OECD
BETTER POLICIES FOR BETTER LIVES

IRELAND

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- **Reform the basic pension to account for all periods of contribution equally and coordinate it better with the non-contributory benefit**
- **Duly implement the new auto-enrolment scheme in an efficient way and consolidate current private schemes**

The pension system provides basic pensions but no mandatory earnings-related component. The high level of the safety-net non-contributory benefit, just below the full basic pension, helps lower the relative old-age poverty rate to about half the OECD average. Ireland is one of only three OECD countries without a mandatory earnings-related component, along with New Zealand and the United Kingdom. In these two countries, an automatic enrolment scheme was introduced for the private-pension component in 2007 and 2012, respectively. In Ireland, coverage from private pensions is not large and replacement rates from the mandatory scheme for workers earning more than the average wage are low. As part of the EU-IMF financial assistance programme during the Great Recession, the retirement age will continue to increase from 65 years in 2011 to 66 currently, 67 by 2021 and 68 by 2028. Public expenditure on pensions is currently around 3.9% of GDP, below the OECD average of 8.4%. The contribution rate is equal to 14.85%, 4% paid by employees and 10.85% by employers.

Key indicators: Ireland and OECD average

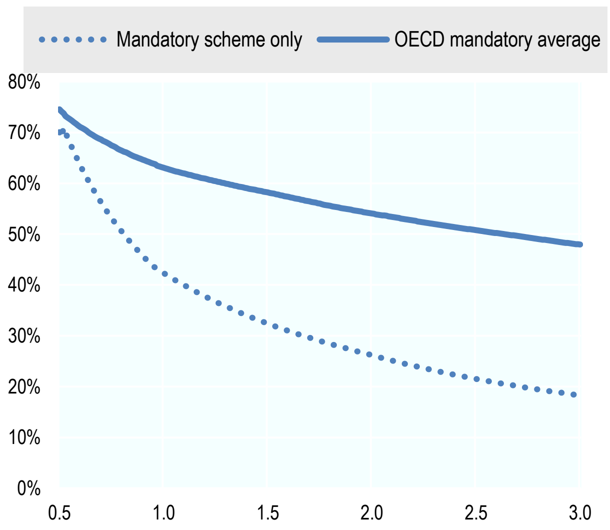
	Mid-1980s	Mid-1990s	Mid-2000s	Latest available	Latest OECD	Long term	Long term OECD
Normal retirement age for a full-time career starting at the age of 22	70.0	65.0	65.0	66.0	64.2 (63.5)	68.0	66.1 (65.7)
Statutory retirement age	70.0	65.0	65.0	66.0	64.5 (63.8)	68.0	66.5 (66)
Net replacement rate, average earner						35.9 (35.9)	58.6 (57.6)
Effective contribution rate (average earner)				14.8	18.4		
Total pension spending, % of GDP	6.9	5.6	5.0	5.0	10.0		
Public pension spending, % of GDP	5.9	4.6	3.5	3.9	8.4		
Public debt, % of GDP	..	..	32	76	80		
Employment rate 55-64, %	64.9 (18.1)	59.3 (19.5)	65.4 (37.7)	69.1 (52.0)	68.5 (54.8)		
Labour-market exit age	66.1 (67.5)	63.2 (64.5)	65.3 (65.4)	65.6 (64.1)	65.4 (63.7)		
Old-age poverty rate, %			18.0	6.0	13.5		
Life expectancy at 65, years	13.0 (16.6)	14.0 (17.6)	17.0 (20.1)	19.2 (21.4)	18.1 (21.3)	23.3 (25.1)	22.5 (25.2)
Old-age to working-age ratio	0.21	0.20	0.17	0.25	0.31	0.51	0.58
Fertility rate	2.3	1.9	2.0	1.8	1.7	1.7	1.7

Note. The figures for women appear in parenthesis where they differ from those for men.
Long term: Around 2065 based on all legislated reforms up to mid-2019.

