7.

The Case for a Universal State Pension: Lessons from New Zealand for Ireland's Green Paper on Pensions [1]

Gerard Hughes

"Fundamentally, what is needed is the basing of the pensions to be provided in a national system on the concept that pension is in replacement of lost income or earnings and should, therefore, be related to the level of such income or earnings."

A National Income-Related Pension Scheme:
A Discussion Document
Ireland, 1976

"What can you expect from the State in your old age?"
"Security in retirement is the least that citizens should expect from their government in a civilised, developed country. It is also the most they should expect. It is not the function of the government to maintain in retirement, the incomes that people earned during working life. That is up to the individual."

Dr. Cullen's Casebook:
News and happenings from the
Office of Hon. Michael Cullen, April 2001

[1] I am grateful to Susan St John, Michael Littlewood and David Feslier for supplying information about New Zealand's pension system and to Peter Connell, Tony McCashin and Jim Stewart of the Pension Policy Research Group, Trinity College Dublin, for helpful discussions on how to reform Ireland's pension system.

Introduction

For many years CORI Justice has argued for the introduction of a basic income system which would reform and integrate the present income tax and social welfare systems. A big step that could be taken towards a basic income system would be to provide a universal State pension based on residence for everyone aged 65 and over. This option is considered in the Green Paper on Pensions. The Green Paper acknowledges that a universal pension would provide an individualised standard payment to all pensioners satisfying the residence condition, make possible an equitable payment to those who worked inside and outside the home, deal with the many anomalies that exist in the Social Welfare system in relation to average contribution conditions and the differential between contributory and non-contributory pensions, largely eliminate means testing and special schemes such as the Homemaker's Scheme, and be simple to administer.

Despite these advantages, the Green Paper argues that a universal State pension would be contrary to entitlement based on participation in the labour market and would involve significant extra costs. Clearly the introduction of a universal pension would require a shift from entitlement based on labour force participation to entitlement based on citizenship but that does not mean there would be a significant increase in cost if the narrow definition adopted in the Green paper were broadened to encompass the cost to the Exchequer of tax expenditure on the private pension system.

Members of the Pension Policy Research Group at Trinity College Dublin have argued the case for adopting this broader approach to pensions policy and learning from the experience of the only country in the OECD, New Zealand, which has introduced a universal State pension and abolished all tax reliefs for saving for retirement (see Hughes, (2005), McCashin (2005) and Stewart (2005)).

New Zealand's experience suggests that a more radical approach to pension reform than that canvassed in the Green Paper could help

Ireland to solve the problem of pensioner poverty and to provide fairer treatment for the majority of taxpayers, who derive little benefit from the existing tax treatment of pension funds, while at the same time improving the long-term sustainability of the public pension system The evidence to support these claims is presented in this paper in a series of comparisons of different aspects of the performance of the public and private components of each country's pension system using the criteria of simplicity, adequacy, cost, equity, coverage, effectiveness in delivering pensions, and sustainability.

Economic and Demographic Data for Ireland and New Zealand

Ireland and New Zealand both have a population of around 4 million but the economy and per capita living standards are about 60 per cent larger in Ireland than in New Zealand (see Table 1). Home ownership rates are quite high in both countries, especially for older people. Life expectancy at age 65 in Ireland is about three years less than in New Zealand for both men and women.

Although both countries have a commitment to maintaining living standards in old age the balance between public and private provision is struck very differently in the two countries. As the epigraphs suggest, this reflects fundamentally different conceptions of the role of the State in pension provision. In Ireland there is a consensus that the role of the State is to help the social partners to develop a national pension system for *workers* whereas *i*n New Zealand there is a consensus that the role of the State is to provide security in old age for *citizens*.[2]

[2] The focus of this paper is the Irish and New Zealand pension systems during the period 1987-2007 before the introduction of the KiwiSaver scheme on 1 July 2007. KiwiSaver provides tax incentives for work-based saving and the tax exemption for employer contributions is extended to registered superannuation schemes that have lock-in provisions similar to KiwiSaver.

Table 1: Key Economic and Demographic Data for Ireland and New Zealand, 2006

Category	**Ireland**	**New Zealand**
Population (million)	4.2	4.1
GDP current prices & current PPPs, US$ (billion)	175.1	109.0
GDP per capita, current prices & PPP, US$	41,300	26,300
Home ownership rates: all households (%)	80	67
Home ownership rates: households aged 65+ (%)	90	79
Life expectancy in 2001 at age 65: male (years)	15.4	18.2
female (years)	18.7	21.9

Sources: GDP & GDP per capita, OECD in Figures. Home ownership: Ireland, Department of Social and Family Affairs (2007, p. 26); New Zealand, Census 2006, Quick Stats About Housing. Life expectancy: Ireland, Irish Life Table No. 14, 2001-2003; New Zealand, Periodic Report Group (2003, p. 18).

Reasons for Pension Reform in Ireland

The Green Paper on Pensions (see Department of Social and Family Affairs, 2007) sets out the problems that Ireland's pension system is now facing and which it is expected to face in the future. The Green Paper also sets out a range of options that could be adopted to deal with these problems. The main problems identified in the Green Paper are:

- the high level of pensioner poverty
- the low level of coverage of the private pension system and the provision of an adequate replacement income on retirement
- ageing of the population and the sustainability of the public pension system

The Green Paper does not identify the cost and unequal distribution of pension tax reliefs as a problem. This is a serious omission because the cost of these reliefs is one of the factors that threatens the long-term

sustainability of the public pension system and they are distributed in a way that allows most of their benefits to be appropriated by high earners.

The Green Paper outlines a number of options for dealing with these problems. The alternatives considered for dealing with the issue of pensioner poverty are:

- to increase the level of the Social Welfare pension;
- to introduce a universal State pension;

The options for addressing the low level of private pension coverage are:

- to grant the incentive for PRSA (Personal Retirement Savings Account) personal contributions as a matching contribution from the State of €1 for each €1 invested;
- to provide additional support for the current voluntary system by giving the tax reliefs at the highest marginal tax rate for all personal contributions
- to introduce mandatory or soft mandatory personal pension accounts

These options were originally suggested by the Pensions Board (2005). The Board appears to assume that increasing coverage of the private pension system to 70 per cent for workers aged 30 and over would ensure that supplementary pensions in combination with the social insurance pension are sufficient to replace at least 50 per cent of pre-retirement earnings.

The Green Paper is pessimistic about the possibility of increasing the level of Social Welfare pensions unless it is done in conjunction with cost saving measures such as increasing the retirement age or reducing public spending elsewhere. As already noted, it acknowledges that a universal State pension would resolve the anomalies in the existing social insurance and social assistance pension arrangements but argues that it would result in a significant increase in costs and that it would be a radical departure from the present system.

The Green Paper acknowledges that increasing private pension coverage has been difficult despite the generous tax incentives on offer. It suggests the reasons for this include “inertia, the profile of many of those entering the workforce in recent years, education and awareness, marketing, regulation, the existence of other forms of retirement provision … and the capacity of individuals to make the contributions required.” (par. 7.40) Nevertheless, it states (par. 7.41) that “Notwithstanding these factors, it is still the case that the absolute numbers of those with supplementary pension provision increased in the period 1995 to 2004 from over a half-million to one million supported by the current incentives.” Consequently it suggests that the level of supplementary pensions could be improved by increasing the tax incentives for the current voluntary approach to occupational and personal pensions and introducing a mandatory or a soft mandatory personal pension for those not covered by occupational schemes.

The Pension Systems in Ireland and New Zealand

The structure of the pension systems in the two countries reflects their different conceptions about the role of the State. Table 2 shows that the structure of the Irish pension system is relatively simple. It is based on a partnership approach between government, employers and employees. It consists of a compulsory State social insurance system which pays flat rate benefits and a voluntary private system which is subsidized through the tax system. The social insurance system provides a State Pension (Transition) at age 65 which requires withdrawal from the labour force for one year and a State Pension (Contributory) at age 66 which does not require withdrawal from the labour force. In addition there is a means-tested State Pension (Non-Contributory) for those not covered by the social insurance system. The amounts paid by the transition and contributory pensions are the same while the non-contributory pension has usually been about 10 per cent less than the social insurance pension. For convenience, these three pensions will be referred to as the Social Welfare pension where it is not necessary to distinguish between them.

Table 2: Structure of the Irish and New Zealand Pension Systems in 2006

<table>
<tr><td colspan="2">First Tier
Social Welfare Pensions:
Flat Rate</td><td colspan="2">Second Tier
Private Pensions:
Voluntary + Tax Incentives</td></tr>
<tr><td colspan="4">Ireland</td></tr>
<tr><td>Social Insurance</td><td>Social Assistance</td><td>Occupational</td><td>Personal</td></tr>
<tr><td>Age 65: State Pension (Transition)</td><td></td><td>Defined Benefit</td><td>Retirement Annuity Contract (RAC)</td></tr>
<tr><td>Age 66: State Pension (Contributory)</td><td>Age 66: State Pension (Non-Contributory)</td><td>Defined Contribution</td><td>Personal Retirement Savings Account (PRSA)</td></tr>
<tr><td colspan="4">New Zealand</td></tr>
<tr><td colspan="2">Universal Pension:
Flat Rate</td><td colspan="2">Private Pensions:
Voluntary – No Tax Incentives</td></tr>
<tr><td colspan="2"></td><td>Occupational</td><td>Personal</td></tr>
<tr><td colspan="2">New Zealand Superannuation</td><td>Defined Benefit
Defined Contribution</td><td>Retail</td></tr>
</table>

Sources: Ireland, Department of Social and Family Affairs www.dsfa.ie; New Zealand, Ministry of Social Development (2003).

