BUSINESS NEWS

Increase in pension age 'is just the start'

Lower tax incentives may undermine pension saving

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RECENT MOVES to increase the retirement age are only the start of the process, a conference heard yesterday. People could find themselves working well into their 70s in order to secure a 50 per cent pension, Aisling Kennedy, an actuary with Swiss Re, said.

Addressing a Society of Actuaries in Ireland pensions conference, she said: "The recent increase in the pension age [to 68 on a phased basis by 2028] is a start. But more increases will be needed."

She cited the example of a worker aged 25, who, with his employer, put 15 per cent of his salary into a pension fund consistently over his working life. If he was hoping to retire on half his final salary he would be working until 73 years of age.

In order to retire at 65 pension contributions would need to equal a quarter of gross salary consistently through the working life.

As part of a move towards accepting the inevitability of an older workforce, she called for urgent action to remove the "discriminatory" fixed retirement age from employment legislation.

People facing the prospect of longer working lives will be less likely to save for a pension at all if mooted plans to cut tax relief on pension contributions to 20 per cent come into effect, according to a new study also presented separately to the conference yesterday.

Initial findings of a study conducted by the head of Deloitte Ireland's pensions practice for the Society of Actuaries show that tax relief at the standard rate of income tax would undermine the incentive for pensions saving.

"Fiscal incentives are a big part of what tempts people to save," said Patrick Cosgrave.

Using a Fiscal Incentive Index – which divides the present value of tax relief on pension contributions (by both employee and employer) by the present value of the tax paid on pension benefits in retirement – he said reducing the rate at which relief is granted and/or cutting the standard fund threshold cap were likely to undermine the occupational and private pension system.

Any figure above one in the index indicates a measure of incentive, with figures below that indicating the financial value of the incentive would be lower than the tax take on the pension.

People would find the incentive on offer insufficient to lock their money away for the long term, a conference heard yesterday. For example, leaving aside the State pension, a 30-year-old on a salary of €75,000 would see their index figure drop from 1.2 under the current pensions regime to 1.0 if the rate of tax relief was dropped to a composite rate of 33 per cent, and to 0.8 if relief fell to the standard rate of 20 per cent.

Given that social welfare pensions were rightly skewed towards the lower paid, he said, there was already little fiscal incentive for a 30-year-old earning over the minimum wage to invest in an occupational pension.

The study is expected to be published next week.

In a comparison with pension schemes in other countries, Mr Cosgrave found that Ireland's pension incentive were more generous for lower paid workers and less so for those on high incomes.

Earlier, Alan Barrett, project director at Trinity's Irish Longitudinal Study on Ageing, said a survey of 4,000 people aged between 50 and 65 found that 51 per cent of defined benefit or final salary scheme members were unaware of their likely retirement income. The figure rose to 70 per cent for members of defined contribution schemes.