

How the Irish pension system provides for current retirees

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Introduction

This note examines the data from The Irish Longitudinal Study on Ageing (TILDA)² in relation to the incomes of the current population of retirees (aged over 65). It identifies the core determinants of these current incomes and suggests the policy implications that these results hold.

Supplementary pension coverage varies significantly among the current working population. For both men and women the most persistent and statistically significant findings are that those who own their own home, live in larger urban areas such as Dublin, work in non-manual positions in large firms or the public sector and have third level education are the most likely to have supplementary pension arrangements.

Therefore, measures to promote supplementary pension coverage should focus on the self-employed, those working in small firms and those with non-continuous work patterns. As women in particular are disproportionately represented in the workforce with low earnings and non-continuous labour market participation patterns focusing measures on increasing supplementary pension coverage among this group could be particularly effective in promoting pension coverage.

Background

The Irish pension system:

The Irish pension system can be divided into three pillars: State welfare pensions, occupational pensions and private pensions. The State provides flat-rate welfare pensions, the aim of which is to act as a safety net to keep retirees' incomes from falling below a certain threshold. State pensions are the most important source of income among older people in Ireland and make up around two-thirds of gross income for those aged 65 and over with around 26% depending on state transfers as their sole source of income. Irish State pensions are either contributory or non-contributory. Entitlements to the first of these are built up over the career of an individual through the accumulation of Pay-Related Social Insurance (PRSI) contributions and credits. The maximum contributory pension payable in 2010 when the majority of TILDA data was collected was €230.30 per week. The non-contributory pension, which is means-tested, was capped at €219 per week (Department of Social Protection, 2010).

Occupational and private pensions make up the remaining two pillars. Occupational pensions are common in the public sector and in large private sector firms. Private pension schemes make up the third pillar of the Irish system. Private pension schemes are voluntary and include Retirement Annuity

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² Nivakoski, S., & Barrett, A. (2012). Supplementary Pensions and the Income of Ireland's Retirees. Further information on TILDA is at <http://tilda.tcd.ie/>

Contracts (RACs), which are commonly used by the self-employed, and Personal Retirement Savings Accounts (PRSAs), which were introduced in 2002.

The levels and compositions of Irish retirees' pension incomes

Current composition of pensions in Ireland are broken down by gender in Table 1. The mean weekly pension income of men in the sample is €397, 58% higher than the average pension income of women – €252. The largest share of total income for men comes from occupational pensions, 45 per cent of total income on average. Conversely for women, the largest share of total income comes from contributory State welfare pensions at 49 per cent of total income on average. State welfare pension has a high coverage with 86 per cent of men and 74 per cent of women receiving a State welfare pension. Men have a higher coverage rate for the contributory State welfare pension, while a higher percentage of women receive the means-tested non-contributory State welfare pension. Overall, 45 per cent of all retirees receive income from a supplementary pension, either occupational or private. Of this percentage 46 per cent of men and 33 per cent of women have occupational pensions, while only 5 per cent of men and 4 per cent of women have private pensions. One in ten men and one in seven women report receiving income from social welfare payments, other than pensions.

For low income individuals State welfare pensions play an important role. On average, for retirees whose income is less than €250 per week, State welfare pensions constitute more than 90 per cent of total income. Conversely for retirees with higher incomes, supplementary (mainly occupational) pensions are more important, with supplementary pensions making up over 80 per cent of total income for high income retirees whose income is more than €750 per week.

Length of working history is also important. Retirees with long working histories – between 35 and 45 years – are able to accumulate more substantial retirement wealth by contributing into supplementary pension funds. However, retirees with working histories of 50 years or longer have lower average retirement income levels, which may be due to the lower education levels within this group compared to those who have shorter work histories, i.e. 7 per cent of retirees who have worked for 50 years or more have third level education, compared to 16 per cent of retirees who have worked for less than 50 years.

This relationship seems logical as retirees with primary level education (or less) have weekly retirement incomes of €277 per week on average, while those with third level degrees or higher have weekly incomes of €589 on average. Retiree income levels and composition also vary across employment sector. The income of retirees whose last employment prior to retirement was in the public sector is 54 per cent higher than the income of those retirees who worked in the private sector on average. On average public sector retirees hold occupational pensions that make up more than half of their total income while former private sector retirees receive less than a quarter of their total retirement income from occupational pensions.