The government outlined a Roadmap for Pensions Reform in 2018 including measures to improve both public- and private-pension components. The contributory basic pension in Ireland is calculated based on an unusual averaging of the number of contributions made over the working life. This method is inequitable because it can lead to a full pension for an uninterrupted 10-year contribution period while providing a partial benefit for a bigger number of contributions that include significant gaps. The Roadmap proposes to reform the contributory basic pension to account for the total number of contributions and ensure that the benefit is proportional to the contribution period with a target for the full pension of 34% of average earnings for 40 years of contributions, still however well below the OECD average. It is also proposed to link the retirement age to life expectancy after 2035 such that the length of the working life is stable relative to that of the retirement period. These measures are well in line with the recommendations made in the 2014 OECD Review of the Irish pension system. In particular, using the total contribution period to compute the basic pension would improve both transparency and equity. In terms of retirement-income adequacy, care should be taken to avoid reducing average benefits relative to average wages, as this ratio is already low according to the latest EC Ageing Report.

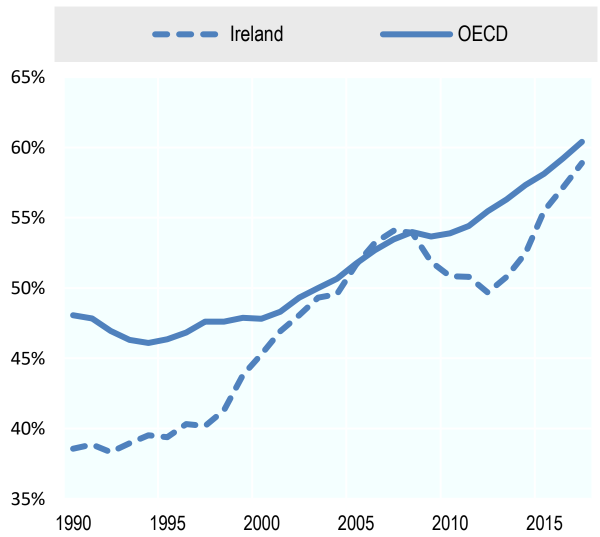
Additional saving mechanisms are required to improve the adequacy of pensions in retirement. Compulsion is the least costly and most effective approach to increase coverage of private pensions. The Roadmap includes a proposal to introduce a new auto-enrolment savings system – a second-best option - from 2022 with an initial contribution of 1% from both employees and employers. This would increase by one percentage point per year reaching 6% in 2027, all subject to an earnings ceiling around twice the national average, with the State matching the employees' contribution by one-third. One might question whether the matching part by the State should extend to such high earnings levels and whether public subsidies should be better targeted. Strawman (high-level draft) proposals published in November 2018 include the creation of a Central Processing Agency responsible for contracting and licencing a small number of auto-enrolment providers. Moreover, the employee (rather than the employer) would select the pension provider. However, not all groups will be included under the current Roadmap. The self-employed, those earning under EUR 20 000 per year (around 60% of the average) and those aged under 23 or over 60 will simply be allowed to opt in. Opportunity should be taken to integrate civil servants in the new scheme and align public-service and private-sector pensions. The private-pension framework in Ireland is deeply fragmented as it includes a large number of very small funds. The Roadmap also highlights the need to improve governance and regulations in particular to lower costs by consolidating the number of pension saving vehicles.

Long-term net replacement rates (%), by earnings level



Source: OECD pension models.

Employment rate for those aged 55-64



Source: OECD Employment Outlook.

The reform of the contributory basic pension should be used to better integrate non-contributory and contributory components. The levels of the non-contributory means-tested benefit and the full contributory basic pensions are currently very close in Ireland at 32% and 34% of the average wage, respectively. This seriously weakens the incentives to contribute. The current proposal based on proportionality of the contributory basic pension to the total contributory period might even bring a large share of benefits below the means-tested level. Better coordination of these schemes is crucial for example by making the basic pension a complement to the non-contributory benefit, and withdrawing smoothly through a clawback rate of less than 50%.

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