The private pension system has two components: occupational pension schemes and personal pension plans. Occupational schemes are provided on a voluntary basis by employers for groups of employees. Personal pension plans are for employees who are not covered by an occupational scheme or who are not in employment. Personal plans take the form of Retirement Annnuity Contracts (RAC) for the self-employed and Personal Retirement Savings Accounts (PRSA) for everyone else.

In the past most of the pension schemes provided by employers were defined benefit plans. Consequently, they provided benefits that would have enabled employees who had spent most of their working life with

one employer to replace up to two-thirds of their pre-retirement earnings. In the last ten years or so many defined benefit schemes have been closed to new entrants and replaced by defined contribution schemes. Consequently, most employers are no longer willing to provide any undertaking about the level of occupational pension benefits for new entrants. The benefits that a member of a defined contribution scheme can expect will depend on how much is contributed to the scheme, how well the scheme is managed and the performance of stocks, shares and other assets. All of the investment risk in defined contribution schemes is borne by employees rather than employers.

The structure of the New Zealand pension system is even simpler. It consists of a universal State pension and a voluntary private system which is not subsidised through the tax system. The State pension, New Zealand Superannuation, provides flat rate benefits at age 65 to all New Zealanders living in New Zealand who satisfy the requirement of 10 years residency since the age of 20 and not less than 5 years residency since the age of 50.

The private pension system consists of occupational and personal pensions. They received no subsidies between 1987, when New Zealand became the only country in the OECD to eliminate all tax subsidies for pension saving, and 2007 when tax reliefs were introduced for KiwiSaver. Occupational pension cover is provided by defined benefit and defined contribution schemes but, as is the case in Ireland, defined benefit schemes are being replaced by defined contribution schemes. The abolition of tax reliefs for private pensions meant that, up to 2007, New Zealand had no overall budgetary cost of providing tax incentives for private pensions. However, Ireland provides the most generous subsidies for work-based retirement saving in the OECD (see Yoo and de Serres, 2004) and the budgetary cost of tax reliefs for private pensions in Ireland is now almost the same as the cost of public expenditure on the Social Welfare pension.

Although the structure of the pension system is relatively simple in both countries the system in Ireland is far more complex in operation

than it is in New Zealand. For example, the official booklets on the contributory and non-contributory State pensions require 48 pages to provide information on *entitlement* whereas the *entire* legislation on New Zealand Superannuation is contained in 16 pages.

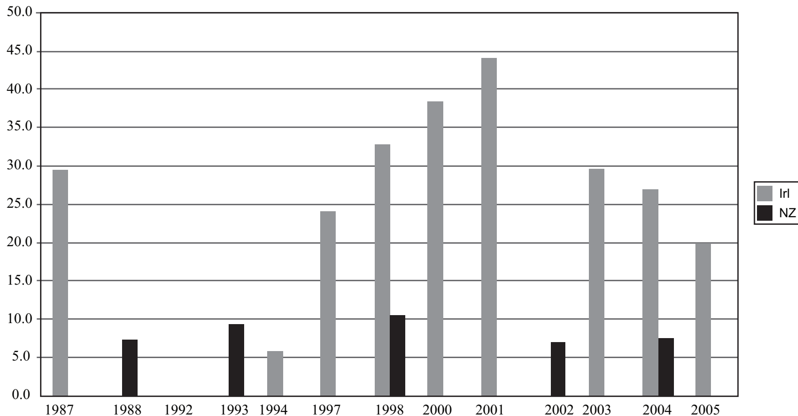
Pensioner Poverty Rates and the Level of State Pensions in Ireland and New Zealand

Despite considerable efforts in recent years to reduce poverty among pensioners by increasing the Social Welfare pension and developing the private pension system, the pensioner poverty rate in Ireland has remained stubbornly high. In stark contrast the pensioner poverty rate in New Zealand has remained at a relatively low level. Figure 1 shows that the average pensioner poverty rate in Ireland over the last twenty years or so was 29 per cent compared with an average rate of 7 per cent for New Zealand[3]. The pensioner poverty rate in Ireland was also much more variable than it was in New Zealand.

Not only has Ireland a very high rate of pensioner poverty relative to New Zealand, it also has a very high rate compared to other developed countries. Using a comparable measure of relative income poverty for all EU25 countries, Figure 2 shows that Ireland has the second highest rate of pensioner poverty in the European Union. In 2005 one-third of those aged 65 and over in Ireland were at risk of poverty using the 60 per cent line compared with an average of 19 per cent for the EU25 countries. The percentage of pensioner families in relative income poverty in New Zealand in 2003/04 was less than half the average for the EU25 group of countries. It is clear from Figure 3 that the pensioner poverty rate in New Zealand is one of the lowest recorded for the group of countries shown while the rate in Ireland is one of the highest.

[3] Although the relative poverty measure for older people used in New Zealand is for economic family units below the 60 per cent line whose main source of income is New Zealand Superannuation it should be reasonably comparable with the EU measure of relative poverty used in Ireland which is for individuals aged 65 and over.

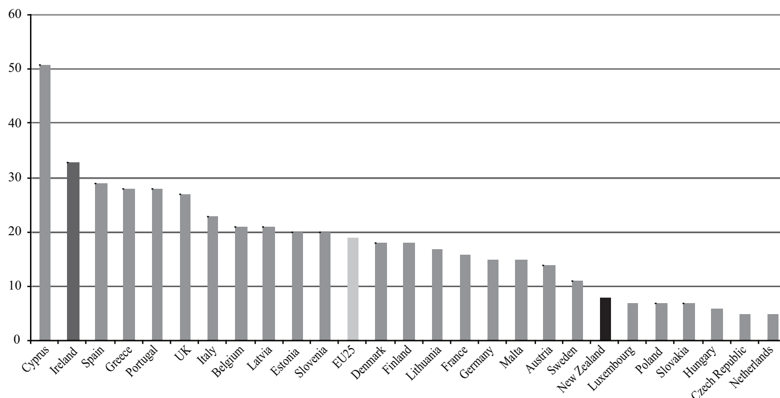
Figure 1: Pensioner Poverty Rates in Ireland and New Zealand, 1987-2005



Source: Ireland, Whelan, Layte, Maitre, Gannnon, Nolan, Watson, Williams (2003), Tables 4.13 & 4.16 and Central Statistics Office (2005), Layte, Fahey and Whelan (1999, Table 3.8); New Zealand, Ministry of Social Development (2005, Table A.1).

Note: The data for Ireland for 1987-2003 are for mean income and the 1987 figure was derived by weighting the poverty rates for heads of household aged 65-74 and 75+ by each cohort's share of the population aged 65 and over. The Irish data for 1994-2005 are for persons aged 65 and over. Although the Living in Ireland survey which supplied the data for the period 1997-2003 was replaced in 2004 by the EU Survey of Income and Living Conditions (EU-SILC) the results for 2004 and 2005 are broadly comparable with those for the earlier years, as the CSO (2005) points out. The New Zealand data are for the end of the survey year, for economic family units whose main source of income is New Zealand Superannuation and they are benchmarked to median income in 1998.

Figure 2: People Age 65 and Over Below the 60 Per Cent Risk of Poverty Line in EU25 in 2005 and in Economic Family Units Whose Main Source of Income was New Zealand Superannuation in 2003-04



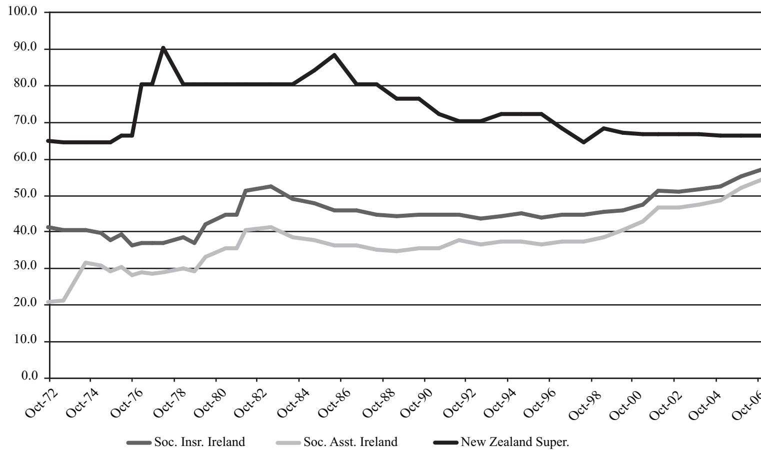
Source: Green Paper (2007, Table 4.19) and Ministry of Social Development (2005, Appendix A).

Why is the pensioner poverty rate so much lower in New Zealand than in Ireland? Figure 3 suggests that part of the answer is that New Zealand Superannuation has been set over the last twenty years at a higher level relative to average earnings than the State pensions in Ireland.[4] It also indicates that a more fixed relationship, for significant periods of time, between New Zealand Superannuation and average earnings than between State pensions and average earnings in Ireland has contributed to a more stable pensioner poverty rate in New Zealand. [5]

[4]. Although the Irish figures are on a gross basis while the New Zealand figures are on a net basis the comparison of the level of the pension for a couple relative to average earnings in the two countries should be reasonably accurate

[5] Although governments in Ireland have never committed themselves to formally indexing pensions they have maintained a close relationship with average industrial earnings since the contributory old age pension was introduced in 1961. Over the period 1961-98 the average personal rate of the contributory pension was about 25 per cent of average industrial earnings. Following a recommendation in 1998 by the Pensions Board (1998) that the personal contributory pension should be increased to 34 per cent of average industrial earnings it increased to around 30 per cent of average industrial earnings in the period 1998-2007. In 2007 it reached the 34 per cent target set in the Pensions Board report (see Hughes and Watson, 2005).

