

CARDI Briefing

This document aims to inform ageing research and add to existing discussion on policy and research developments.

CARDI briefing: Pensions policy in Ireland, North and South

Introduction

This document provides a synopsis on the pensions systems in Northern Ireland and the Republic of Ireland. The structure of pension provision in both jurisdictions is broadly similar – a state pension system which provides a basic income in retirement supported by voluntary additional pensions which can be workplace or personal pensions.

Major reforms of both pension systems are planned. In both the Republic of Ireland and Northern Ireland, the default retirement age is set to rise gradually as a result of increasing longevity. In order to increase the coverage of workplace pensions, automatic enrolment into a pension scheme for all employees is set to be introduced in both systems.

Key facts

- The full Basic State Pension in Northern Ireland is £97.65 per week for a single person. This is 27% of the average salary.
- In the Republic of Ireland, the contributory State Pension is worth €230.30 per week for someone with maximum social insurance contributions. This is 33% of the average salary.
- The State Pension Age is due to rise to 68 in 2028 in the Republic of Ireland. In Northern Ireland, it will rise to 66 for men in 2016 with further rises planned.
- 51% of workers in the UK and 54% of workers in the Republic of Ireland save into a pension scheme.

Northern Ireland

Social security and pensions are technically transferred matters to the Northern Ireland Assembly, but have parity with Great Britain. For example, the planned rises in the state pension age will be the same in Northern Ireland as in England, Scotland and Wales. The Department for Work and Pensions sets pensions policy in the UK while delivery of pensions in Northern Ireland are the responsibility of the Department for Social Development.

According to the Pensioner Income Series for Northern Ireland¹, 96% of pensioners receive income from the State Pension or other National Insurance benefits, at an average of £128 per week. Four fifths of pensioner couples and three fifths of single pensioners have additional private income. On average, 55% of average gross income came from benefits (including the state pension). Occupational pensions provided 20% and 14% of gross income came from earnings. 7% of gross income came from investment income.

The State pension

For 2010-2011, the full Basic State Pension in Northern Ireland is £97.65 per week for a single person and £156.15 per week for a couple. To receive the full pension, both men and women must have worked for 30 years.

The State Pension age for women born on or after 6 April 1950 will increase from 60 to 65 between 2010 and 2020. The age will increase for men to 66 in 2016 and further rises are planned.

As the median wage in Northern Ireland is £356.70 per week², receiving a full basic state pension on retirement would provide 27% of a median salary. Pensioners may also qualify for

Pension Credit which guarantees a minimum weekly income of £132.60 for a single person and £202.40 for couples. 98,220 people in Northern Ireland claim Pension Credit with an average weekly payment of £67.11 per week³.

Voluntary additional pensions

In order to supplement income in retirement, it is possible to pay into a voluntary additional pension. These pensions can either be provided through the workplace, *i.e.* access to the pension is facilitated by the employer, or can be contributed to privately through a pension provider. In the UK, workplace pensions are regulated by the Pensions Regulator while personal pensions are regulated by the Financial Services Authority.

The UK has seen a decline in the traditional defined benefit pension schemes offered by employers, where the scheme member receives a guaranteed level of benefits in retirement based on salary and years worked. These have been replaced by defined contribution schemes, where the employer pays a specific contribution to the members' pension but the benefits in retirement are not guaranteed.

Public sector pensions

There are several different pension schemes available for public sector workers in Northern Ireland. The Local Government Pension Scheme for Northern Ireland is open to employees working in local government and to employees in the public sector who are not eligible to join another scheme. The Northern Ireland Teachers' Pension Scheme is a contributory scheme administered by the Teachers' Pensions Branch on behalf of the Department of Education. Other public sector workers such as lecturers or fire-fighters contribute to UK-wide schemes.

¹ Department for Social Development, *Pensioners' Income Series Reports* (2007)

² Department of Enterprise, Trade and Investment, *Northern Ireland survey of Hours and Earnings* (2009)

³ Department for Social Development, *State Pension Credit Summary of Statistics* (2009)

Pension reforms

Following a comprehensive review of the UK pensions system conducted by the Pensions Commission in 2006, a series of reforms have been enacted. The Pensions Act 2007 legislated for restoring a link between the state pension and earnings from 2012. The Act also created the Personal Accounts Delivery Authority which is in the process of delivering a new, low-cost savings vehicle aimed at lower earners, called the National Employment Savings Trust (NEST)⁴.