Table 1: Pension Income Sources					
Men	1st income quartile	2nd income quartile	3rd income quartile	4th income quartile	Total
a) Percentage of individuals receive					
Contributory State welfare pension	59.6	80.6	79.3	72.0	70.7
Non-contributory State welfare pension	27.9	15.9	6.5	3.7	15.6
Occupational pension	6.0	35.8	74.1	96.1	46.1
Private pension	2.8	3.8	9.0	7.3	5.4
Social welfare	10.5	10.2	11.3	7.4	10.1
b) Mean individual income, EURO per week					
Contributory State welfare pension	122.9 (107.5)	185.0 (95.1)	201.0 (120.9)	176.4 (139.4)	164.0 (120.5)
Non-contributory State welfare pension	53.7 (90.9)	36.7 (85.2)	15.1 (62.6)	9.2 (47.2)	32.2 (78.4)
Occupational pension	5.5 (28.1)	20.5 (50.1)	143.8 (144.7)	691.7 (504.9)	177.7 (351.0)
Private pension	2.2 (16.2)	0.9 (4.8)	13.1 (51.4)	54.7 (277.1)	15.0 (127.1)
Social welfare	6.0 (30.2)	4.1 (20.5)	10.0 (41.5)	6.0 (30.4)	6.7 (32.3)
Women	1st income quartile	2nd income quartile	3rd income quartile	4th income quartile	Total
a) Percentage of individuals receive					
Contributory State welfare pension	16.3	75.6	73.8	60.7	56.4
Non-contributory State welfare pension	20.9	22.9	16.3	5.5	17.6
Occupational pension	24.7	3.0	33.9	91.4	32.6
Private pension	1.5	0.8	9.1	4.8	3.6
Social welfare	24.3	2.8	18.4	13.6	14.2
b) Mean individual income, EURO per week					
Contributory State welfare pension	23.1 (54.2)	169.1 (97.6)	171.7 (105.4)	132.1 (121.1)	123.2 (133.8)
Non-contributory	31.2 (65.1)	48.7 (90.8)	38.1 (87.8)	9.5 (42.7)	34.1 (77.4)

State welfare pension					
Occupational pension	18.9 (43.1)	2.0 (17.5)	32.8 (69.4)	377.6 (258.3)	84.7 (185.5)
Private pension	0.7 (7.0)	0.0 (0.1)	2.8 (11.5)	4.8 (27.0)	1.8 (13.6)
Social welfare	15.6 (40.0)	4.1 (28.3)	12.3 (40.8)	13.7 (54.0)	10.9 (40.4)
Note: Parts (a) show the percentages of the men and women who receive income from the listed sources by total income quartile, and for the total sample. Parts (b) show the means and the standard deviations (in parentheses) of the weekly EURO amounts received, unconditional on receiving income from that source.					

An examination of current supplementary pension coverage:

Table 2 presents the percentages of individuals belonging to different individual socio-economic and work history indicator groups, and the supplementary pension coverage rates observed in these groups.

Table 2: Summary statistics of individual socio-economic and work history variables by gender

		Percentage in category		Percentage with supplementary pension	
		Male (%)	Female (%)	Male (%)	Female (%)
Has supplementary pension	Yes	50.88	35.25		
	No	49.12	64.75		
Age	65-69	31.16	31.37	56.43	38.18
	70-74	28.76	24.88	49.85	34.99
	75-79	20.72	24.50	51.18	28.25
	80-84	12.20	12.02	42.26	35.10
	85+	7.16	7.22	44.75	47.35
Number of children	0	19.08	20.41	35.21	42.09
	1-2	22.36	24.35	52.70	31.91
	3-4	36.39	35.80	58.57	33.10
	5+	22.17	19.43	50.87	36.18
Married	Yes	66.47	44.19	55.61	31.74
	No	33.53	55.81	41.52	38.02
Education	None/primary	58.94	48.08	25.27	25.27
	Secondary	29.45	35.76	34.03	34.03

	Third level	11.62	16.16	67.34	67.34
Poor as child	Yes	30.15	22.70	49.22	28.66
	No	69.85	77.30	51.45	37.18
Owns home	Yes	68.95	67.08	56.13	37.45
	No	31.05	32.92	39.24	30.74
Years worked	0-9	*	*	*	*
	10-19	0.20	19.49	*	24.71
	20-29	1.97	17.04	37.09	32.05
	30-39	11.57	23.15	54.28	46.32
	40+	86.27	40.32	51.40	37.04
Tenure (years)	0-9	16.87	28.64	37.26	25.26
	10-19	18.65	33.14	44.85	32.75
	20-29	15.30	17.97	59.90	46.33
	30-39	20.66	11.91	74.72	44.73
	40+	28.52	8.34	44.10	51.37
Health	Poor	6.76	6.42	41.36	31.34
	Fair	22.26	24.56	44.16	24.26
	Good	36.62	35.81	50.27	38.29
	Very good	24.42	22.52	54.73	41.11
	Excellent	9.94	10.70	65.22	40.26
Location	Dublin	23.39	30.29	72.52	43.69
	Town	29.32	32.18	54.04	27.87
	Rural	47.29	37.53	38.57	34.75

Table 3 presents the same statistics for job type characteristics. The coverage rates for supplementary pension plans are highly differentiated depending on individual characteristics. On average, the women in the sample are more educated, have shorter job tenures, less likely to live in rural areas, more likely to have worked part-time, less likely to have professional or managerial jobs and are less likely to have supplementary pensions (35.3 versus 50.9 per cent).

