IOPS COUNTRY PROFILE: IRELAND

DEMOGRAPHICS AND MACROECONOMICS

Nominal GDP (USD bn) – 2016	294.1
GDP per capita (USD) – 2016	61 606
Population (000s) – 2016	4 762
Labour force (000s) – 2016	2 304
Employment rate (%) – Q22018	94.4
Population over 65 (%) – 2016	13.4
Dependency ratio[1]	27.67

1. Ratio of over 65-year-olds / labour force.

Sources: Census 2016 results, Central Statistics Office of Ireland and the World Bank.

IRELAND: COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- Basic scheme paying a flat rate to all who meet the contribution conditions
- There is also a means-tested pension to provide a safety net for the low-income elderly

Private pensions: occupational (voluntary)

- Occupational pension plans

Private pensions: personal (voluntary)

- Retirement annuity contracts
- Personal Retirement Savings Accounts (PRSAs)

Source: OECD Global Pension Statistic.

IRELAND: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

The State pension, under the social insurance system, covers all employees (private and public (recruited from 6 April 1995)) aged 16 to 65 with €38 or more in weekly earnings and self-employed persons with annual earnings of €5,000 or more. Part-time employees earning less than €38 a week are excluded.

Those who earn €352 or less a week pay no social insurance contributions, while those who earn more than €352 a week pay 4% on all earnings. A credit applies to employees earning between €352.01 and €424.00 weekly. Employers pay 8.6% of wages for those employees whose weekly earnings amount to €376 or less and 10.85% of wages for employees who earn more than that amount. The self-employed pay annual contributions of 4% of gross income. Contributions made to the social insurance fund also pay for sickness, maternity, disability and unemployment benefits.

Persons qualify for the State pension (Contributory) at age 66 (age 67 from 2021 and age 68 from 2028) if they were covered before age 56 and have at least 260 weeks of contributions, with an annual average of at least 20 weeks contributions. Maximum pension benefits are payable where the insured person has contributed an average of 48 weeks per year for 10 years. Entitlements are reduced pro rata for shorter contribution averages, while a minimum annual average of 10 weeks of contributions is required for minimum benefits.

The maximum rate for the State Pension (Contributory) is €243.30 per week. This reduces on a sliding scale depending on the number of yearly average social insurance contributions made. Where a person has an annual average of between 10 and 14 weeks of contributions, the State pension (Contributory) amounts to €97.20.

Early retirement is not possible, however those who are unable to work due to long-term illness or disability may apply for an invalidity pension.

A means-tested non-contributory pension of up to €232 (€242 for persons aged 80 and over) a week is paid from age 66 (age 67 from 2021 and age 68 from 2028) to those with limited means, with different additional benefits available according to the household situation of the retiree.

OCCUPATIONAL MANDATORY

Coverage

Company pension plans lay down eligibility criteria. Those enrolled in an occupational pension plan cannot take out a retirement annuity contract (RAC) or a personal retirement savings account (PRSA), unless the PRSA is funded by additional voluntary contributions (AVCs), or the person has a separate source of earnings, *e.g.* a separate job or income. In 2015, approximately 47% of the employed population was covered.

Typical Plan Design

Occupational pension plans can be defined benefit or defined contribution in nature.

A typical defined benefit pension plan would be tied to final average earnings and may have an accrual of 1/60 for each year of service. Employees are generally required to contribute to defined benefit plans.

Average contribution rates to defined contribution plans are approximately 10% of earnings, with employers and employees contributing half each.

Additional voluntary employee contributions are only permitted if the rules of the plan permit AVCs. If they do not, then a member has the right to pay AVCs to a PRSA.

Benefits usually become payable upon reaching the normal retirement age of 65. Many company pension plans allow employees to take early retirement benefits from age 50. Benefits are paid out as a regular pension, as a tax-free lump sum and a reduced pension or, subject to meeting qualifying criteria, a defined contribution plan member can choose to invest their retirement benefits in an Approved Retirement Fund (investment drawdown vehicle). A plan member with AVCs may, if the rules of the plan permit, use their AVC fund to provide:

- All or part of the tax-free lump sum.
- Additional pension.
- Invest in an Approved Retirement Fund, subject to meeting qualifying criteria.
- A taxable lump sum.

