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Article

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Emer Mulligan*

Pensions and the Challenges of Adequacy and Sustainability: Irish Citizens' Voices and Policy Implications

Population ageing has been identified as a major societal challenge for all Western nations, driven by increasing life expectancies and reduced fertility, and occurring at different paces in countries across the EU and OECD.¹ A key challenge for governments arising from such profound changes is in relation to the sustainability of current levels of pension provision. The adequacy of

pension incomes has also been at the forefront of policy discussions for many years in many countries. At the EU level, Ireland is among those countries where policy-makers have been and continue to be concerned about the adequacy of pensions. What constitutes a decent or acceptable standard of living, however, differs from one country to another.² A tension exists between sustainability and adequacy.

This study uses pension policies as a lens through which we examine and promote intergenerational fairness, equality and social inclusion in the context of ageing populations, focusing on Ireland and the Irish pension policy in the first instance and we also draw important inferences for pension policy across the EU. The re-

* The research leading to these results has received funding from the European Union's Horizon 2020 research and innovation programme 2014-2020, grant agreement No. FairTax 649439.

1 L. Foster: Active ageing and pensions in the European Union, in: *Journal of Comparative Social Welfare*, Vol. 28, No. 3, 2012, pp. 223-234.

Emer Mulligan, National University of Ireland Galway, Ireland.

2 V. Timonen: *Ageing Societies: A Comparative Introduction*, Buckingham 2008, Open University Press.

search focuses on two broad aspects of pensions policy, namely, adequacy of state pensions and coverage of private pensions. To understand these two aspects of policy from the perspective of citizens, interviews and focus groups were conducted with a broad range of Irish citizens. Taking these findings into account, consideration is given to key policy options that governments can adopt or have adopted in an effort to make pensions systems fairer and more sustainable in the future. While there is a broad range of policy options for governments to choose from, three key pension system reforms are considered here: the extension of working life, automatic enrolment (also known as auto-enrolment) and tax relief as a financial incentive for increasing private pension coverage. The gender dimension of pension systems and pension reforms, as highlighted by surveyed citizens, is discussed as a cross-cutting issue.³ This study also highlights the EU-wide relevance of its findings and recommendations.

A key strength of this research is that it reflects the voices of ordinary citizens, presenting their views on an extremely important public policy area across the EU. This allows the opinion of the people affected by policy outcomes to be heard as an input into the policy reform conversation. This is very much in keeping with the EU's goal to take the concerns and voices of European citizens seriously and foster meaningful participation in the development of European policies. Key policy recommendations are made here that have relevance for the cross-national consolidation of policy approaches to pension provision and extended working life that avoid tax inequalities and secure individuals' financial and governments' fiscal sustainability into the future.

Background and context

The design of pension systems varies across Europe. The pension system in Ireland has three pillars: state pensions (contributory and non-contributory), occupational pensions and private pensions. With respect to the first of these pillars, the state pension, Ireland is somewhat unusual among EU countries in that the state provides a flat-rate payment only and does not include an earnings-related component. Recent pension reforms in Ireland have increased the number of contributions re-

quired for workers to qualify for the state contributory pension, linking state pensions more closely to formal labour market participation.⁴ The non-contributory state pension is a means-tested payment and the full rate is capped at a slightly lower rate than the state contributory pension. According to Barrett and Nikavoski,⁵ state pensions (contributory or non-contributory) are the most important source of income among older people in Ireland, making up about two-thirds of gross income for those aged 65 and over.⁶ They are particularly important for lower income groups.

Various policy options have been advocated or enacted by governments in an attempt to mitigate the impact of population ageing on public expenditure for pensions. The OECD argued that mobilising all available labour market reserves would help to alleviate the negative consequences of ageing for pension systems. It identified older people who are currently inactive as a significant source of additional labour,⁷ and recommended reducing work disincentives and increasing the flexibility people have in work-retirement decisions.⁸ The OECD further encourages countries to diversify the sources of retirement income and to strengthen the degree of funding in the overall pension mix through a combination of pay-as-you-go (PAYG) and funded, public and private pensions.⁹

The European Commission sought to shape the pension reform debate among Member States. It instigated a Europe-wide consultation on the future of Europe's pension systems by issuing the Green Paper 'Towards Adequate, Sustainable and Safe European Pension Systems' in 2010.¹⁰ The Green Paper notes a central role for funded private pensions in resolving demographic challenges to public finances. The responses to the Green Paper informed the subsequent 2012 White Paper 'An Agenda

3 Whilst this article focuses exclusively on the perspectives of citizens, interviews were also conducted with relevant Irish stakeholders, and a focus group was conducted with researchers on pensions across the EU, the findings from which are presented and discussed in E. Mulligan, D. Wijeratne, M. Maher: Pensions in Ireland: The Perspectives of Irish Citizens and Implications for the Irish Pension System and Reforms, Institute for Lifecourse and Society, Galway, 2019, forthcoming, National University of Ireland Galway.

