

PENSIONS IN IRELAND (AND EUROPE)

**Anne Maher
Chief Executive
The Pensions Board
Ireland**

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Agenda

- Ireland
 - Pensions Policy
 - Some Statistics
 - Regulation
 - Future
- Europe
 - Pension models
 - Influences
 - Future



Ireland – Pensions Policy

- Mandatory First Pillar pension funded on pay-as-you-go basis (to avoid poverty)
- First Pillar supported by National Pensions Reserve Fund
- Voluntary Second Pillar supplementary pension on funded basis (to provide replacement income)
- Target retirement income is 50% pre-retirement income
- Second Pillar
 - Promoted by vibrant pensions industry
 - Freedom of investment allowed
- Pension funds major supporter of capital markets
- Good supervision on a flexible basis
- Public Service Pensions on pay-as-you-go basis and also supported by National Pensions Reserve Fund

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Ireland – Pensions Policy

Initiatives to increase private pension coverage

- Personal Retirement Savings Accounts (PRSAs)
- Mandatory Employer Access
- National Pensions Awareness Campaign

Ireland – Some Statistics

- Supplementary pensions
 - Coverage of 52.4% of those at work
 - Assets of 50% GNP
 - Investment returns of 12.8% (YTD) / 17.5% (1 year)
- Special Savings Investment Account
 - Taken out by 30% population
- National Pensions Reserve Fund
 - Contributions = 1% GNP per annum
 - Assets = €14.5 billion / 11.29% GNP
 - Payouts = 2025 – 2050
- Average Irish savings shortfall per annum
 - €6.6 billion
 - 11% of income
 - €3,343 per person

Ireland – Regulation

Supervisory Players in Pensions

- The Pensions Board
- The Financial Regulator
- Revenue Commissioners
- Pensions Ombudsman
- Professionals (actuaries, auditors, administrators, custodians, investment managers)

Ireland – Regulation

Principles of Pension Regulation

- Maintain balance between necessary regulation and unnecessary cost
- Respect the voluntary nature of plans
- Trust-based system – role of trustees (but open to other legal structures)
- Duty on trustees to comply
- Information disclosure is key
- Promotion of pension security
- Securing compliance without recourse to legal action unless necessary

Ireland – Regulation

Regulatory Powers

- Power to investigate
- Power to prosecute
- Power to remove trustees
- Power to restore assets
- Power to dispose of assets

Ireland – Regulation

Regulatory /Supervisory Activities

- Scheme registration – schemes required to register with Pensions Board
- Funding Standard – requirement to submit an Actuarial Funding Certificate at specific times
- Disclosure Compliance – conduct random audits of schemes
- Ongoing discussions with relevant parties (e.g. trustees, advisers, providers)
- Investigations – regular or arising from ‘whistleblow’ reports
- Prosecutions

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Ireland – Future

Issues to be addressed

- Coverage – supplementary coverage not meeting target
- Adequacy – supplementary contributions too low in many cases
- Defined Benefit declining – risk moving from employer to employee
- Defined Benefit funding – some plans have deficiencies

Ireland – Future

- National Pensions Review (NPR) just completed
- NPR addressed targets, issues, options and costs
- Government considering recommendations for change
- Pensions will also be considered as part of Social Partnership (employer/employee) process
- Pensions recognised as important at macro and micro level
- Pensions not a ‘party political’ issue

Europe – Pension Models

- Dutch, United Kingdom, Irish model
 - Low level First Pillar
 - Developed Second and Third Pillars
 - Supplementary funded occupational pension schemes are major component
- Continental Europe (France, Italy, Germany, Spain etc) model
 - High level First Pillar
 - Low development of supplementary funded schemes
 - Trying to develop Second and Third Pillars

Europe – Influences

- Ageing populations in most countries
- Increasing longevity everywhere
- Concern over implicit pension debt in Continental European countries
- First Pillar is unsustainable in many Continental European countries
- Aim to have Single Market for pensions in Europe
- EU Pensions Directive facilitates cross-border pensions and Pan-European pensions

Europe – Future

- Pension reform including:
 - Raising retirement ages
 - Reducing dominance of First Pillar
 - Development of Second and Third Pillars
- Increasing political issue
- Pension Funds playing increasing role in capital markets
- More cross-border investment
- Standardisation of regulation/supervision
- Pan-European pension plans and cross-border pension plans may develop
- Completion of single market for pensions?

Conclusion

- Retirement provision is essential for all countries from social and economic viewpoints
- Appropriate model influenced by economy, social considerations, governance and culture of country
- No “one size fits all” model
- And we can all learn from each other