Figure 3: Pension for a Couple as Percentage of Average Industrial Earnings in Ireland and Net Rate of Pension for A Couple as a Percentage of Net Average Earnings in New Zealand (Men & Women), 1972-2006



Source: Ireland, Hughes (1985, Table A.4), Department of Social and Family Affairs, Annual Statistical Reports 1995-2000. New Zealand, St. John (2003, Figure 2.1 derived from Preston (2001)).

A big step towards providing security for citizens in old age was taken in New Zealand in 1977 when it replaced its income-tested Age Pension and Universal Superannuation with "National Superannuation" (now "New Zealand Superannuation"). This is a universal pension payable to everyone at age 65 who satisfies the residency requirements. The level of New Zealand Superannuation was initially set at 80 per cent of the net average weekly wage for a married couple, payable from age 60, compared with around 66 per cent under the previous regime (see Figure 3). As circumstances changed, the level was adjusted from time to time. For example, an Accord was agreed in 1993 between the three major political parties in New Zealand (National, Labour, Alliance). It specified that New Zealand Superannuation should be a flat rate taxable pension that, after tax, would be between 65 and 72.5 per cent of the net average wage for couples, payable from age 65. The framework agreed in the

Accord was endorsed by the first Periodic Report Group (1997) some years later. The relationship between the level of the State pension and average earnings was given legislative effect in the New Zealand Superannuation Act 2001.[6] New Zealand Superannuation is regarded as part of income for tax purposes.

Figure 3 shows that for most of the period since 1972 the level of the State pension for a couple in New Zealand has been set considerably higher relative to average living standards in the community than is the case in Ireland. As already noted, a pensioner couple in New Zealand would have received between 70 and 80 per cent of net average earnings up to the mid-1980s while in Ireland the couple would have received between 30 and 50 per cent of average industrial earnings, depending on whether their State pension income was received as of right through the social insurance system or through the means-tested social assistance system.

New Zealand Superannuation for a couple remained at a very high level until the end of the 1980s. Between then and the end of the 1990s it was gradually reduced because of concerns about its sustainability. Since then it has remained steady at around two-thirds of average earnings. The level of the social insurance pension for a couple in Ireland fluctuated around 45 per cent and the social assistance pension fluctuated around 35 per cent up to the end of the 1990s. Following a government commitment to improve pensions at the beginning of this decade, the two pensions in Ireland have slowly risen relative to average earnings towards the level achieved in New Zealand. Pensions in the two countries have now converged to a position where pensioner couples in New Zealand receive about two-thirds of average earnings and social insurance and social assistance pensioner couples in Ireland receive 57 and 54 per cent respectively of average industrial earnings.

[6] The New Zealand 2001 Act specifies that the net rate of payment for a couple should lie within a band of 65 per cent and 72.5 per cent of the net Average Ordinary Time Weekly Earnings. The rate for a single pensioner sharing accommodation is 60 per cent of the rate for a couple, or a minimum rate of a net 39 per cent of net average earnings, and 65 per cent of the rate for a couple if living alone, or a net 43.25 per cent of net average earnings.

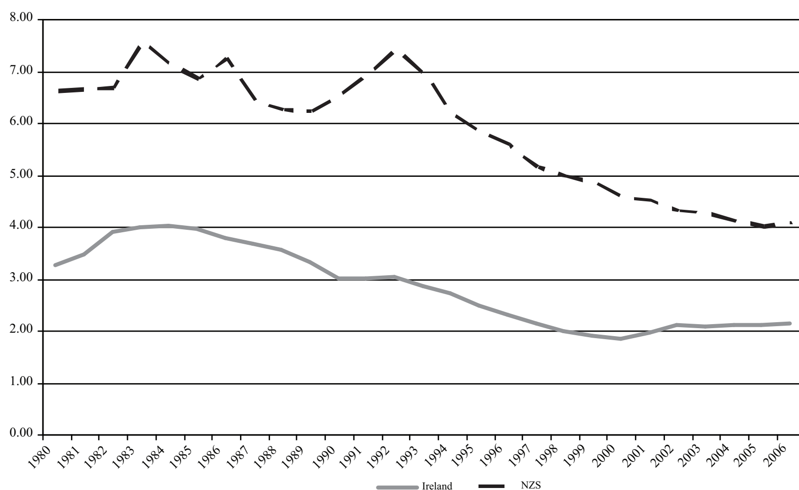
The improvement which has been made in recent years to State pension benefits relative to average earnings in Ireland have brought the State pensions to a position where it would be possible to adopt a policy of increasing them to a level that would virtually eliminate pensioner poverty as Callan, Nolan and Walsh (2007) have demonstrated. New Zealand's experience shows that this is not just a theoretical possibility. St John (2003, p. 22) points out that following the introduction of New Zealand Superannuation "problems of poverty among the aged virtually disappeared."

On its own increasing the Social Welfare pension would not resolve the complications resulting from incomplete contribution records for the social insurance pension, the means test for the social assistance pension, rules about dependency, the retirement condition required for the State Pension (Transition), and the interaction of the Social Welfare pension with private pensions which creates uncertainty about how much to save and results in the loss of private pension benefits for low paid members of some occupational defined benefit pension schemes. For example, not everyone over pension age in Ireland receives a Social Welfare pension or qualifies for the maximum payment. About 70 per cent of all those aged 65 and over receive a social insurance or a social assistance pension while adult dependant pensions are paid for a further 13 per cent (although not all of these are aged over 65). The remaining 17 per cent receive no Social Welfare pension either because they do not satisfy the contribution conditions or the means-test.

Women in Ireland are particularly disadvantaged by the State and private pension systems because they provide most of the care required by children and elderly relatives. Consequently, their work histories are more irregular than those of men and it is more difficult for women to qualify for either a State or a private pension. This is an undesirable outcome of Ireland's work based system of public pension provision which treats those who fare well in the labour market better than those who do not.

In conjunction with a significant increase in pension levels Ireland should, therefore, also consider introducing a universal State pension to eliminate the means test and differential payments to pensioners whose needs are the same, to provide security in retirement for about one-fifth of older people who currently are receiving no State pension, to address the problems which women in particular face in providing an income for old age, and to address the anomalies arising from lack of consistency between contributions paid and pensions awarded.

Figure 4: Social Insurance and Social Assistance Pensions Expenditure as Percentage of GNP in Ireland and Expenditure on New Zealand Superannuation as Percentage of GDP, 1980-2006



Source: Ireland, Hughes (1985, Table A4) and Statistical Reports of the Department of Social and Family, Affairs, 2000-2002. New Zealand, St John (2003, Figure 2.1)

New Zealand's experience shows that if Ireland were to introduce a universal pension it would require a significant increase in public expenditure relative to what Ireland is currently spending on its Social Welfare pension. Figure 4 compares the cost of direct public expenditure on pensions in the two countries over the period 1980-2006.

In 1980 New Zealand was spending about twice as much on its public pension, 6.6 per cent of GDP, as Ireland, 3.3 per cent of GNP. New Zealand maintained this high level of expenditure until the early 1990s when one of the results of the Accord was to reduce the level of expenditure from a peak of just under 7.5 per cent in 1992 to its current level of around 4 per cent. Much of the reduction was attributable to the increase in the State Pension Age from 60 to 65. Ireland's public expenditure on pensions fell back from the middle of the 1980s as the government decided to cut back on public expenditure generally in response to an increasing debt crisis. Ireland's share of GNP allocated to public pensions has now fallen to around 2 per cent, largely as a result of the economic boom experienced from the mid-1990s to 2006, and the lack of indexation of pension benefits in line with earnings.

The fact that public expenditure on pensions would have to increase significantly in Ireland if a universal pension system were introduced is one of the reasons why this option is not favoured in the Green Paper. However, the Green Paper has adopted a rather narrow view of pension costs because it has largely ignored the cost of the tax reliefs for the private pension system. When it is brought into consideration the case for a universal pension in Ireland is substantially stronger, as we shall show.