All benefits paid from a company plan are subject to maximum limits set by Revenue. Benefits at the normal retirement age may amount to:

- A maximum two-thirds of the member's final salary as an annual pension, if he or she has completed 10 years of service.
- A tax-free (subject to certain limits) lump sum of 1.5 times the final salary, if the member has completed 20 years of service and supplemented a reduced pension. Members of defined contribution schemes also have the option to take up to 25% of their fund as their lump sum instead of 1.5 times their final salary.

Taxation

Both employers and scheme members receive tax relief on their contributions as they pay them. In addition, the amount the employer pays is not treated as employee earnings for tax purposes. The pension fund pays no tax on the investment income that it makes in the shape of dividend income and capital gains. Most of the benefits are taxed under the PAYE system. To qualify for beneficial tax treatment, a scheme must be approved by Revenue, who police the maximum benefits that can be provided.

The maximum contribution rate (as a percentage of total pay) on which one can receive tax relief is 15% of total pay for those under age 30, increasing up to 40% of total pay for those aged 60 and over, with the maximum earnings cap set at EUR 115 000. Pensions in payment are taxable as income and subject to the Universal Social Charge, which is an additional taxation levy.

Personal Volontary

Coverage

Any individual under the age of 75 can take out a PRSA, irrespective of whether he or she has taxable earnings. This includes employees who are excluded from joining a company pension plan. The PRSA contract may stipulate a minimum age of joining. The normal retirement age is 65 for both men and women. Most pension plans set a normal retirement age of 65.

Contributions

Contributions are made by individuals, employers, or both. In the case of "excluded employees"[1], the employee makes contributions via the employer's payroll. Employees who participate in a company pension plan may only make tax-relieved contributions to a PRSA if company pension plan rules prohibit them from making AVCs.

Benefits

Benefits normally become available between the ages of 60 and 75. They can be claimed upon retirement from employment at age 50 (subject to the consent of the employer and scheme trustees), or at any time in the event of serious ill-health. Twenty-five percent of the PRSA accrued benefits can be paid as a tax-free lump sum, subject to a lifetime tax-free limit of EUR 200 000. The balance of the fund can be used to purchase a lifetime annuity, receive a taxable lump sum, to take benefits from the PRSA and continue to make further contributions or invest in an Approved Retirement Fund, subject to meeting qualifying criteria.

Taxation

Individual contributions benefit from income tax relief, as do employee contributions made via the employer's payroll. The tax relief limit varies from 15% of net relevant earnings for those under 30 to 40% of net relevant earnings to those aged 60 and over, with the earnings cap set at EUR 115 000. Limits for tax relief include AVCs to a company pension plan and any contributions paid to a Retirement Annuity Contract. Investment income is tax exempt. Annuities are subject to PAYE tax. Apart from the tax-free lump sum, benefits are subject to PAYE tax and the Universal Social Charge. Benefits of AVC PRSAs are subject to the rules of the company pension plan, including the tax rules applicable to it.

PERSONAL VOLUNTARY (OTHERS)

Coverage

Anyone with earnings can open a Retirement Annuity Contract (RAC), except those who are enrolled in a company pension plan.

[1] "Excluded employees" are (a) employees of an employer who do not offer an occupational pension scheme, or (b) employees who are included in an occupational pension scheme for death in service benefits only, or (c) employees who are ineligible to join the scheme and who will not, under the rules, become eligible to join the scheme for pension benefits within six months from the date they commenced employment, or (d) employees who do not have access to AVCs through their occupational pension scheme.

Contributions

The RAC policy determines a minimum contribution level for the insured person. Employers may choose to contribute to the RAC.

