounted to 36 percent of total contributions.

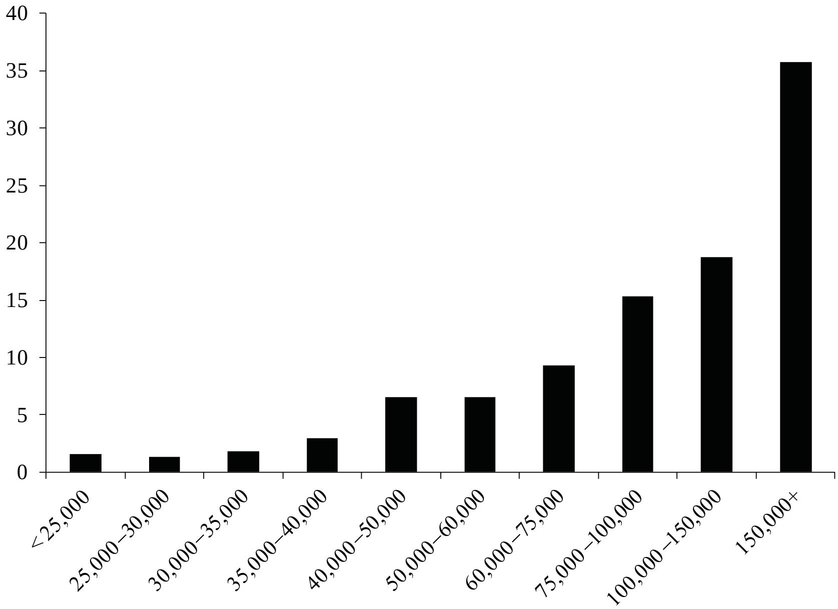
In Ireland, government subsidies (through tax preferences) for private pensions overwhelmingly accrue to taxpayers with the largest incomes (Callan, Keane, and Walsh 2009; Hughes 2000; Hughes and Sinfield 2004), and some commentators (Hughes and Sinfield 2004) warned that the introduction of personal pension accounts would reinforce the existing inequalities. This warning has proved to be well founded.

Using data from the Revenue Commissioners, Figure 3.9 shows the distribution of the cost of tax reliefs by income decile for the self-employed and others not in the labor force in 2006. Nearly 36 percent of the tax reliefs were captured by the top income decile, and over half of them accrued to the top income quintile. In sharp contrast, the bottom income decile received about 1.5 percent of the tax reliefs, and the bottom income quintile received less than 3 percent of them.

CONCLUSION

The great hopes that advocates of private personal pensions in Ireland had for a new voluntary pension product, the Personal Retirement

Figure 3.9 Percentage of Tax Relief on PRSA Contributions by Self-Employed and Others Not in Labor Force Accruing to Each Income Decile of PRSA Contributors, 2006



SOURCE: Houses of the Oireachtas Web site: http://www.debates.oireachtas.ie/dail/2009/06/30/00120.asp (accessed November 14, 2013).

Savings Account, have not been realized. Few of the key objectives set by the government regulator of private pension plans have been attained. The fees for a standard PRSA have generally been higher than the usual fees for personal pension products available before PRSAs were introduced. Neither the post office nor other retail outlets, such as supermarket chain stores, entered the new market for personal pensions. Standard PRSAs do not have a flexible retirement age, as owners cannot receive their benefits until they are age 60. Owners of PRSAs are not obliged to buy an annuity if they can satisfy the conditions for transferring their PRSA pension fund into an ARF or an AMRF pension fund. While it was made mandatory that all employers who did not provide an occupational pension for all their employees should designate a personal pension provider for their employees, less than half of the firms registered with the Companies Office have actually designated a PRSA provider. Employees in nonpensionable employment have shown limited interest in the PRSA product, as no one is contributing to a PRSA in four-fifths of the firms that have designated a PRSA provider.