The Pensions Act 2008 introduced measures aimed at encouraging greater private saving. This included a duty on employers to automatically enrol all eligible workers into a workplace pension scheme (provided they are not already in such a scheme) and provide a minimum contribution of 3% to their workers' pension. These measures are due to take effect in 2012.

The coalition government has also announced plans for a Public Sector Pensions Commission which will examine options for reforming the public sector pension system.

Republic of Ireland

The State Pension in the Republic of Ireland is governed by the Department of Social Protection while the Pensions Board regulates workplace pension schemes and Personal Retirement Savings Accounts (PRSAs). In March 2010, the government published the National Pensions Framework⁵. The framework introduces a series of pension reforms which aim to deliver security, equity, choice and clarity for the individual. The reforms are also designed to increase pensions coverage, particularly amongst low to middle earning groups. According to the Quarterly National Household Survey⁶, 54% of workers in the Republic of Ireland save into a pension scheme, but lower earners and younger workers are much less likely to be saving into a pension.

The State Pension

There are several different state pensions in the Republic of Ireland, depending on social insurance contribution conditions:

- The State Pension (Transition) is paid to people aged 65 who have retired from work and who have paid full rate social insurance contributions. This is paid for one year.
- The State Pension (Contributory) is paid to people from the age of 66 who have enough social insurance contributions. There are a number of pro-rata payments for varying levels of social insurance contributions.
- The State Pension (Non-Contributory) is paid from age 66 to people who do not qualify for the State Pension (Contributory).

⁴ For further information, see <http://www.padeliveryauthority.org.uk/>

⁵ <http://www.pensionsgreenpaper.ie/downloads/NationalPensionsFramework.pdf>

⁶ Central Statistics Office, *Quarterly National Household Survey* (2009)

The contributory State Pension is worth €230.30 per week for someone with maximum social insurance contributions. The average salary per week is €691.27 so the full value of the contributory State Pension would provide 33% of an average salary in retirement.

Voluntary additional pensions

As in the UK, there has been a decline in the number of employers offering the traditional defined benefit pension in the Republic of Ireland while defined contribution pensions are becoming increasingly popular. There are currently just over 850,000 people saving into a workplace pension⁷.

PRSAs are similar to personal pensions in the UK in that it is a contract between an individual and an authorised PRSA provider rather than a pension provided by an employer. However, an employer can designate a PRSA provider. They were introduced in 2003 and there are currently over 170,000 contracts.

Public sector pensions

Public sector pensions in the Republic of Ireland were previously based on a final salary defined benefit model, with benefits in retirement guaranteed based on salary on or near retirement. There were also different retirement ages for different types of public sector employee. However, the government announced in Budget 2010 that a new single public service pension scheme will be introduced for new employees in the public service. This was confirmed in the National Pensions Framework.

The new scheme will have a minimum pension age of 66 years which will be linked with the state pension age in the future. The maximum retirement age will be 70. In addition, the pension paid out under the new system will be based on the average of an employee's salary over their career.

Pension reforms

In October 2007, the government published a Green Paper on Pensions which outlined the challenges facing the Irish pensions system in the years ahead. These challenges include the sustainability of the system over the longer term in light of an ageing population and the adequacy of contribution levels and benefits. It also examined targets for increasing pensions coverage in the population.

Following a consultation process, the government issued the National Pensions Framework which sets out the key developments for the future of pension provision in the Republic of Ireland. The mandatory social welfare coverage in retirement will continue, although the system will be simplified with a move to a total contributions approach. The aim is to maintain a level of 35% of average earnings. The State pension age will increase to 66 in 2014, 67 in 2021 and 68 in 2028.

As in the UK, employees will be automatically enrolled into a pension scheme with matching employer contributions as well as a state contribution through tax relief. The state will also support existing workplace and voluntary provision through tax relief on 33% of contributions.

⁷ The Pensions Board, *Review of 2009* (2010)

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