

9 December, 2018

Pension tax relief must remain unchanged under Pension Reform to avoid impoverishment for middle income earners in retirement – particularly the private sector

Average public sector pension is 80% higher than private sector –at €25k p.a. vs €14k p.a.*

*****Average public sector worker receives 9~ times more pension tax relief than their private sector counterpart**

Standard Life is concerned that Pension Reform policy under consideration by government will be financially detrimental to middle income workers unless income tax relief at 40% remains in place.

It recently submitted its recommendations on how best to improve pension coverage and adequacy for the poorly provisioned private sector. The Interdepartmental Pensions Reform and Taxation Group is expected to report on their findings by year end.

“The suggestions from government that halving income tax relief for middle income earners to 20% or reducing it to 25% would somehow lead to greater coverage/adequacy or no change to current pension saving rates are profoundly flawed. We anticipate the exact opposite – i.e. a mass exodus of those who consider reduced pension tax benefits unattractive and reduce their pension saving accordingly,” said Michael McKenna, Managing Director, Standard Life.

It will cost higher rate taxpayers (from €34,550 p.a. for a single person to €43,550 for a married couple on one income) more money per month to save the same amount if tax relief is cut. For example a €330 monthly pension contribution will mean an extra €50# missing from their pay packet each month. Over a year this amounts to €600 and over a recommended 30 years (minimum) saving into a pension it's a chunky €18,000.

This will affect both private and public sector workers paying higher rate tax. “It's important to note higher rate taxpayers does not mean high earners.” said McKenna. “We know the vast majority of people benefiting from 40% tax relief are middle income earners. The squeezed middle might feel this is a bridge too far following the post financial crash hardships endured,” he said.

Average public sector pension is over 70% higher at €25k p.a. vs €14k p.a.*

The average public sector pension is approximately €25,000 p.a.* which is 74% more than the equivalent private sector pension of €14,400 p.a.**

“It has been well documented that just roughly a third of the private sector owns a pension and a poor one at that ,whilst virtually all ###of the public sector have pensions most private sector workers can only dream of,” said McKenna.

“At current rates of pensions tax relief, private sector pension savings are already deeply inadequate, not solely due to affordability but also because most people do not understand how big a pot they need to save and the value of tax relief on their pension contributions,” said McKenna. “People need to be encouraged via education and incentivised via tax relief to save for their golden years.”

McKenna believes that if tax relief is slashed the government and policymakers will sanction the continued relative impoverishment of the private sector vis a vis their public sector counterparts.

Private sector taxpayers contribute to the cost of all public sector defined benefit pensions through general taxation in addition to trying to fund their own pensions. The funding of these defined benefit schemes by those who will never benefit from them is typically omitted from any government pensions cost analysis and seems unfair to private sector workers.

Harder to qualify for full state pension for private sector workers

“The revised proposed state pension which will take 40 years to qualify for instead of ten years in certain cases, will make it even harder for the private sector worker (particularly those who are older, worked in the UK etc.) to qualify for the full state pension of €12,700 per year in the future,” said Michael McKenna, Managing Director, Standard Life.

- Additional private pension saving will be even more important going forward as fewer of the private sector will qualify for a full state pension and will need to replace this lost income.
- Policy focus has to be on incentivising, via existing if not higher tax reliefs and educating workers so that not only pension ownership increases but also pension adequacy i.e. people have enough to live on in reasonable comfort when they retire.

Pension costs: Public sector pensions cost vs private sector

“There is much debate about how to finance the cost of the state pension and private sector pensions but virtually nothing on how taxpayers will fund the relatively hefty cost of funding public sector pensions,” said McKenna.

There are approximately 1.93 million private sector workers compared with 344,000 public sector of the working population according to the CSO~. The latter represent about 15% of the working population with the private sector accounting for 85%.

- The implied cost of public sector tax relief for notional employer pension contributions is estimated at up to €1.456 bn p.a.
- The explicit cost of tax relief for public sector employee pension contributions is estimated at €1.045bn
- The explicit cost of tax relief on private sector employee pension contributions is estimated at €927mio
- The explicit cost of tax relief on private sector employer pension contributions is estimated at €698mio p.a.

All 4 bullet information sourced from: Private Pension Tax Relief report by Roma Burke and Tony Gilhawley, p.6, November 2018

The total public sector pension tax relief cost is approximately €2.5bn p.a. (€1.456bn + €1.045mio) compared with the private sector cost of €1.625bn p.a. (€698mio + €927mio).