4 N. Duvvury, A. Ní Léime, A. Callan, L. Price, M. Simpson: Older Women Workers' Access to Pensions: Vulnerabilities, Perspectives and Strategies, Irish Centre for Social Gerontology, Galway 2012, National University of Ireland Galway.

5 A. Barrett, S. Nikavoski: Supplementary Pensions and the Income of Ireland's Retirees, Dublin 2012, The Irish Longitudinal Study on Ageing (TILDA).

6 V. O'Sullivan, R. Layte: Income and Asset Levels of Older People, in: A. Barrett, G. Saava, V. Timonen, R.A. Kenny (eds.): Fifty Plus in Ireland: First Results from The Irish Longitudinal Study on Ageing (TILDA), Dublin 2011, The Irish Longitudinal Study on Ageing (TILDA), pp. 243-264.

7 OECD: Live Longer, Work Longer, OECD, Paris 2006, OECD Publishing, p. 10.

8 Ibid., p. 11.

9 OECD: Pensions Outlook 2018, Paris 2018, OECD Publishing.

10 European Commission: Green Paper. Towards adequate, sustainable and safe European pension systems, COM (2010) 365 final, 2010.

for Adequate, Safe and Sustainable Pensions'.¹¹ It sets out EU support for raising retirement ages, strengthening incentives to work longer as well as an enhanced role for private retirement savings through occupational and personal pensions to safeguard the adequacy of income in old age. These themes are further articulated through the European Semester's annual growth surveys and the annual country specific requirements issued by the European Commission. The above recommended policies, referred to as a 'work longer, accept smaller, riskier pensions' approach, have been associated with the uncritical adoption of an active ageing policy agenda in the EU.¹²

Personal private pensions also play an important role in the pension systems in many countries. Privately funded occupational and personal pensions make up the remaining two pillars of the Irish pension system and serve to supplement state pensions. They are voluntary and operate by facilitating workers' deferment of income by accumulating assets in a pension fund. While occupational pension schemes are common in public sector employment in Ireland, they are also a feature of private sector employment. Personal pensions are most commonly used by people who are self-employed, or those working for employers who do not provide an occupational pension. However, there is recognition of the growing difference in the pension benefits accruing to different groups of labour market participants.¹³ For example, while the pensions of public sector employees continue to be defined by their service and salary (i.e. defined benefit pensions), the trend for private sector employees is for employer and employee contributions to be invested in an account for each individual employee, with the accumulated proceeds providing income in retirement (i.e. defined contribution pensions).

Many countries now place a greater emphasis on private pensions as a source of income for older people,¹⁴ bringing coverage of occupational and private pensions to the forefront of pension policy debates. In Ireland, a target of 70% coverage was first established in 1998 by the National Pensions Policy Initiative, when 46% of employed people had pension coverage – defined as an occupa-

tional pension, a personal pension, or both.¹⁵ Since then, there has been little change in the coverage of occupational and private pensions.¹⁶ Coverage currently stands at 47% suggesting that initiatives and incentives aimed at encouraging people to take out a private pension on a voluntary basis have not had a significant impact.¹⁷ Two-thirds of private sector employees in Ireland have no workplace-related pension and are not saving for their retirement, leading to concerns about old age poverty. In 2018, the Irish Government published its plan to introduce a national auto-enrolment addition to the pension system by 2022 in order to address the low coverage of private pensions.¹⁸ Another means employed by governments seeking to increase the coverage of private pensions is the provision of tax incentives. In Ireland, the taxation system has long been employed to incentivise supplementary private pension provision in its long-established public-private pension mix. Ireland provides generous tax exemptions by international standards. In its regime, the gross build-up of private pension funds and contributions are tax exempt. Pensions in payment are taxed as income, although at the time of writing individuals may take up to 200,000 euro of their personal pension fund as a tax-free lump sum at retirement. The tax foregone in the majority of cases as a result of the tax relief granted on pension savings raises questions of fairness and efficiency in relation to tax expenditure on private pensions.