Table 3: Summary statistics of job type variables by gender

		Percentage in category		Percentage with supplementary pension	
		Male (%)	Female (%)	Male (%)	Female (%)
Part-time	Yes	6.08	36.49	45.07	29.30
	No	93.92	63.51	51.71	38.93
Firm size (employees)	1-5	32.81	30.42	24.40	16.45
	6-15	13.41	17.12	45.80	30.71
	16-24	7.73	9.35	56.68	35.09
	25-199	23.21	22.68	66.73	41.24
	200-499	9.36	8.71	70.41	58.87
	500+	12.12	9.73	83.42	70.85
Occupation	Unskilled/unknown	13.32	16.18	77.60	51.43
	Professional	4.37	1.24	81.24	52.99
	Managerial	18.73	26.17	61.51	37.48
	Non-manual	9.95	23.56	39.66	17.83
	Skilled manual	22.88	12.36	57.90	25.49
	Semi-skilled	18.10	17.13	13.10	20.21
	Farmer	12.67	3.35	37.18	28.78
Sector of employment	Public	24.73	32.90	83.14	60.65
	Private	75.27	67.10	40.15	22.77

The factors that affect the probability of a retired individual receiving income from a supplementary pension:

What factors are associated with the existence of supplementary pensions? The data is presented in tables 4 and 5.

The higher the level of education the more likely it is that an individual will have a supplementary pension. Likewise, there is a positive relationship between home ownership and supplementary pension coverage, with this effect most significant for men. Years worked is a statistically significant determinant of supplementary pension coverage for women but not for men.

For both men and women higher levels of health and location in Dublin versus smaller towns or rural areas are also statistically significant determinants of supplementary pension coverage. Being married

has a positive significant effect on the probability of having a supplementary pension for men, conversely for women being married has a negative effect although this is not statistically significant.

For men and women job tenure is significant in explaining supplementary pension coverage. It is likely that this is because the length of time with the same employer is a key determinant of pension coverage rather than the total number of years spent in work, because the latter can be non-continuous. Retirees can be expected to further prepare for their retirement the further they are in their working careers, hence length of job tenure in the last employment before retirement is likely to have a significant impact on pension saving behaviours as individuals prepare for retirement.

It may also be possible to attribute the significance of job tenure to reverse causality, individuals may not acquire a pension due to a long-term employment contract but rather may remain in the same job, long term, due to generous pension entitlements, especially in the later stages of their career.

Job characteristics can be statistically significant determinants of supplementary pension coverage. The probability of an individual receiving income from a supplementary pension is much higher for larger firm size (firm size of 1-5 employees being the reference category). With this probability increasing as firm size increases this is most likely the result of economies of scale in pension provision experienced by larger firms. The probability of an individual receiving income from a supplementary pension is much higher for those in managerial, professional and non-manual occupations, compared with the reference category of unskilled or unknown occupations.

The probability of an individual receiving income from a supplementary pension is much higher for those in public sector employment than private sector employment. On the whole, for men, tenure seems to matter more than years of experience with this relationship further strengthened when we control for firm size, occupation and public sector. Alternatively, for women, once firm size, occupation and public sector are controlled for, tenure ceases to feature as a determinant of supplementary pension coverage, however, years worked remains statistically significant. These differences between men and women may suggest that for both men and women very different processes are at work where determinants of supplementary pension coverage are considered, the larger importance of tenure in the case of men could be related to staff retention objectives on the part of employers and the choice by certain men to remain with employers who offered pension benefits, while the significance of experience for women points to the importance of the total number of years spent in work in determining supplementary pension coverage.

Table 4: Probit model of supplementary pension coverage for men. Dependent variable is equal to 1 if the individual has income from a supplementary pension, zero otherwise