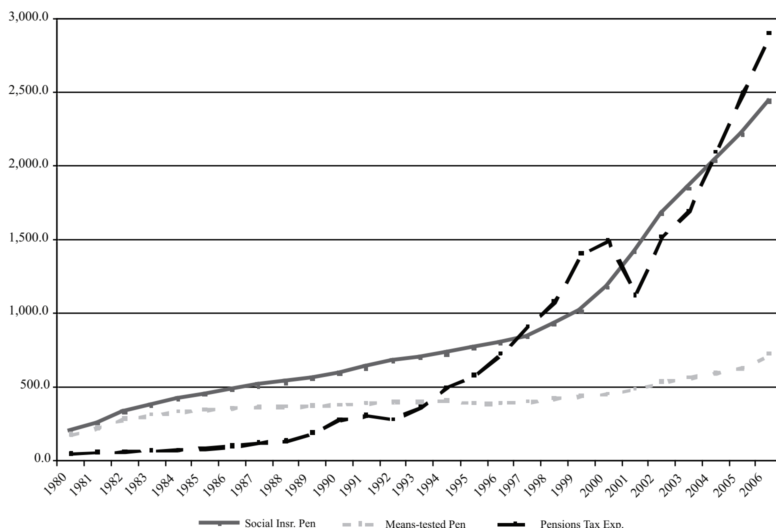
Problems of the Private Pension System

In 1987 the New Zealand government announced the abolition of all tax incentives for saving, including the tax incentives for pension saving. At that time the cost of the pension tax expenditure in New Zealand amounted to around 1.2 per cent of GDP compared to a cost of 0.4 per cent of GDP in Ireland.[7] The Irish government's policy has been to operate a very favourable tax regime for pensions in order to encourage the development of the private pension system. Figure 5 indicates that the cost of these tax reliefs was fairly modest initially but

[7] The estimate for New Zealand is derived from data in St. John and Ashton (1993, p. 24) that the cost of the pension tax forgone in 1988/89 was NZ$800 million.

it is now growing rapidly with the value of pension assets equal to €88 billion, or 60 per cent of GNP, at the end of 2006. In 1980, the earliest year for which the Revenue Commissioners estimated the cost of the tax reliefs, they amounted to around €50 million, or 26 per cent of what was spent on social insurance pensions and 28 per cent of the cost of means-tested pensions. By the early 1990s the cost of the pensions tax expenditure had built up to around half of the cost of social insurance pensions and about 90 per cent of the cost of means-tested pensions. In 2006 the cost of the tax expenditure amounted to nearly 120 per cent of the cost of social insurance pensions and nearly four times the cost of means-tested pensions.

Figure 5: Direct Expenditure on Social Insurance and Means-Tested Pensions and Tax Expenditure on Private Pensions, Ireland, 1980-2006 (€million)

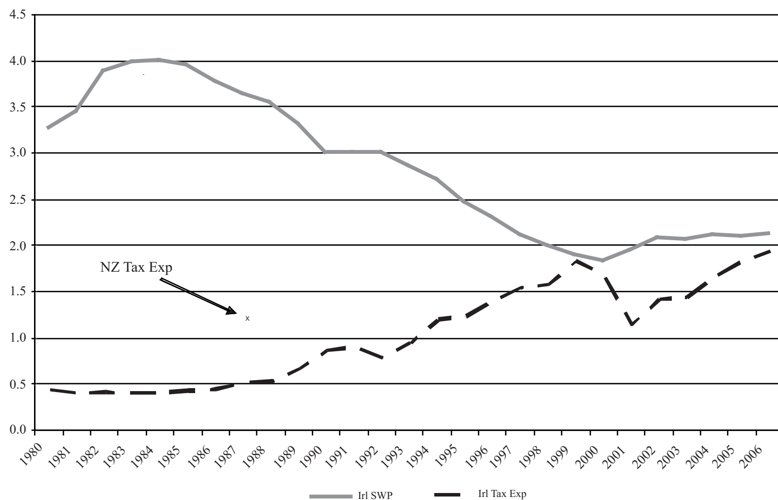


Source: Annual Statistical Reports of the Department of Social and Family Affairs and the Revenue Commissioners and Department of Social and Family Affairs (2007, Table 7.2)

Figure 6 shows the cost of public expenditure and tax expenditure on

pensions in Ireland relative to GNP over the period 1980-2006. At the beginning of the period in 1980 the cost of the Social Welfare pension was 3.3 per cent of GNP while the cost of the pension tax expenditure was 0.4 per cent of GNP. The cost of the Social Welfare pension increased to 4 per cent of GNP up to the mid-1980s while the cost of the pension tax expenditure remained around one-tenth of that, 0.4 per cent of GNP. From the mid-1980s to 2006 the cost of the Social Welfare pension fell continuously to about 2 per cent of GNP. In contrast to this downward trend the cost of the pension tax expenditure tripled to 1.7 per cent of GNP between 1986 and 2000 as the government pursued its policy of developing the private pension system. Between 2000 and 2001 the cost of the pension tax expenditure fell as a result of the collapse of the "dot com" bubble. However, it recovered quickly and it has now risen to a net cost of 1.9 per cent of GNP. The cost of Exchequer support for the public and private pension systems in Ireland is now virtually identical at around 2 per cent of GNP in each case.

Figure 6: Public Expenditure on Social Welfare Pension and Tax Expenditure on Private Pensions, Ireland 1980-2006 and Pension Tax Expenditure in New Zealand, 1987



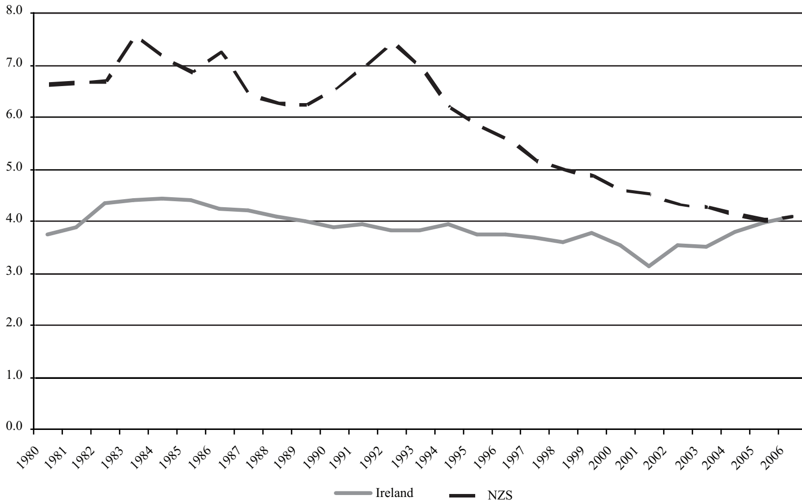
Source: As for Figure 5.

Adding the cost of the tax reliefs for private pensions in Ireland to the cost of public expenditure on pensions in Figure 7 and comparing the total with the cost of public expenditure on New Zealand Superannuation provides a different perspective on the issue of the affordability of a universal State pension in Ireland. The addition of the tax expenditure on the private pension system in Ireland indicates that the resource cost of supporting the public and private pension systems has fluctuated around 4 per cent between 1980 and 2006 while the cost of New Zealand Superannuation has fallen during this period from around 6.5 per cent to 4 per cent. This means that the State in both countries is now allocating about the same amount of national resources to pensions to support the retired population.

However, the way in which these resources are allocated to older people is very different in the two countries. Ireland allocates them partly through the public pension system and partly through the private pension system whereas New Zealand allocates all of the resources through the public system. The decision taken by the government of New Zealand in 1987 to eliminate tax reliefs for private pensions was implemented in the teeth of stiff opposition from the interest groups affected. In a presentation he gave in Dublin a few years after this announcement Roger Douglas (1989, p. 6) noted that "The benefits of protection are strongly concentrated in the hands of those who receive it. They will scream blue murder in the name of the national interest if anyone threatens their privilege."

The concentration of the tax reliefs for private pensions in New Zealand in 1986/87 is shown in Figure 8 by income group. Over half of the total benefits from the exemption from tax of personal superannuation contributions accrued to those earning NZ$30,000 or more whereas less than 6 per cent of it accrued to those earning up to NZ$16,000 per annum.

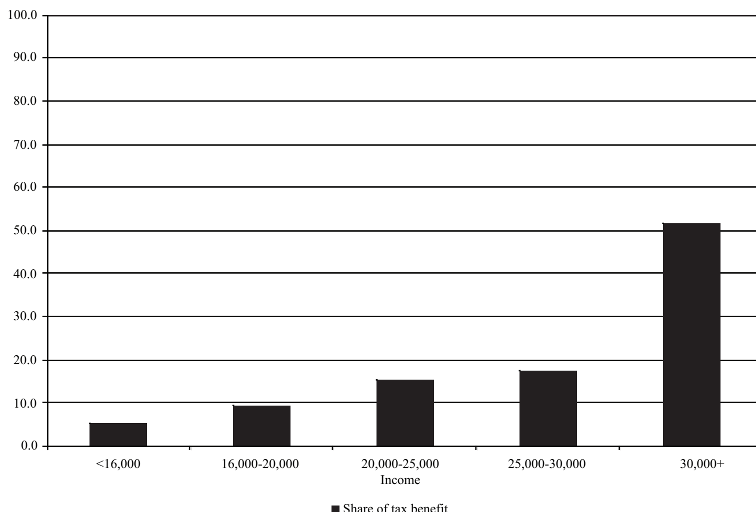
Figure 7: Expenditure on Social Welfare Pension and Pension Tax Expenditure as Percentage of GNP in Ireland and Expenditure on New Zealand Superannuation as Percentage of GDP, 1980-2006



Source: As for Figures 4 and 5.

Figure 9 shows the distribution by income quintile of the tax reliefs on self-employed and employee contributions to occupational pension funds in Ireland in the year 2000, the latest year for which estimates are available for both groups. The distribution for both groups is much the same. The bulk of the tax reliefs accrue to the top 20 per cent of earners while the bottom 20 per cent receive virtually nothing. Two-thirds of the tax reliefs for employees and three-quarters of the reliefs for the self-employed accrued to the top 20 per cent of employees and self-employed respectively with the highest incomes in the year 2000. The bottom 20 per cent of employees and of the self-employed received only 1.1 per cent and 0.2 per cent respectively of the tax reliefs. The distribution of the tax reliefs for the self-employed is more concentrated than it is for employees because the pension coverage rate for the self-employed is significantly lower than it is for employees.

