

## **Citizens Information Board Submission on a Universal Retirement Saving System (May 2015)**

The Citizens Information Board appreciates the opportunity to make a submission to the Universal Retirement Savings Group on the establishment of a new, universal, supplementary workplace retirement saving scheme. We understand that the scheme is to be “an employment based defined contribution scheme” which is intended to “progressively achieve universal pension coverage, with particular focus on lower-paid workers”.

The development of a national income related pensions scheme has been on the policy agenda since the 1970s. The fact that no such scheme has yet been introduced is due to a number of factors. One is the complexity of the issues involved. Clearly an adequate income in retirement is a highly desirable aim but there are widely diverging views on what constitutes an adequate income and further diverging views on how that income should be financed. A new supplementary scheme would affect income while working and issues such as work incentives are, therefore, relevant. Contributions to such a scheme are likely to be perceived as “taxation” and, therefore, taken into account when the overall tax burden is being assessed.

In its 2008 submission on the *Green Paper on Pensions*<sup>1</sup>, the CIB said that the expansion of the State pension system was the logical strategy to adopt. It sees no reason to change that view now. The contribution of the State to the State Pension, or the lack of it, has to be taken into account in the design of any supplementary scheme. Otherwise, only the lowest income group will get little or no subsidy towards their pensions. The infrastructure for collecting contributions and paying benefits already exists within the State Pension system and it seems obvious that that infrastructure should be used for any supplementary scheme.

The CIB’s answers to the questions in the template are based on its view that

- A universal supplementary pension scheme, by whatever title, is a desirable aim

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<sup>1</sup> [http://www.citizensinformationboard.ie/publications/social/social\\_submissions2008.html](http://www.citizensinformationboard.ie/publications/social/social_submissions2008.html)

- Universal means applying to everyone and, while that may not be immediately achievable, it should be the aim
- Voluntary schemes do not work
- Any scheme should be designed to ensure that it minimises work disincentives for people of working age and encourages work past the normal retirement age
- The State's contribution to pensions, both the State Pension and any supplementary pension, should be equitable across all income groups
- The scheme should be implemented using existing effective mechanisms: contributions should be collected through the tax system and payments made through the social welfare system
- The funds for a supplementary scheme should be retained under State control. It would seem that the National Treasury Management Agency is the appropriate controller of the funds. The CIB does not express any view on the investment strategy that would be appropriate

### **1. A Universal Retirement Savings System**

- *What do you believe the broad policy goal/s of a universal retirement system should be?*

To ensure an adequate income in retirement for all in retirement and to be fair to all income groups in the level of subsidy provided by the State.

- *Should the system be mandatory for all workers without supplementary pension provision or should people be auto-enrolled with an option to opt out within a certain window?*

A voluntary system is highly unlikely to achieve the desired aims. As recognised in the briefing document, participation in private pension schemes has not increased in any significant way in the past 20 years in spite of the tax incentives to do so. There is very little reason to believe that this new scheme will attract any more participants unless it is mandatory.

- *Who do you think should be included/exempt? Please give views on what you believe the parameters of membership should be (for example income level, age, occupational status or other parameters)?*

Our understanding is that this is to be a universal scheme. Therefore, the aim should be to cover everyone. In practice, certain groups, for example, people who spend

the bulk of their working age dependant on social welfare, are unlikely to be able to contribute to such a scheme. The scheme should cover people who are temporarily dependant on other people, for example, parents working in the home and full time carers.

- *Do you believe a new system should be phased in over time, and if so, what criteria would you consider appropriate for the phase in process?(e.g. employer size, occupational sector)*

If this is to be done, there is a serious danger that the scheme will not ever be universal and will involve significant subsidies to some groups but not to others.

- *What target % coverage rate should the scheme aim for?*

The CIB does not have a view on this.

- *What target % of pre-retirement income replacement rate should be aimed for (combining the State and universal pension)?*

The CIB does not have a view on this.

- *What should be the role of the State in establishing and operating the system*

The State should design and implement the system itself.

- *If you consider that the system should operate on the basis of auto-enrolment with opt out, should there be a requirement for automatic re-enrolment and if so, after what period of time?*

NA

## **2. Operational Matters**

- *What are your views on who should collect contributions and who should administer the system?*

The contributions should be collected through the tax system in the same way as PRSI is collected. This system is well established and operates efficiently. There are no obvious good arguments for creating a new system.

- *Who should be responsible for record keeping?*

Again, the PRSI system should apply.

- *Who should have responsibility for paying benefits?*

The Department of Social Protection. It already has an efficient payments system and will be paying State Pension to everyone who is in the supplementary scheme. Again, the creation of any new mechanism would require very strong arguments.

### **3. Investment Management Structure**

The Citizens Information Board does not have the expertise to offer advice on financial structures and management. The National Treasury Management Agency has this expertise and should take on the management of the fund.

- *What do you believe should be the key objective/s?*
- *What are your views on how investment should be structured and managed?*
- *What are your views on default investment structures?*
- *What range of investment choices should be available?*

### **4. Scheme Design**

- *What do you think the contribution rate should be and how should it be structured (between employer/employee/State) and phased in over time?*

The State's contribution to pensions, both State Pension and the supplementary scheme, should be equitable across all income groups. The contributions of the employed and the self-employed should also be equitable. At present, the State Pension is financed almost exclusively by employers, employees and the self-employed with the self-employed getting the best value for money. While there have been Exchequer contributions to the Social Insurance Fund in the past few years, there were no such contributions for most of the previous 20 years. There is likely to be no contribution again from 2016<sup>2</sup>. The State makes very significant contributions to occupational and private pensions through tax incentives.

There is a strong argument, on grounds of equity, that the State contribution to the State Pension itself and to any supplementary pension should be commensurate with its contribution to the occupational/private pension system. This would require a

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<sup>2</sup> PQ No 124 of 4 November 2014

policy decision to contribute an amount to the Social Insurance Fund every year and to also contribute to the supplementary pension fund.

- *What are your views on State incentives for universal retirement savings (e.g. tax relief, direct subsidy etc.)?*

Direct subsidy is the most equitable means of providing incentives.

- *Should universal retirement savings be established using a trust or contract based model or should both be offered?*

The CIB does not have a view on this.

- *Should members be able to take 'contribution holidays' and if so under what circumstances and for how long?*

Only in circumstances where their income is reduced because they have become dependant on social welfare payments.

- *Should members be able to access part of their funds and if so, in what circumstances and to what extent?*

No.

- *Should additional incentives (or disincentives) be utilised to encourage individuals to stay in a scheme and keep retirement savings intact (i.e. not to opt out/not to seek early access to funds)?*

NA

- *What are your views/suggestions on the provision of benefit options at the decumulation stage?*

People should be able to postpone receipt of their pension and then benefit from a higher pension.

## **5. Other**

- *How would you ensure that a new universal retirement savings system would not operate to the detriment of existing voluntary pensions arrangements?*

It is inevitable that the existence of a mandatory supplementary scheme will result in people withdrawing from existing private arrangements. This is not an argument

against establishing the new scheme.

- *What would you see as the likely costs and broader economic impacts of such a system?*

The main issue will probably be that of work incentives as the contributions required will reduce take home pay.

- *Do you have other suggestions/comments you would like to add to the considerations around universal retirement savings?*