	1		2		3		4	
	Marg. Eff.	t-value	Marg. Eff.	t-value	Marg. Eff.	t-value	Marg. Eff.	t-value
Age	-0.00010	-0.03	-0.00045	-0.15			-0.00121	-0.35
Number of children	0.01048	1.26	0.00968	1.15			0.01187	1.32
Married	0.09929	2.60	0.09707	2.54			0.08283	1.95
Education (reference - none/primary)								
Secondary	0.16123	4.47	0.15007	4.10			0.11646	2.73
Third level	0.32117	8.05	0.31834	7.81			0.20394	3.42
Poor as child	0.02572	0.64	0.03524	0.84			0.02452	0.56
Owns home	0.15811	4.19	0.13163	3.41			0.11868	3.03
Years worked	0.00220	0.13	0.00332	0.19			0.00142	0.07
Squared years worked	-0.00009	-0.46	-0.00008	-0.42			0.00001	0.06
Tenure			0.03413	6.85			0.02545	4.63
Squared tenure			-0.00059	-6.43			-0.00040	-3.88
Health	0.04244	2.70	0.04434	2.72			0.03091	1.72
Location (reference - Dublin)								
Town	-0.18704	-3.68	-0.18969	-3.65			-0.19806	-3.49
Rural	-0.32077	-7.39	-0.30193	-6.58			-0.18567	-3.41
Part-time					-0.07263	-0.89	-0.00840	-0.09
Firm size (reference - 1-5)								
6-15					0.15922	2.94	0.17643	3.28
16-24					0.21456	3.66	0.23008	3.83
25-199					0.31232	7.46	0.30170	6.88
200-499					0.32278	6.59	0.31067	6.31

500+						0.40216	10.38	0.37796	8.77
Occupation (reference - unskilled)									
Professional						0.30565	4.91	0.15517	1.63
Managerial						0.41126	9.78	0.27751	4.61
Non-manual						0.24848	3.94	0.10682	1.33
Skilled manual						0.08302	1.35	0.01556	0.23
Semi-skilled						0.18052	3.02	0.12265	1.81
Farmer						0.04285	0.53	-0.00091	-0.01
Public sector						0.34113	8.91	0.33569	8.64
No. of observations		1,046	1,046	1,046	1,046				
F-statistic		F(12,450)=15.69	F(14,488)=15.39	F(13,449)=21.76	F(27, 435)=11.53				

Table 5: Probit model of supplementary pension coverage for women. Dependent variable is equal to 1 if the individual has income from a supplementary pension, zero otherwise

	1		2		3		4	
	Marg. Eff.	t-value	Marg. Eff.	t-value	Marg. Eff.	t-value	Marg. Eff.	t-value
Age	0.00525	1.38	0.00467	1.20			0.00639	1.61
Number of children	0.01434	1.31	0.01122	1.01			0.02563	2.10
Married	-0.09936	-2.09	-0.09354	-1.96			-0.09722	-1.91
Education (reference - none/primary)								
Secondary	0.11043	2.25	0.09889	2.01			0.03642	0.61
Third level	0.39601	8.21	0.37782	7.55			0.18953	2.59
Poor as child	-0.01311	-0.24	0.00864	0.15			-0.00515	-0.09
Owns home	0.01443	0.29	0.02467	0.50			0.02447	0.47
Years worked	0.02561	2.84	0.01647	1.79			0.01915	1.95

Squared years worked		-0.00034	-2.54	-0.00025	-1.80			-0.00026	-1.82
Tenure				0.02075	2.96			0.00909	1.13
Squared tenure				-0.00031	-2.09			-0.00007	-0.44
Health		0.03050	1.53	0.03460	1.75			0.02470	1.15
Location (reference - Dublin)									
Town		-0.14352	-2.77	-0.14557	-2.84			-0.15488	-2.65
Rural		-0.06345	-1.19	-0.06422	-1.21			-0.00351	-0.06
Part-time						-0.02862	-0.62	-0.02197	-0.43
Firm size (reference - 1-5)									
6-15						0.12559	1.73	0.16299	1.99
16-24						0.13327	1.54	0.14975	1.52
25-199						0.24166	3.41	0.26791	3.47
200-499						0.41402	4.74	0.42622	4.58
500+						0.47990	6.55	0.47824	5.83
Occupation (reference - unskilled)									
Professional						0.30571	1.77	0.12664	0.62
Managerial						0.26945	3.59	0.17999	1.90
Non-manual						0.16754	2.04	0.14681	1.55
Skilled manual						-0.03400	-0.39	-0.02122	-0.21
Semi-skilled						0.01053	0.12	0.01085	0.12
Farmer						0.27778	1.64	0.02543	0.14
Public sector						0.29613	6.03	0.27401	5.30
No. of observations		618		618		618		618	

F-statistic		F(12,353)=7.84	F(14,351)=7.52	F(13, 352)=8.96	F(27,338)=6.17
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Policy impacts of these results:

Supplementary pension coverage varies significantly among the current working population. For both men and women the most persistent and statistically significant findings are that those who own their own home, live in larger urban areas such as Dublin, work in non-manual positions in large firms or the public sector and have third level education are the most likely to have supplementary pension arrangements.

Therefore, measures to promote supplementary pension coverage should focus on the self-employed, those working in small firms and those with non-continuous work patterns. As women in particular are disproportionately represented in the workforce with low earnings and non-continuous labour market participation patterns focusing measures on increasing supplementary pension coverage among this group could be particularly effective in promoting pension coverage.