Figure 8: Share of Tax Benefit from the Personal Superannuation Contribution Exemption, New Zealand 1986/87

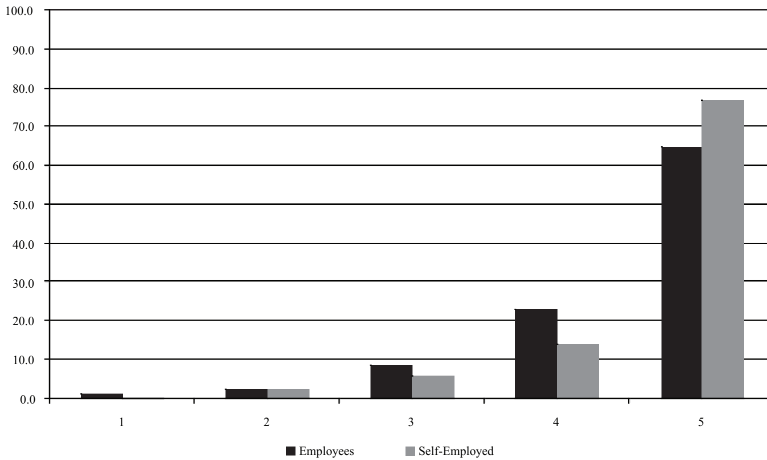


Source: New Zealand Government Printer (1987, Appendix A5.2).

The distribution of tax reliefs appears to have been more concentrated in Ireland than in New Zealand. The reason for this may be that the effective limits on employee contributions in Ireland were largely determined by the maximum pension permitted under the Revenue Commissioners rules rather than by a maximum contribution as was the case in New Zealand. In Ireland the pension benefit could not exceed two-thirds of pensionable salary so this put an upper bound on how much could be contributed although it varied with age and level of earnings. In New Zealand in 1986/87 a limit of $1,400 per annum (self-employed) and $1,200 (employees) was put on the maximum superannuation contribution that would qualify for the tax exemption but employers could contribute up to 10% of pay on a tax-favoured basis to pension schemes ($700 per employee for lump sum schemes).[8]

[8] The comparison between the concentration of the tax benefits in the two countries is hindered because the data for New Zealand refer to income groups whereas the data for Ireland refer to income quintiles and the years to which the data for the two countries refer are different.

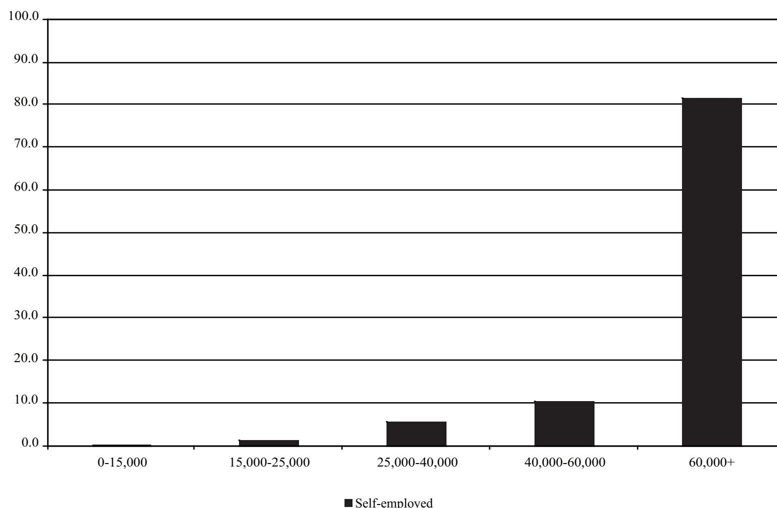
Figure 9: Distribution by Income Quintile of Pension Tax Reliefs on Employees' Contributions and Self-Employed Contributions Around 2000



Source: Hughes (2007, Figure 3.12)

Figure 10 summarises information given in the Green Paper on the distribution of pension tax reliefs for the self-employed in 2003. The distribution of pension tax reliefs for the self-employed was even more concentrated in 2003 than it was in 2000, as Figure 10 shows. The top 20 per cent of the self-employed received 82 per cent of the benefits in 2003 compared with 77 per cent in 2000. The reason for the increase in concentration may be due to the removal in the Finance Acts of 1999 and 2000 of the requirement for the self-employed to purchase an annuity on retirement. Subject to minimal restrictions, these Acts allow the self-employed, and some other categories of pensioner, to choose between investing their retirement assets in an Approved Retirement Fund (ARF) or purchasing an annuity. The Minister for Finance said that his intention in introducing the option of an ARF was to allow self-employed people, who had experience in managing their own assets while working, to manage their own assets in retirement.

Figure 10: Distribution of Tax Reliefs on Pension Contributions by the Self-employed by Quintile, 2003



Source: Estimated from data in Appendix D of the Green Paper (see Department of Social and Family Affairs, 2007)

It was expected that the ARFs would be gradually reduced in the draw down phase following retirement. This expectation has not been realised. It was discovered in a review of certain pension tax reliefs by the Department of Finance that in 2005 only around 6 per cent of ARFs were being used to provide a regular income. A further 5 per cent were used for irregular withdrawals and the remaining 89 per cent were being used by high earners as a tax advantaged savings scheme. The Department of Finance (2005, Section G, p. 22) concluded:

"The intention of the ARF legislation was to develop an alternative flexible income stream in retirement which would obviate the necessity for annuity purchase. Based on the evidence available … it appears that this is not happening. Rather it could be said that ARFs have allowed the diversion of retirement provision into simple tax-advantage savings schemes for those who do not need them to produce a regular income stream."

The Department went on to note:

> "… that for those who have the capacity to survive in retirement without the need to rely on funds invested in an ARF, our "EET" system of pension taxation is much closer to an "EEE" system where effectively no tax is paid, or if it is, it is at a low rate and far into the future."[9]

Following this review the government set the annual limit on tax relieved individual pension contributions at €254,000 and introduced a lifetime limit of €5 million on the accumulated pension fund. It also made ARFs subject to income tax as if not less than 3 per cent of the fund were drawn down each year. These limits are indexed in line with changes in average weekly earnings of industrial workers in all industries. They are estimated to affect less than 1 per cent of taxpayers[10]. The OECD (2008, Chapter 4, note 8) points out that these limits "imply large tax concessions up to a very high level of wealth compared to the average citizen."

The OECD (2008, Chapter 4, p. 90) also notes in relation to the private pension system as a whole that the tax exemption limits for those aged 65 and over mean that "a tax system that aims for pension savings, returns and income to be subject to an 'exempt-exempt-tax' (EET) regime is in effect fairly close to being an 'exempt-exempt-exempt' (EEE) system where income channelled through pensions is unlikely to be taxed at any point of the life-cycle."

The primary purposes of the pension tax reliefs in Ireland are to increase the coverage of the private pension system and to supplement the pensions provided through the Social Welfare system. New Zealand

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9 An "EET" system is one in which the employer and employee contributions to a pension fund are exempt (E) from tax, the investment income and capital gains are also exempt (E) from tax and the pension benefit is taxed (T) in payment. An "EEE" system is one in which all three components are exempt from tax.

10 For further information on subsequent developments in relation to ARFs see Hughes (2007).

abandoned the policy of providing incentives for pension saving from 1987 to 2007 and it left people free to make their own arrangements for supplementing New Zealand Supperannuation. In these circumstances one would expect the coverage of occupational pension schemes to have risen over the last twenty years in Ireland and to have fallen in New Zealand. One would also expect the role of the State pension to be much less important in delivering pensions in Ireland than in New Zealand. Let us consider, therefore, what has happened to private pension coverage and how effective the two countries approaches to pension provision are in delivering pensions to the older population

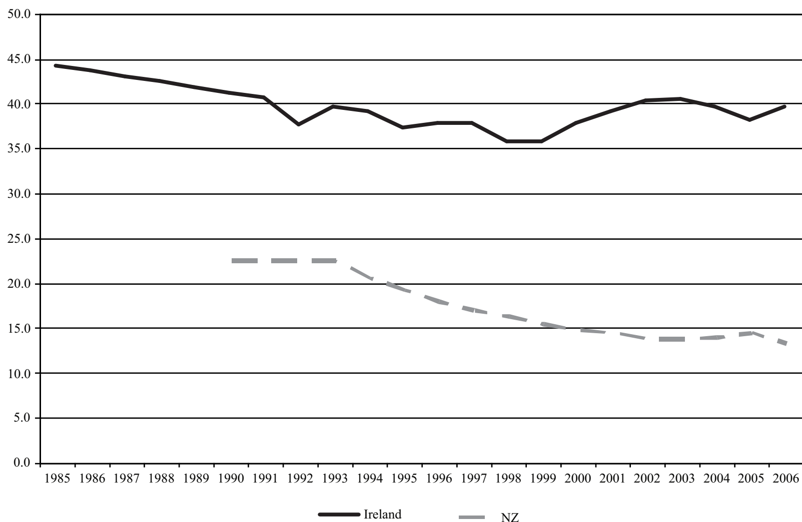
Trends in the Coverage of Occupational Pensions

Figure 11 shows what has happened to the occupational pension coverage rate in the two countries over the last twenty years or so. As might be expected following the elimination of subsidies for occupational pension schemes, the coverage rate in New Zealand fell from 23 per cent in 1990 to 13 per cent in 2006 – a decline of about half in the coverage rate. The occupational pension coverage rate in Ireland has also declined, although by not as much. In the period 1985-99 the coverage rate fell by 8 percentage points from 44 per cent to 36 per cent. The coverage rate grew by 4 percentage points from 1999 to 2006 so that some of the ground lost was recovered. A factor which may have contributed to this recovery was the very strong employment growth experienced between 1995 and 2006 when Ireland's economy grew at rates that were unprecedented since Independence in 1921. Nevertheless, the overall coverage rate was lower in 2006 by 4 percentage points than it was in 1985.

