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Let's Talk Pensions – is it time to go 'Back to Basics'?

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How do we convince a populace – or at least 50% anyhow – that a private pension is the best and most economical way of providing for their retirement? Surely now is the time to bring this to the fore with a discussion regarding Auto Enrolment and mandatory pension provision.

For too many years the pensions industry has focussed on tax breaks, charges and investment performance as a way of encouraging increased pension saving. And whilst all these merit discussion on their own, the problem still exists that only 50% of the private sector have private pension provision.* And perhaps more worryingly 50% of the private sector feels that they do not need or cannot afford to make any provision!

Indeed, as we all know by now, this might be inadvertently taken out of their hands by the introduction of a mandatory pension scheme. But ahead of any mandatory changes what should the pensions industry be showcasing today to encourage increased private pension provision?

The future of the State Pension

This is, without doubt, where any conversation should start. The National Pensions Reserve Fund was set up in 2001 with the idea that it was to fund the pension's time bomb that had been looming. It was to have 1% of GNP alongside the proceeds from the Eircom flotation to fund the rising cost of the state pension from 2025.**

At its peak its assets totalled €25bn. But of course it's now well and truly dead, the funds used to re-capitalise AIB and Bank of Ireland amongst others. The final nail in the coffin came in 2013 with it being replaced by the ISIF and NewERA (yes I haven't heard much about them either).

But the blackhole hasn't disappeared; in fact the problem has steadily gotten worse. The State Pension had increased by 46% between 2003 and 2012.[†] In essence funding decreased whilst payments increased - fiscal madness. And you don't need me to repeat the "two workers for every pensioner in 2050" line. I think it is safe to say that increases if any are unlikely to mirror those of the past. A study last year by the Australian Centre for Financial Studies and Mercer found that we have one of the most adequate state pensions (indeed it is the fourth highest in the EU) but it ranked very low in sustainability.

Changing the goalposts

It is now more difficult to qualify for the maximum state pension. Indeed if anyone, male or female decides to take time out of their careers for whatever the reason, they will be disadvantaged under these new requirements. As women tend to take time out of their careers with childcare they are naturally disadvantaged. Indeed already there has been evidence of a drop in the state pension provision in general for women based on the revised PRSI requirements. This was meant to be offset by the homemaker's credit which in turn was abandoned due to its costs leaving women in particular on an uneven footing regarding their pension entitlements from the state.

Yearly Average PRSI Contributions	Personal Rate Per Week post 2012	Personal Rate Per Week pre 2012
48 or over	€230.30	€230.30
40-47	€225.80	€225.80
30-39	€207.00	€225.80
20-29	€196.00	€225.80
15-19	€150.00	€172.70
10-14	€92.00	€115.20

Source: Welfare.ie. From 2020, the rates will be based on an n/30ths basis with n = 1 year.

Level of Benefits

If you assume that a reasonable percentage of final salary to retire on is around 50%, then naturally you assume that the maximum State Pension will suffice for those on salaries of €24,000 or less. However, as I mentioned earlier, there may well be no provision made for increases throughout retirement. As time goes on, those reliant on the State Pension will feel the pinch more and more.

There are lots of other reasons why relying on the State Pension is no longer feasible such as the increase of the pension age, increasing gap between income before and after retirement, and most of all…… the uncertainty that the future holds in its regard. Any conversation with those who do not have a private pension over the coming years needs to start with detailing some of these basics to them.

* Source: Society of Actuaries of Ireland.
** Source: Annual Report National Pensions Reserve Fund 2004.
† Source: LIA RPA Manual.

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