“The role of taxation in pensions – actual national practices“

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Private pension provision in Ireland

- Ireland encourages private pension provision to supplement the basic State pension
- Marginal rate relief on contributions to pension saving as part of an EET system
- Exempt contributions, Exempt fund growth, Taxation of benefits paid
- Not pure EET though!
- About 50% of workforce have private pension cover
## Supplementary Pension coverage

<table>
<thead>
<tr>
<th>Pension Arrangement</th>
<th>Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defined Contribution Occupational Schemes</td>
<td>239,000</td>
</tr>
<tr>
<td>Defined Benefit Occupational Schemes (funded)</td>
<td>197,000</td>
</tr>
<tr>
<td>Defined Benefit Occupational Schemes (unfunded)</td>
<td>335,500</td>
</tr>
<tr>
<td>Non-occupational pension arrangements</td>
<td>200,000</td>
</tr>
</tbody>
</table>
Major recent changes in tax incentive regime for pensions

- More changes in the 7 years since 2005 than in the previous 30 years.
- Findings of a 2005 review of tax reliefs for pension provision.
- Among higher earners, tax reliefs used as a form of wealth management and estate planning.
- One result of 2005 review – introduction of the maximum allowable pension fund at retirement for tax purposes (the Standard Fund Threshold)
Major recent changes in tax incentive regime - continued

- Changes made for fiscal/cost saving reasons since Ireland’s entry into EU/IMF agreement:
  - Removal of relief from social insurance and social charges for employee pension contributions. (income tax relief remains)
  - Reduction in the capital value of the Standard Fund Threshold to €2.3m
  - Significant reduction in earnings limit for determining (with age-related limits) annual tax-exempt contributions to pensions
  - Lifetime limit on tax-free retirement lump sum of €200,000
EU/IMF Agreement

- 2010 Agreement with EU/IMF - implicit commitment to reduce tax relief on pension contributions from the marginal rate (as high as 41%) to the standard rate (20%) over the period 2011-2014 as part of fiscal consolidation.
- Authorities recognised the potential impact of a move in this direction on the incentive to save for retirement
- Consultations with pensions sector on possible alternatives to standard rating of tax relief to achieve similar savings
- Rate of tax relief vs. cap on tax subsidies to pension arrangements delivering income of more than €60,000pa
Budget 2013

- Minister for Finance announced the following in his Budget 2013 statement:
  - “...the necessary arrangements to...effectively cap taxpayers’ subsidies for pension schemes that deliver income of more than €60,000 per annum will be out in place in 2014.”
  - “Tax relief on pension contributions will continue at the marginal rate of tax”
Extension of supplementary pension coverage to those without

- Half of Irish workforce (c. 1 million individuals) make no private pension provision.
- In the absence of other savings/investments, they will rely on the State pension for an income stream in retirement (State Pension Contributory is €11,976 max per annum)
National Pensions Framework 2010

- A long-term pension policy framework published by the previous Government.
- Framework briefly considered reasons why certain individuals don’t save for retirement (inertia, lack of transparency, affordability)
- Recommended auto-enrolment scheme for employees not in pension schemes (when economic circumstances permit!)
OECD review of long term pension policy

- Minister for Social Protection asked the OECD last year to carry out a review of long term pension policy in Ireland
- Review is likely to cover, among other things, current policy on State pension provision and the incentive regime for private pension provision.
- Report of the review expected in the coming months