It is evident, therefore, that the policy of providing generous tax reliefs to encourage the growth of occupational pension schemes has not been very effective in increasing pension coverage over the last twenty years. This failure has been compounded by a switch in coverage from occupational defined benefit schemes to defined contribution schemes as Figure 12 shows. The switch to defined contribution schemes puts a

big obstacle in the path to the achievement of the Pensions Board target of replacing 50 per cent of pre-retirement income because the difference between the target for the social insurance pension (34 per cent of average earnings) and the overall target has to be made up by a private pension. The decision by employers to replace defined benefit with defined contribution schemes for most new entrants to the labour force means that there can be no certainty about what average level of pension the private sector can deliver.

Figure 11: Occupational Pension Coverage Rates in Ireland and New Zealand, 1985-2006

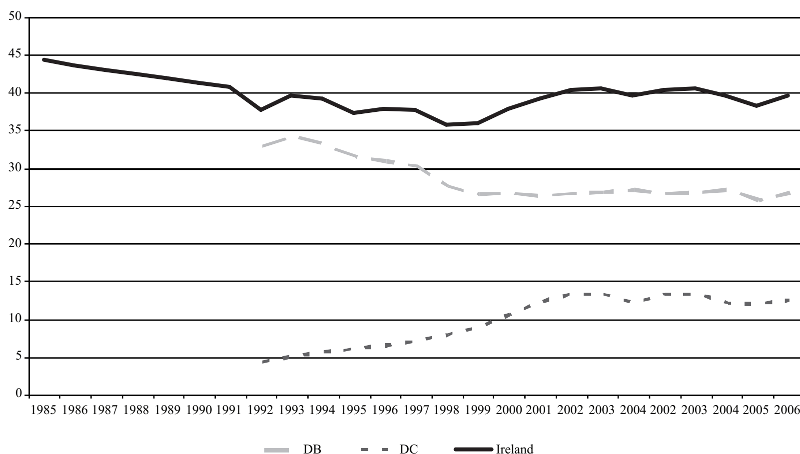


Source: Ireland, Hughes (2007, Figure 3.13); New Zealand, St John (2003, Table 3.2) and Government Actuary (2007, 2008 Section 8)

Despite the uncertainty surrounding the average level of pension that can now be delivered by the private pension system, Ireland has put a lot of effort during the last ten years into the development of a personal pension option in the hope that it would help to increase the pension coverage rate. The government's advisory body on pensions, the Pensions Board,

identified a number of barriers to improving pension coverage (see Pensions Board, 1998). It recommended that a standardised, low cost personal retirement savings option should be made widely available irrespective of employment status. The government accepted the Board's recommendation. It introduced the Personal Retirement Savings Account (PRSA) in 2003 for employees and others not covered by an occupational scheme or a Retirement Annuity Contract. It made it mandatory for employers to designate a PRSA provider but it did not require the employer to make a contribution on behalf of employees. Age related tax incentives were provided to encourage people to start saving for retirement. Anyone aged under 30 taking out a PRSA is allowed to claim tax relief on contributions up to 15 per cent of earnings while those aged 60 and over are allowed to claim tax relief on up to 40 per cent of earnings. PRSAs operate like defined contribution pension plans but their charges are considerably higher than those for occupational schemes as they do not generally benefit from the economies of scale accruing to group schemes.

Figure 12: Percentage At Work Covered by DB & DC Occupational Pension Schemes, Ireland 1985-2006



Source: Pensions Board Annual Reports

It was hoped that these tax reliefs, and the mandatory requirement for employers to provide access to a PRSA, would help to increase pension coverage of those aged 30 and over from 54 per cent in 1995 to 70 per cent within ten years of the introduction of the PRSA. This expectation has not been realised. Two years after the introduction of PRSAs only 1 per cent of employees and 2 per cent of those not at work were contributing to a PRSA. In view of this disappointing performance, the Minister for Social and Family Affairs requested the Pensions Board to bring forward by one year a scheduled review of the pension system. Four months after receiving the Pensions Board (2005) report the Minister requested it to explore the general principles relating to a mandatory or quasi-mandatory pension system and to recommend the most appropriate system for Ireland. The Board presented a technical review of the issues (see Pensions Board, 2006) and identified a mandatory scheme that would be appropriate for Ireland. However, it adopted a neutral position on the option it favoured noting that "it is not a recommendation by the Board for or against the introduction of a mandatory system". (Pensions Board, 2006, p. 10).

The Green Paper considers the option of a mandatory or quasi-mandatory addition to the Irish pension system and concludes "It would be useful, perhaps, to allow time for more evidence on performance of soft mandatory schemes elsewhere to emerge, particularly from New Zealand" (par. 8.54)

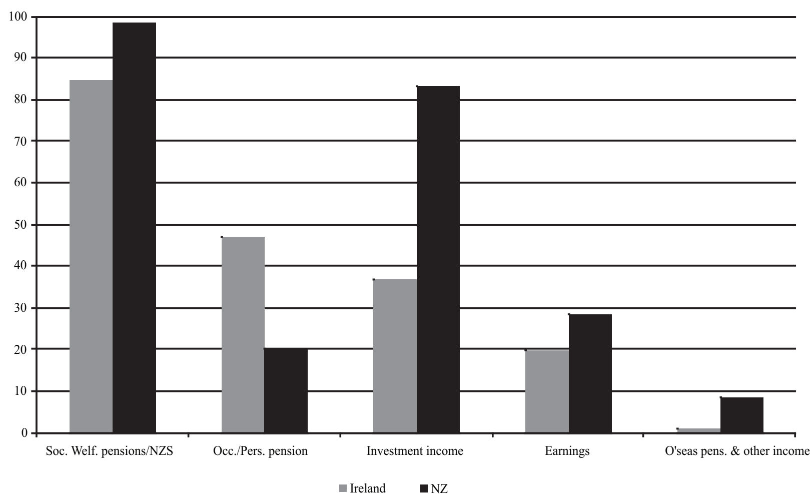
Effectiveness of Pension Delivery

The effectiveness of the different approaches to pension provision in the two countries in delivering pensions is assessed in terms of coverage and share of income provided. Figure 13 evaluates effectiveness in terms of the percentage of pensioner couples receiving incomes from different sources in 2000. Figure 14 considers effectiveness in terms of the percentage of total income provided by each source.[11]

[11] Data for pensioner couples are presented because the survey data for New Zealand do not provide a weighted average for all pensioners. The percentage of single pensioners receiving an income from each source is similar to those for pensioner couples in the two countries (see Hughes and Watson (2005) and Ministry of Social Development (2005)).

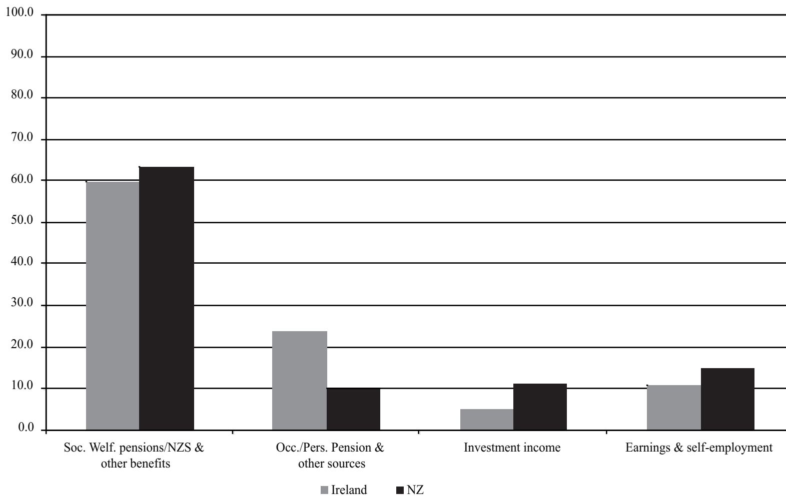
Figure 13 indicates that State pensions and other State benefits provide an income for nearly 100 per cent of pensioner couples in New Zealand but for only 85 per cent of pensioner couples in Ireland. As already noted, a significant minority of pensioners in Ireland either do not qualify for a State pension because they do not satisfy the social insurance contribution conditions for receipt of a contributory State pension or they do not pass the means test for receipt of a social assistance pension. New Zealand does not have such a minority as it provides a universal pension for all those aged 65 and over satisfying the residency conditions.

Figure 13: Percentage of Pensioner Couples in Ireland and New Zealand Receiving an Incme from Each Source, 2000



Source: Ireland, Hughes and Watson (2005, Table 3.2); New Zealand, Ministry of Social Development (2005, Table 4.8)

Figure 14: Percentage of Income Provided by Each Source for Persons Aged 65 and Over in Ireland 2005 and New Zealand 2003/04



Source: Ireland, Department of Social and Family Affairs (2007, Table 4.1); New Zealand, Statistics New Zealand (2004, Table 22).

As would be expected, occupational or personal private pensions provide an income for a larger proportion of pensioner couples in Ireland than is the case in New Zealand. In the year 2000 nearly 47 per cent of pensioner couples in Ireland received some income from a personal pension whereas in New Zealand the figure was 20 per cent, or less than half the Irish figure.