Benefits

Benefits are payable at any time after age 60 but before age 75. Retirement is not a prerequisite. Upon retirement, 25% of the funds can be paid as a tax-free lump sum (subject to a lifetime tax free limit of EUR 200 000), with the remaining funds used to purchase an annuity, paid out as a taxable lump sum or investment in an Approved Retirement Fund (subject to meeting qualifying criteria).

Taxation

Contributions are tax-exempt up to 15% of net relevant earnings for those under age 30, and up to 40% for those aged 60 and over. The net relevant earnings cap stands at EUR 115 000 and covers both RAC and PRSAs. Employer contributions are taxable on the part of the employee as “benefit in kind”. The employee can then claim income tax relief on these contributions as if he or she had paid them. Investment income is exempt from income tax and capital gains tax. Benefits in payment are subject to PAYE tax and the Universal Social Charge.

MARKET INFORMATION

Occupational voluntary

Occupational pension schemes take the form of trusts. Upon leaving a company pension plan with a preserved benefit, members may move the value of their benefits to their new employer’s pension plan or to a PRSA (for employees with less than 15 years of service in the company pension plan). To be entitled to a preserved benefit, the member must have at least two years’ service in the pension scheme. Alternatively, an employee may purchase a buy-out bond, which is a life assurance policy designed to receive transfer values from company pension plans. As at 31 December 2017 occupational pension plans managed assets worth EUR 105.54 billion (USD 123.35 billion). As of 31 December 2017, there was a total active membership of 786 517 in occupational pension plans.

Personal voluntary

Each PRSA offers several investment options, including a legally required default investment option. There are two types of PRSA contract: a standard PRSA, which is a contract that has a maximum fee of 5% on the contributions paid and 1% on assets under management (AUM). Investments are only allowed in pooled funds which include unit trusts and life company unit funds. A non-standard PRSA is a contract that does not have maximum limits on fees and/or allows investments in funds other than pooled funds. PRSAs are transferable and can also be transferred to a company pension plan. Switching fees are prohibited. As at 31 December 2017, the total number of PRSA contracts was 264 664. The total value of assets amounted to EUR 6.3 billion.

RACs are offered by insurance companies, which offer different investment options. All RACs taken out after 6 April 1999 can be transferred to another RAC, or paid into a PRSA by mutual agreement between the person and the insurance company concerned.

POTENTIAL REFORM

The Government of Ireland launched a "Roadmap for Pensions Reform 2018-2023" on 28 February 2018. The Government's key goals are to "create a fairer and simpler contributory pension system where a person's pension outcome reflects their social insurance contributions, and in parallel, create a new and necessary culture of personal retirement savings in Ireland". The following major changes to the Irish pension system are proposed:

(a) A Total Contributions Approach for the State pension (Contributory) to be introduced from 2020 with increases in State pension payments to be maintained at 34% of average earnings,

(b) A new auto-enrolment retirement savings system to be introduced from 2022 to support and encourage personal retirement savings provision,

(c) Improvements in pension scheme governance standards and regulatory capacity,

(d) Reforms to public service pensions to ensure sustainability whilst safeguarding the delivery of promised retirement benefits, and

(e) Greater individual flexibility in retirement decisions and support for fuller working lives in both public and private sector employment.

REFERENCE INFORMATION

KEY LEGISLATION

The Pensions Act, 1990, as amended, relative to occupational pension plans and personal retirement savings accounts (PRSAs)

The Trust Act, 1893, relative to occupational pension plans.

KEY REGULATORY AND SUPERVISORY AUTHORITIES

Pensions Authority: responsible for regulating occupational pension schemes, trust RACs and PRSAs. www.pensionsauthority.ie/en/

Revenue: responsible for the assessment and collection of taxes and duties. Revenue are also responsible for approving occupational pension schemes. www.revenue.ie

Central Bank of Ireland: responsible for the prudential supervision of PRSA providers. www.centralbank.ie

KEY OFFICIAL STATISTICAL REFERENCE AND SOURCES ON PRIVATE PENSIONS

Central Statistics Office, www.cso.ie

OECD, Global Pension Statistics project, www.oecd.org/daf/pensions/gps.