Up to the beginning of 2012, the take-up of PRSAs by employees has been very poor, with only 3 percent of employees deciding to buy a PRSA. The take-up has been much greater by a group for whom PRSAs were not intended—the self-employed and those not in the labor force. Approximately 9 percent of these have taken out PRSA contracts, and this group is now the largest market for personal pension products in Ireland. Up to the end of 2009, the introduction of PRSAs had failed to make any progress toward their primary objective of increasing pension coverage of the employed population to 60 percent—indeed, the coverage rate was slightly lower in 2009 than it was in 2002. Given the lack of trust in the private pension system's ability to deliver on its promises, it is most unlikely that the coverage rate will reach anywhere near the 60 percent figure by the end of 2013.

In addition to failing to meet the objectives set by the government and the Pensions Board, PRSAs have reinforced inequities in the private pension system that existed before PRSAs were introduced. As with previous private pension products, PRSAs have predominantly been bought by taxpayers in the top half of the income distribution. The benefits of government subsidies for PRSAs have been captured mainly by high-income earners, with over half of the tax reliefs for PRSAs accruing to the top 20 percent of those who have claimed tax relief on their PRSA contributions.

Ireland has spent the last 15 years trying to shift the public/private balance of pension provision toward private pensions on a voluntary basis. This policy has failed; the pension coverage rate now is no greater than it was before the new personal pensions were introduced in 2003. Some advocates of private pensions argue that coverage should be made mandatory, as it is in some other countries like Poland, Hungary, and Australia. Consideration was given to mandatory approaches in the Pensions Board's (2005) *National Pensions Review* in 2005 and in a report by Fitzpatrick Associates (2006) commissioned by the Pensions Board in 2006. The Fitzpatrick report considered a number of different mandatory models and concluded that " . . . in general it would seem that the implementation of a mandatory scheme would generate similar effects to those of any new national tax. The extent of the negative impact on growth rates will be determined by . . . design and delivery issues . . ." (p. 23).

In addition to this negative assessment of mandatory plans, the experience of countries with mandatory private pensions suggests that this approach suffers from the same problems of high costs, lost tax revenue, and uncertain benefits as the voluntary approach (Fultz 2012). These problems could be avoided if Ireland were to adopt another approach that members of the Pension Policy Research Group at Trinity College Dublin have advocated for many years (Hughes and Stewart 2007; Stewart 2005).

They argue that it would be more equitable if tax relief for private pension saving was given only at the standard rate of tax and that the additional tax revenue that this would generate should be used to increase the basic state pension to above the poverty level. As the great majority of employees in nonpensionable employment will be dependent in their retirement on the state pension, this solution has a number of merits.

It would give them an assurance that they could look forward to a modest defined benefit pension related to the average industrial wage rather than having to bear all the risks of a voluntary, soft mandatory, or mandatory PRSA defined contribution plan. If the state pension were increased to around 40 percent of the average industrial wage it could significantly reduce pensioner poverty. New Zealand has a flat-rate pension benefit similar to Ireland's, but at a higher level relative to the average wage, and it has one of the lowest rates of pensioner poverty in the OECD. It would reduce the cost of tax reliefs on private pensions in Ireland, which comparative research suggests are among the highest in the OECD (Yoo and de Serres 2004). It would provide the revenue needed to maintain the state pension at a time of economic crisis when there are calls to reduce it. Finally, it would introduce a greater measure of fairness into Ireland's pension system by redistributing resources from the top 20 percent of households which receive nearly 80 percent of the pension tax reliefs to the 80 percent of households whose main source of retirement income is the state pension.

Notes

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1. Previously, individuals who changed or lost their jobs had to cease contributing to their pension arrangement.
2. In 2005, the annual management fee for a Stakeholder Pension was increased to 1.5 percent for the first 10 years, after which it falls back to 1 percent.
3. An Approved Retirement Fund (ARF) option is an alternative to an annuity purchase. On retirement, the self-employed owner of a Retirement Annuity Contract or an owner of a PRSA can decide to invest the pension fund into a fund administered by a qualifying fund manager and take one-fourth of the value of the fund as a tax free lump sum. Income and gains from an ARF are tax free within the fund whereas drawdowns from the fund are subject to income tax. If the individual has a guaranteed retirement income less than 1.5 times the state Old Age Contributory Pension, the pension fund has to be invested in an Approved Minimum Retirement Fund (AMRF) until the person reaches age 75 when the AMRF can be transferred into an ARF.

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