In the absence of tax incentives for pension funds, New Zealanders have found other outlets for their savings. Instead of locking up their money in long-term saving for a private pension most of the older population have put their savings into more liquid assets from which they derive an income in old age. Income from interest, dividends, rent and royalties provides a source of revenue for 83 per cent of pensioner couples in New Zealand compared with 37 per cent in Ireland.

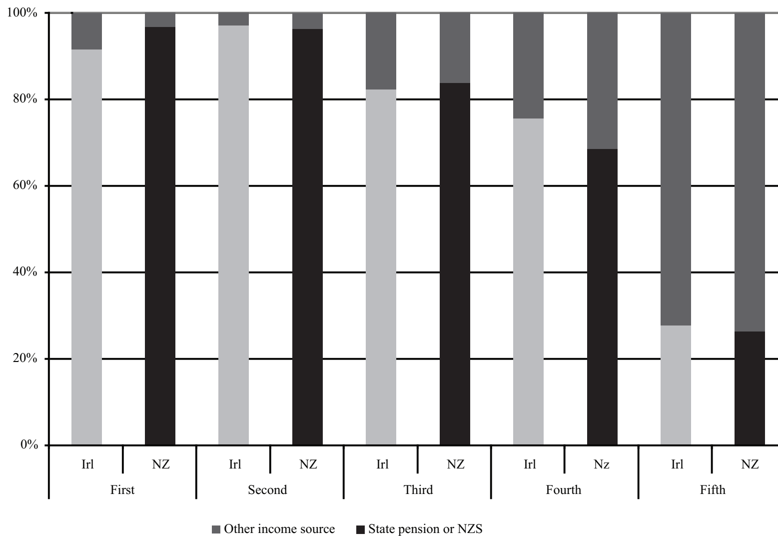
Earnings are a somewhat more important source of income for pensioners in New Zealand than in Ireland. In New Zealand 28 per cent of pensioner couples receive some income from earnings whereas the figure for Ireland is 20 per cent. Labour force participation rates at older ages are noticeably higher in New Zealand than in Ireland, particularly in the case of women. The labour force participation rates in New Zealand in 2006 for persons aged 60-64 were 73.4 for males and 50.2 for females compared with Irish rates of 58.3 for males and 29.9 for females. For persons aged 65 and over in New Zealand the male and female participation rates were 17.5 and 8.7 respectively compared with Irish rates of 14.1 and 3.6 for males and females (See Preston, 2007, p.16 and CSO, 2007, Table 9).

It is evident from the comparison in Figure 13 that the public pension system in New Zealand is more effective than the public system in Ireland in delivering a pension to older people. Nearly everyone over 65 receives a State pension in New Zealand whereas in Ireland there is a significant minority of older people who do not receive a State pension. The lesson to be drawn from this is clear: a universal pension can ensure that virtually every older person will have a minimum income to live on. A combination of social insurance and means-tested pensions cannot ensure this. They make the receipt of a pension contingent on a relatively unbroken performance in the labour market, which particularly disadvantages women and atypical workers, or satisfaction of an enquiry by Social Welfare officials which carries a stigma for many of those likely to be subjected to it.

The emphasis on private pension provision in Ireland means that the State system should play a less significant role and the private system should play a more significant role in providing retirement income than the corresponding components in New Zealand. Figure 14 shows that this is not the case. The most important contribution to the total income of pensioners in both Ireland and New Zealand is made by State pensions and other State benefits. The public system accounts for 60 per cent of pensioners' total income in Ireland and 63 per cent in New Zealand, so there is very little difference between them. The private

system provides only a small part of total income in Ireland, 24 per cent, and an even smaller part in New Zealand, 10 per cent. Investment income and earnings account for minor shares of total pensioners' income in both countries.

Figure 15: Percentage of Pensioners' Incomes Provided by State Pensions and Other Sources, Ireland 2005 and New Zealand 1997/98



Source: Ireland, Department of Social and Family Affairs (2007, Table 4.4); New Zealand, Good Returns (2001).

The minor role that the private pension system and other sources of income play in providing retirement incomes in Ireland and New Zealand becomes even more evident when the average data in Figure 14 are disaggregated by income quintile to show what percentage of the total income of pensioners in different parts of the income distribution is provided by public and private sources. This is done in Figure 15. It shows that State pensions account for over 80 per cent of the income of pensioners in both countries in the first, second and third quintiles of the income distribution and that they account for around 70 per cent of

the total income of pensioners in the fourth income quintile. The only pensioners for which private pensions and other income provide a significant part of total income is the group at the top of the income distribution in the fifth quintile. In both countries private pensions, investments or earnings provide around three-quarters of the total income of pensioners with the highest incomes. This is hardly surprising in the Irish case given the skewed distribution of pension tax reliefs in favour of the highest earners. The income quintile data for New Zealand distinguish only between New Zealand Superannuation and other sources of income so it is not possible to identify what share of the top quintile's income comes from private pensions, investments and earnings.

Population Ageing and Sustainability of the Public Pension System

One of the reasons why the universal pension option is not favoured in the Green Paper is that it would increase costs and threaten the long-term sustainability of the public pension system. Demographic and long-term cost projections which can help us to evaluate this argument in the light of the expected long-term cost of New Zealand's universal pension are presented in Table 3 and Figure 15. During the period 2006-2051 the total population of Ireland is projected to increase by a half from 4.2 million to 6.3 million while New Zealand's population is projected to increase by 30 per cent from 4.2 million to 5.5 million. The population aged 65 and over is projected to show very big increases in both countries. Ireland's older population is expected to increase by about three and a half times from 0.5 million to 1.7 million while New Zealand's older population is projected to increase by around two and a half times from 0.5 million to 1.4 million.

Among the consequences of this major expansion in the older population, two things stand out. First, the old age dependency rate is projected to increase to 27 per cent in Ireland which is somewhat more

than the increase to 24 per cent projected for New Zealand. This measure, the old age dependency rate, provides a rough estimate of the increase in the burden which the working age population will have to carry in the future to support the retired population. Second, the gross cost of the Social Welfare pension in Ireland is likely to triple from 3 per cent of GNP in 2006 to 9 per cent in 2051 whereas in New Zealand the gross cost of the universal pension is expected to double from 4 per cent to just under 9 per cent of GNP.

On the basis of these projections the Green Paper reaches the very pessimistic conclusion (par. 3.30) that "… demographic change means that the existing pension system is not sustainable" and it considers a variety of ways in which the cost of the public pension system could be contained in the future. Faced with a similar outlook for New Zealand in the period up to 2051 neither the Retirement Commissioner (2007) or the OECD (2007) concluded that the cost of the universal pension was unsustainable. Instead, the Retirement Commissioner (2007, p. 28) found that "the structure of NZS is sound, and it should continue to work well" while noting that there is concern about the cost in the longer term. The OECD (2007) suggests that some trimming back in conjunction with either lower government expenditure or higher tax revenues might be considered as part of a strategy for maintaining long-term fiscal balance.

The long-term cost of pension tax relief is an important cost of the pension system which is not included in the projections given in the Green Paper. As we have shown, it amounts to about two per cent of GNP. Factoring in the gross cost of the tax relief into the Pensions Board (2005) projections of the long-term cost of the Social Welfare penison means that Exchequer support for Ireland's pension system is now costing as much as it is in New Zealand, about 5 per cent of GNP. If the resource cost of the tax relief remains at its current level in the future, Figure 16 shows that the overall cost of Ireland's pension system will be higher within a few years than the cost of New Zealand Superannuation and it will diverge from the cost of the New Zealand system by over 2 percentage points of GNP in 2051, 11 per cent versus

9 per cent. Rather than looking for ways to reduce the cost of its public pension system, Ireland should be asking what value for money it is getting from the private pension system and considering how to reduce the cost of its pension tax reliefs in order to contribute to the long-term sustainability of the public pension system.

Table 3: Projections of Ireland and New Zealand Young, Working Age, and Older Population Components, Pensioner Support Ratio and Public Pension Expenditure as a Percentage of GNP, 2006, 2031 and 2051

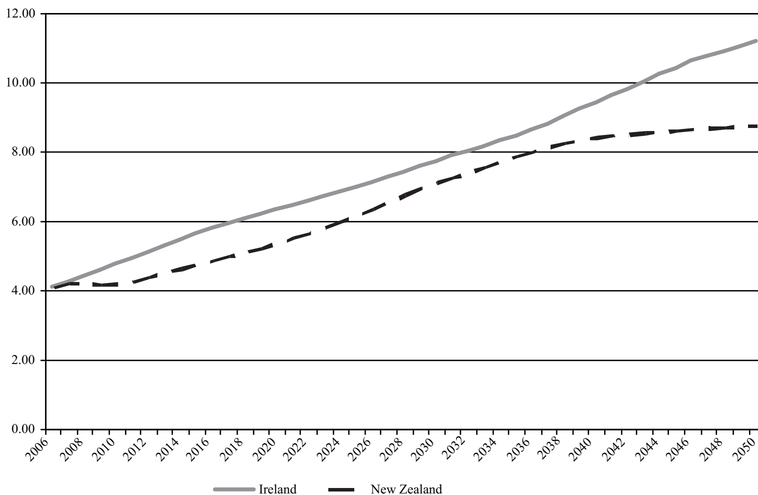
Population Projections Ireland	2006	2031	2051
Over pension age (65+) (000)	472	1,019	1,733
Total population (000)	4,281	5,709	6,337
Population 65+/Total population	11.2%	17.8%	27.3%
Social Welfare pension expenditure as per cent of GNP	3.0	5.3	9.3
Gross cost of pension tax reliefs as per cent of GNP	2.2	2.1.	1.9.
New Zealand			
Over pension age (65+) (000)	512	1,091	1,353
Total population (000)	4185	5,089	5,481
Population 65+/Total population	12.2%	21.4%	24.7%
New Zealand Super. gross exp. as per cent of GDP	4.1	7.3	8.8

Source: Irl, Department of Social and Family Affairs (2007, Tables 2.6 and 3.1). New Zealand, Statistics New Zealand (2007, Table 3 Series 5), OECD Economic Surveys New Zealand 2007, New Zealand Treasury, long-term fiscal model ltfp-model-06-v2.xls Base 50 worksheet.