Gender equality is a fundamental principle in the EU Treaties. However, as Timonen points out, "pension systems, often maintain, reflect and even enlarge social structured gender inequalities in the labour market and over the life course".¹⁹ Therefore, it is important to consider pensions in the context of the EU's strategic goal for gender equality aimed at reducing the pensions gap between men and

11 European Commission: White Paper. An Agenda for Adequate Safe and Sustainable Pensions, COM(2012) 55 final, 2012.

12 Á. Ní Léime, D. Street: Gender and age implications of extended working life policies in the US and Ireland, in: *Critical Social Policy*, Vol. 37, No. 3, 2017, pp. 464-483.

13 OECD: *Live Longer...*, op. cit., p. 7.

14 I. Mosca, S. Nivakoski: *Income Adequacy and Quality of Life in Older Age: Evidence from the First Three Waves of The Irish Longitudinal Study on Ageing*, Dublin 2016, The Irish Longitudinal Study on Ageing (TILDA).

15 The Pensions Board: *Securing Retirement Income*, National Pensions Policy Initiative Report, Dublin 1998, The Pensions Board.

16 Coverage is the ratio of work force that has some sort of pension provision upon retirement from their occupational or private pensions.

17 D. Wijeratne, E. Mulligan, M. Maher: *Tax and Social Policy: The Case of the Irish Pension System*, in: E. Mulligan, L. Oats: *Contemporary Issues in Tax Research* (Vol. 3), Birmingham 2018, Fiscal Publications.

18 It appears there is widespread support for the introduction of auto-enrolment in Ireland, as reflected in the conclusions reached by the Citizens' Assembly; 87% of members of the Citizens' Assembly recommended the introduction of some form of mandatory pension scheme to supplement the state pension, see Government of Ireland: *A Strawman Public Consultation Process for an Automatic Enrolment Retirement Savings System for Ireland*, 2018. However, they did not specify whether this should be funded by PAYG, nor whether it should be managed by private pension companies or by the state. These and other details are currently under consideration by the government. For more details on the Assembly see: <https://www.citizensassembly.ie/en/About-the-Citizens-Assembly>.

19 V. Timonen, op. cit., p. 2.

women.²⁰ Gender issues arise across both adequacy and coverage of state, occupational and private pensions, as well as pension reforms such as extended working lives, auto-enrolment and taxation.

Methodology

A qualitative approach was adopted to understand pension policy and proposed or potential reforms from the perspective of the citizen. Data was collected through the use of interviews and focus groups. People were selected using purposive sampling to ensure a diverse and heterogeneous range of participants. Five focus groups involving 29 participants and 23 one-on-one interviews were conducted. The aim of both focus groups and interviews, in line with the EU's Citizens Dialogue,²¹ was to hear citizens' voices. The interviews were carried out using a life-course approach in order to bring the personal and lived experiences of the interviewees to the fore. In order to situate the data collected from Irish citizens and stakeholders in the EU context and to better address the EU-wide relevance of the ultimate policy recommendations being made here, a focus group was also held with academic researchers from across the EU who specialise in pension research.

Key findings

With regard to the adequacy of state pensions, the participants believed that they were not sufficient enough to enable people to live a normal life after retirement, they felt that state pensions did not allow people to engage in certain activities that they believed constitute a 'normal' life in retirement, e.g. going on a holiday, spending time with grandchildren or friends or the cost of paying for transport, particularly in rural areas. The participants drew attention to the impact that health problems have on income security in old age, especially for those depending on a state pension, thus highlighting the important role that pensions can play in tackling inequalities in older age. Participants also stressed that early retirement was not an option for some people who could not afford to do so because of an inadequate pension/income.

Participants in this study were generally aware of extended working life (EWL) policies. However, attitudes of

citizens towards EWL were mixed, with some accepting government policy to extend working life, while others were highly critical of its introduction, believing that extending working life beyond 65 should be a choice. There were also differing views as to what would be the most appropriate cut-off for the state retirement age. Participants pointed out that EWL is likely to be difficult for certain groups of people such as some women, people in physically demanding jobs and workers in low income jobs or in precarious employment. The views of participants tended to be influenced by a range of factors such as differing work experiences, type of job, type of employment, health, income adequacy in later life and age. Citizens were mostly in favour of a flexible retirement option, which takes account of personal choice, nature of employment, contract type and health. Much concern was expressed, however, about the unequal way in which EWL policies affect different sectors of the population. Most citizens argued that because physically demanding and stressful jobs could cause work-related health problems, particular attention needs to be paid in policies concerned with EWL to the capacity of people in such jobs to work longer. Coverage of private pensions remains lower than a long-established Irish government target of 70% of the working population having private pensions to supplement state provision.²² Secure employment and higher incomes emerged in the research as key factors influencing an employee's decision to contribute to a private pension. Citizens with higher incomes and/or permanent employment were fully aware of the benefits of contributing to and had taken steps to invest in a private pension. In comparison, people in insecure employment and/or with lower levels of income explained that earnings were insufficient to save into a private pension and had postponed any decision to commence a private pension plan until they had a more secure job with higher income.