The weighted average cost of tax relief per worker in the public sector versus the private sector is 9 times once you spread the cost amongst 1.93 million private sector workers vs the 344,000 public sector employees. See table 1 below.

“In other words the average public sector worker receives about 9~ times more pension tax relief per person than their private sector counterpart,” said McKenna.

After a life time of hard work and bearing the brunt of the tax burden in Ireland, middle income earners should have a fair chance at achieving comfort and financial dignity in retirement.

“Public policy must surely seek to be fair and equitable to all workers,” said McKenna. “Greater public debate is needed to ensure that 85% of working people are not given a truly raw deal on pensions,” he said.

Ends.

Notes for Editors

*Based on average wage for public sector Q3, 2018 of €49,800 (CSO). It assumes 50% of final salary will be paid as a pension. i.e.. €25,000 p.a. The 1.5 times tax free lumpsum of €75,000 for public sector workers has not been included in this calculation. The vast majority of public sector staff are pre 2013 employees i.e. 261,000 of the 344,000 in employment or 76%. "261,000 were recruited prior to Jan 1, 013.." Source: Private Pension Tax Relief by Roma Burke and Tony Gilhawley, November 2018.

For the private sector worker, an optimistic assumption of a full state pension has been made of €12,700 p.a. An average private pension pot of €98,650 has been assumed based on an online survey commissioned by Standard Life and conducted by Research Plus Standard Life of 1,055 adults aged 18+ from August 8 to 16, 2018. It asked: **How big is your pension pot, approximately (exclude your state pension entitlement)? Private sector only.

The tax-free lumpsum of 25% for the private sector worker has been deducted from the final pot. (€98,650 times 0.75 = €73,987 times an annuity rate of 1.78% equals €1,316 p.a. A full state pension of €12,700 + €1,316 equals €14,016 p.a. The 1.78% annuity rate allows comparison with public sector state pension which includes 50% pension for spouse on death and assumes wage inflation of 3% p.a and a retirement age of 60. Average public sector wage was €27,290 in 1998 and is €49,800 in Q2 2018 or 82% in 20 years equivalent to 3.1% p.a. Source: CSO. Public sector pensions are linked to public sector salary increases but may change to CPI at some point in the future.

*** There are c1.93m private sector workers and 344,000 public sector. See working population numbers below ~. Private sector employer and employee contributions tax relief cost an estimated at €1.625bn vs a total estimated cost of €2.5bn tax relief for the public sector including employee and employer relief.

Table 1 – Weighted average

| | | |
|---------------------------------------------------|-----------------------------|--------------------------|
| No of workers | Private sector 1,930,000 | Public sector 344,000 |
| Cost of employer & employee tax relief | €1.625bn | €2.5bn |
| Average tax relief per worker | €842 | €7,267 |
| Multiple/ratio | 1 | 8.6 |

Bolded figures sourced from: Private Pension Tax Relief report by Roma Burke and Tony Gilhawley, November 2018

Tax relief cost on private sector DB pension schemes was not available

Pension saving of €300 per month costs €341 per month gross (assuming 4% PRSI and 8% USC). If tax relief was halved to 20% this €300 pension saving would cost €441 gross. €100 is taxed at 52% or €48 rolled up to €50.

Average public sector wage of €959.09 for Q3 2018 or €49,872 p.a. (€49,872/€35.516 equals 40.4%)

<https://www.cso.ie/px/pxeirestat/Statire/SelectVarVal/saveselections.asp>

Average private sector wage of €683 for Q3 €35,516 p.a.

<https://www.cso.ie/px/pxeirestat/Statire/SelectVarVal/saveselections.asp>

###"The current pension system has resulted in pension coverage of 100% in the public sector.." Source: Private Pension Tax Relief report by Roma Burke and Tony Gilhawley, November 2018. Page 65, section 9.

~Working pop 2.27mio in total : 343,600 public sector, 1.93 private sector. Source: CSO. Q3 2018

Press Statement Labour Force Survey Quarter 3 2018

<https://www.cso.ie/en/csolatestnews/pressreleases/2018pressreleases/pressstatementlabourforcesurveyq32018/>

Labour Force Survey Quarter 3 2018

<https://www.cso.ie/en/releasesandpublications/er/lfs/labourforcesurveyquarter32018/>

For media queries contact:

Aileen Power, head of corporate communications, Standard Life (01) 639 7166 or mobile 086 850 281