Note: The projections in the Green Paper are for the combined cost of Social Welfare and Public Service pensions. The estimate in this table for Social Welfare pension expenditure as a percentage of GNP is derived by subtracting the estimated cost of Public Service pensions given in a report by the Pensions Board (2005, Table 5.3).

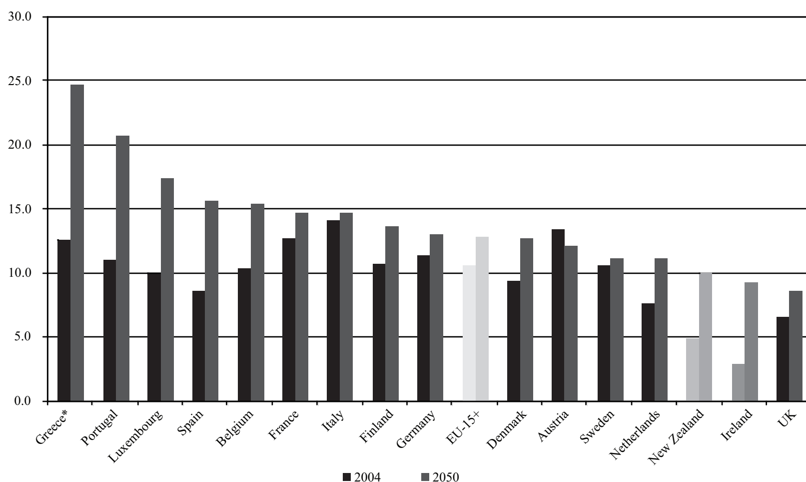
Although the question of the long-term sustainability of the public pension system is important for both countries it is worth noting that both countries are better placed than nearly every other country in the EU15 to maintain their current pension systems. This is largely because the pension benefits are flat rate rather than income-related. Figure 17 suggests that pension reform is likely to be less traumatic for Ireland and New Zealand because current and projected expenditure on their public pension systems is relatively low. Although the cost of the public pension system is projected to double the level of expenditure in both Ireland and New Zealand in 2050 is expected to be less than the *current* EU average of 10.4 per cent of GDP.

Figure 16: Projections of Gross Cost of Expenditure on Social Welfare Pensions and Pension Tax Expenditure as Percentage of GNP for Ireland and NZ Superannuation as Percentage of GDP, 2006-2050



Source: As for Table 3.
Note: The data for New Zealand are for 2001 and 2051 and the data for Ireland are for the GNP share in 2006 and 2051

Figure 17: Actual and Projected Gross Public Pension Expenditure as a Share of GDP in EU15 and New Zealand, around 2004 and 2050



Source: Economic Policy Committee (2001).

A Strategy for a Universal State Pension for Ireland

The evaluation of the pension systems in Ireland and New Zealand in terms of simplicity, adequacy, cost, equity, coverage, effectiveness in delivering pensions and sustainability leads to a number of conclusions. The New Zealand system is much simpler than the Irish system. It has virtually eliminated pensioner poverty whereas Ireland's pension system has failed to do so. The corollary of low pensions in Ireland is that the cost of its public pension system is about half of that in New Zealand. However, there is another dimension of cost which is largely ignored in Ireland. The cost of the tax expenditure for private pensions in Ireland is now as great as the cost of direct expenditure on the public system. Consequently, when the cost of the tax expenditure is factored in Ireland is providing as much Exchequer support for the

public and private components of its pension system as the New Zealand Treasury is for its public system. Up to 2007, New Zealand. had no overall budgetary cost of providing tax reliefs for private pensions.

As was the case in New Zealand up to 1987, most of the benefits of the tax reliefs in Ireland have been appropriated by the very highest earners. This occurs at the expense of taxpayers generally who receive little benefit from the favourable tax treatment of private pensions. The introduction of ARFs in Ireland for the self-employed provides an example of how tax reliefs for the private pension system can be exploited to avoid paying any tax on retirement savings.

The existence of generous tax reliefs for private pensions has not increased the coverage of occupational pensions in Ireland. In fact, occupational pension coverage has fallen in Ireland as it has also in New Zealand. The withdrawal of pension tax reliefs undoubtedly played a role in the decline of pension coverage in New Zealand. However, Ireland's experience suggests that this may not have been the only factor. The demand of employees for more flexible pension arrangements and the desire of employers for a more flexible labour force contributed to a decline of pension coverage and a shift to defined contribution plans in both New Zealand and Ireland.

The public pension system in both countries is far more effective than the private system in delivering pensions and in providing the bulk of retirement income. Only a small minority of pensioners at the top of the income distribution receive significant benefits from private pensions.

Despite the poor performance of the private pension system the Green Paper argues that maintaining the current public pension system and increasing the coverage of the private system in the future provide the best options for tackling pensioner poverty and improving the adequacy of pensions in the future. This would shift the balance of public/private provision in Ireland even more in favour of the private system.

New Zealand's experience over the last twenty years suggests that the opposite should be done: there should be a larger role for the State system than for the private system in Ireland. New Zealand shows how the current system in Ireland might be developed in ways that draw on the strengths of the State system and begin to correct the inequitable treatment of taxpayers who gain little from tax reliefs for private pensions. Ireland is not, of course, starting with a clean slate. Pension systems are to some extent path dependent so it is not being suggested that Ireland should simply copy New Zealand's policies. What would be possible is to adopt a mix of policies which incorporates some ideas drawn from the New Zealand experience.

The TCD Pension Policy Research Group has advocated that Ireland should learn from the New Zealand experience and seriously consider policies which would have the following elements (see McCashin, 2005, Stewart, 2005 and Hughes, 2007):

- a universal State pension
- a second tier social insurance pension based strictly on contributions which would top up the universal pension
- a significant curtailment of the tax incentives for occupational pensions, PRSAs, RACs and ARFs

McCashin (2005, p. 117) points out that this design "recognises the fact that a pensions system, of necessity, must incorporate a number of competing values, that reform must build to some extent on existing provisions and expectations, and command broad public support." He argues that a universal pension funded out of general taxation would be distinctively redistributive, it would ensure pensions as of right for men and women, it would abolish the means-test for pensions but would retain a social insurance tier. The retention of the social insurance tier recognises the strong social and political attachment to work-based pensions in Ireland. In the framework proposed by McCashin (2005), the social insurance pension would not have dependants' additions. This would strengthen the role of social insurance as a benefit derived from participation in the labour force. The pension could be flat rate, as it is now, or it could be related to earnings.

At present Ireland is using social insurance pensions to try and achieve a number of different objectives: the prevention of poverty in old age, the provision of support for pensioners' dependants, the maintenance of contribution records during periods of unemployment, illness or temporary withdrawal from the labour force and the provision of adequate incomes during retirement. It is very difficult to achieve this multiplicity of objectives with just one instrument. The introduction of a universal pension would separate the goal of poverty prevention from that of income maintenance and permit the development of policies which would have a better chance of achieving each objective.

Such an approach to pension provision in Ireland would require the adoption of complementary policies which would increase the Social Welfare pension and pay for it by reducing the tax reliefs for private pensions. They could enable Ireland to eliminate pensioner poverty at a cost it could afford and at the same time contribute to the long-term sustainability of the public pension system. This approach also has the very considerable advantage that it is the only one which would improve the position of existing pensioners. Policies that rely on the private pension system to improve pensions will do nothing for existing pensioners as it requires a long period for assets to build up to a level that could provide even a modest improvement in living standards.

The proposal to introduce a universal pension and to reduce the tax reliefs for retirement saving are not as dramatic as they might seem at first sight (see McCashin, 2005). The State pension system is already providing the bulk of retirement income for the great majority of pensioners in Ireland. The tax reliefs for retirement saving have not succeeded in increasing coverage of occupational pension schemes and the tax incentives for personal pensions (PRSAs) have had little effect on coverage especially at the lower end of the income distribution. The combined cost of expenditure on the public pension system and the tax expenditure on the private pension system in Ireland is now as great as the cost of the universal pension system in New Zealand. In the future the combined cost of Exchequer support for the pension system is projected to exceed the projected cost of New Zealand Superannuation.

An important advantage of the proposed strategy is that it would provide a secure framework for people who wish to save to maintain a reasonable relationship between their income from work and their income in retirement. It would improve the living standards of current pensioners, contribute to the elimination of pensioner poverty, improve the equity of the tax system, provide equal treatment for men and women, and contribute to the long-term sustainability of Ireland's public pension system. Finally, it would strengthen the public pension system which is already nationally established, politically accountable and enjoys public credibility and legitimacy.

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