Interestingly, most citizens were in favour of some form of automatic enrolment (AE) into a pension scheme as a means of increasing coverage of private pensions, but wanted government to play a supervisory role and act as a guarantor, effectively ensuring a certain return on their investment by way of an adequate pension. Citizens were concerned about low-paid workers who may not be eligible for AE.

There were differing levels of understanding among participants about pensions, and only a minority were knowledgeable about and understood how the tax system and pension system interacted. Some understood tax reliefs well as they apply to pensions. Among them were people

20 European Commission: 2018 Report on Equality between Women and Men in the EU, Luxembourg 2018, Publications Office of the European Union.

21 The Citizens' Dialogue was launched by the Commission in 2012 to engage with citizens locally, where they live, in a discussion about their concerns and suggestions for a better Europe. See for example https://ec.europa.eu/info/events/citizens-dialogues_en.

22 The Pensions Board, 1998, op. cit., p. 15.

who viewed tax incentives for pensions as an important way of reducing their tax liability, while others questioned the real savings based on the large levies charged by pension providers. The majority were not, however, aware that they could receive favourable tax treatment on any pension contributions they had made, and the reliefs were irrelevant for those whose income was below the tax exemption limit.

Not surprisingly, gender issues were raised by both women and men participating in the study across each of the themes and policy options discussed, including the lack of entitlement to state contributory pension for women with insufficient social insurancee respectively pay related social insurance (PRSI) contributions due to taking time off work to care for children and other family members. They thought their societal contribution through caregiving should be adequately acknowledged and not resulting in them suffering a loss in pension income. The gender differences with regard to private pension coverage was also a concern.

The transferability of the above findings across the EU was examined in discussion with a focus group of EU academic pension experts.²³ Diverse views were expressed on EWL, with differing state retirement ages and labour market exit ages being of most concern to the Belgian and German representatives. Poland has reversed earlier reforms by reintroducing lower pensionable ages for men and women (65 and 60 years, respectively). This is despite projections of demographic ageing there. In addition to raising the pensionable age, reforms in Belgium and the UK have sought to extend the time spent in work by increasing the career-length requirements for a full state pension. EWL can also be a result of reducing opportunities for early retirement. The Irish pension system does not allow for early retirement. Instead, unemployment or disability pensions may be payable to those who do not work up to the state retirement age. In contrast, early retirement has been a feature of many EU pension systems and a trend towards reducing early retirement has been noted. As part of the bailout agreement with Portugal, early retirement was suspended but this has now been partially lifted. None of the experts were familiar with precise research into the understanding by citi-

²³ The experts came from Belgium, Germany, Portugal, Poland and the UK, which are culturally and institutionally different from each other, ranging as they do from the established multi-pillar system found in the UK to the large social insurance pension system in Germany. Also, these countries cover each of the four clusters common in welfare state comparative studies (corporatist, central and eastern Europe, conservative and liberal), ensuring diversity in our analysis, see D. Natali: Pensions in Europe, European Pensions: The Evolution of Pension Policy at National and Supranational Level, Brussels 2008, Peter Lang.

zens of the tax treatment of private pensions and it appears that little or no such research has been undertaken in these countries on this matter. Only the UK and to a lesser extent Belgium had extensive private pensions. The Belgian representative was familiar with how citizens have engaged positively with the revenue authority's efforts to harness mobile phone technology regarding tax-efficient retirement planning, indicating a role for technology in communicating pension reform outcomes to citizens. All country experts reported that pension reform is an increasingly relevant policy area in the management of public finances. Mandatory automatic enrolment is a feature of both the British (2012) and the Polish (2019) pension systems. Auto-enrolment was also introduced into the German system, but, in comparison to the UK and Poland, on a voluntary as opposed to a mandatory basis. Its introduction formed part of wider reforms to the pension system, which for the first time allow pensions to be provided without a financial guarantee. However, such pension plans can only be established through collective bargaining arrangements in Germany. No collective agreements have yet been concluded which would see German employees automatically enrolled in a privately managed pension plan.

The core findings of our study resonated very much with this group of experts, vis-à-vis the pension policy challenges and reforms being examined in their respective countries, amidst much public and political debate. The conclusions and recommendations presented below therefore have a wider relevance beyond Irish pension policy for Europe's pension systems.

Conclusions and policy recommendations

The findings from our research may be important for pension policy and pension reforms. Arising from the discussions of adequacy, there seems to be a preference by citizens for focusing on the maintenance of living standards rather than income replacement rates, which is conventionally used. However, this raises questions of affordability, bringing into focus the question of how can states afford to provide pensioners with a decent income when the proportion of people of working age is declining as the population of older people rises? In relation to EWL, from the perspective of citizens, flexibility was imperative due to work/life experiences that varied markedly between different people because of variations in occupations, job demands and work-related health problems. Additionally, irrespective of these occupational differences, most citizens disliked being forced to work full-time past the traditional state pension age and preferred to make their own choices. Whilst some scepticism was expressed about the role of

financial intermediaries in the context of the operation of private pensions, citizens did understand why the government was encouraging them to save into private pensions as a means of supplementing their income in old age. However, in the interviews some people argued that they simply could not afford to save into a private pension, and this was particularly acute for people on low incomes with little prospect of good future earnings, and for those with financial demands such as a mortgage or costs of raising children.

Generally, citizens were quite pragmatic about the introduction of automatic enrolment and could see its advantages, notwithstanding affordability and its consequent inequities in terms of pensions being a key issue for many people. However, it was clear that there is a high level of distrust in the financial sector broadly and in government (albeit to a lesser extent). This is a real concern and much work is needed in this area to build trust in order to ensure a successful introduction of AE. The tax provisions which apply to pensions proved contentious with the widespread view expressed that this policy approach has more to do with tax breaks for those on higher incomes than pension planning. It simply does not seem to be an effective tax policy and gives rise to clear inequalities across different income groups. With so much concern raised in this study about the cumulative effect of these inequalities right through the pension and taxation systems, these tax provisions need to be reformed. Although gender equality is a fundamental principle in the EU Treaties, it is clear from what citizens participating in this study had to say that gender inequalities exist in the labour market, across the life course and within the pension system in Ireland, and have major financial implications for women in old age. Men and women alike highlighted the need for pension reforms to reward not just participation in the paid labour market, but recognise the wider social contributions (caring in particular) that people make to society.

There is no doubt that in Ireland and across the EU fiscal planning for old age is a challenging and complex issue that requires multi-faceted solutions. The design and development of any policy responses or reforms, needs to include the voices of citizens, as this study sought to do. It is clear from this study that 'one-size-fits-all' approaches will not work because of the various work patterns, work contracts, personal circumstances and preferences of citizens. Therefore, giving people choices tailored to individual needs within pension systems is highly desirable. This could mean the development of an overarching standardised policy response underpinned by agreed principles such as equality, choice and adequacy, at the national or EU level, within which warranted tailor-

ing of responses may be facilitated. The conclusions and recommendations of this study have a wider application beyond Irish pension policy to the other EU countries, where similar pension policy challenges and reforms are being examined amidst much public and political debate.

Finally, this study concludes with a set of recommendations, arising from citizens' perspectives, urging policymakers to take specific action with regard to pension policy and reform, with an emphasis on the need to implement policies that prevent compounding socio-economic inequalities into old age. These recommendations are:

- Adopt a life-course approach to developing and reforming pension policy in Ireland and across the EU.
- Increase the focus on preventing cumulative disadvantage in old age by addressing inequalities across a broad range of domains including education, work, income and health at all stages of the life course.
- Give serious consideration to the capacity of people in physically demanding jobs to work longer in policies concerned with extending working life.
- Build flexibility into pension reforms such as extended working life policy, to take account of, reflect and cater to the diverse work/life experiences and trajectories in the lives of women and men. This requires EWL policies to be customised, with more flexible working and retirement options available from which people can choose. As such, citizens, employers and policymakers will need to work together to develop responses that can be tailored to individuals and their circumstances.
- Improve regulation of private pension schemes. This needs to happen alongside work aimed at building trust between citizens and government, pension fund managers and financial intermediaries.
- In the Irish context, the proposed new system of AE should revisit the eligibility criteria and certainly the opt-in and opt-out rules.
- Undertake gender impact assessment of any proposed pension reforms.
- Conduct an in-depth investigation of the true cost to the taxpayer of the provisions in the tax system for pensions. Any investigation should cover the differential effects by gender and the relevance for those with low incomes. Consideration should be given to abolishing generous tax reliefs for private pensions.