Ireland

Highlights from OECD *Pensions at a Glance 2009*

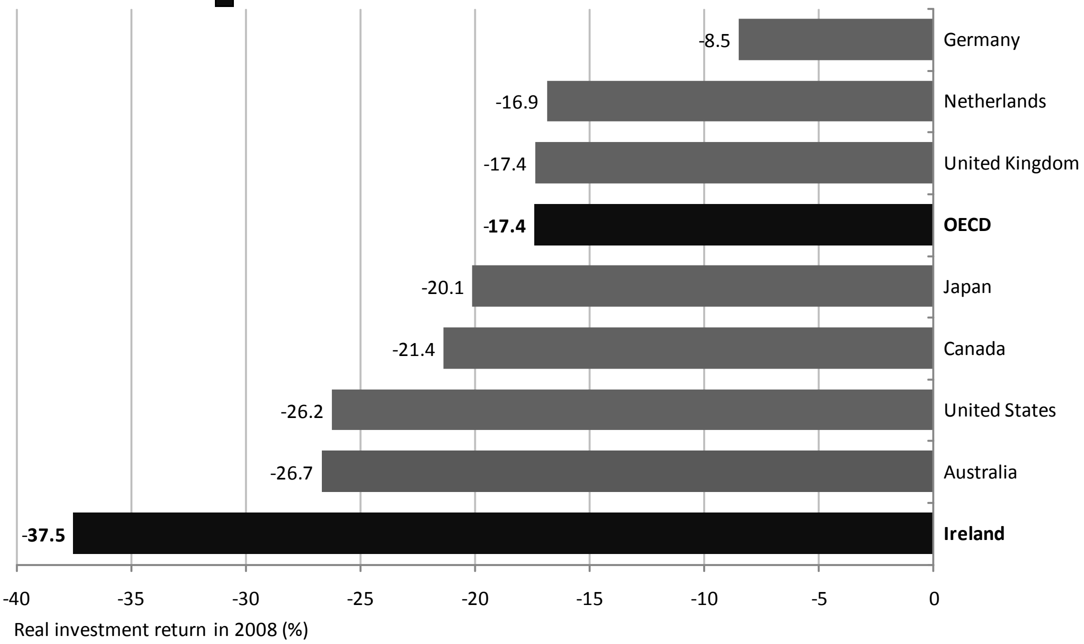
- Ireland's private pension funds have been heavily hit by the financial crisis, with real losses of 37.5% in 2008. This is the worst investment performance for private pensions in the 30 OECD countries.
- More than 30% of Ireland's pensioners live in poverty (on international measures). This is the third highest old-age poverty rate among the OECD countries and well over double the OECD average.

The crisis and pensions

The financial crisis has hit private pension funds hard: they lost US$ 5.4 trillion in value in 2008 in OECD countries. The impact on Ireland is particularly significant for two reasons.

- Private pensions and other investments provide a third of retirement incomes in Ireland, compared with the OECD average of less than 20%. This is a similar proportion as Norway, but less than Australia, the United Kingdom and the United States, where private savings provide around 40% of retirement incomes.
- Investment losses in Ireland were the largest because of the large share of equities in pension-fund portfolios: around two-thirds of assets before the crisis hit, compared with an average of 36% in the 20 OECD countries where data are available.

1 Pension funds' real investment returns in 2008



Note: the OECD figure shown is the unweighted average. The weighted average loss is larger at 23%, due to the importance of private pensions in the United States.

Source: OECD (2009), *Pensions at a Glance: Retirement-Income Systems in OECD Countries*, Figure 1.3

In its new *Pensions at a Glance* report, the OECD welcomes the temporary easing of the funding requirements for defined-benefit (salary-related) occupational pensions, but warns that this should not turn into a permanent weakening of the regulations.

The government has resisted calls for an insurance scheme for defined-benefit schemes, along the lines of the Pension Protection Fund in the United Kingdom and the Pension Benefit Guaranty Corporation in the United States. The OECD shares the government's concerns about the cost of such programmes.

For defined-contribution (money-purchase) pensions, which are becoming more widespread, the OECD recommends a "lifecycle" investment strategy. This would switch investments towards less risky assets as people near retirement and ensure that people close to retirement are protected from volatile stock markets.

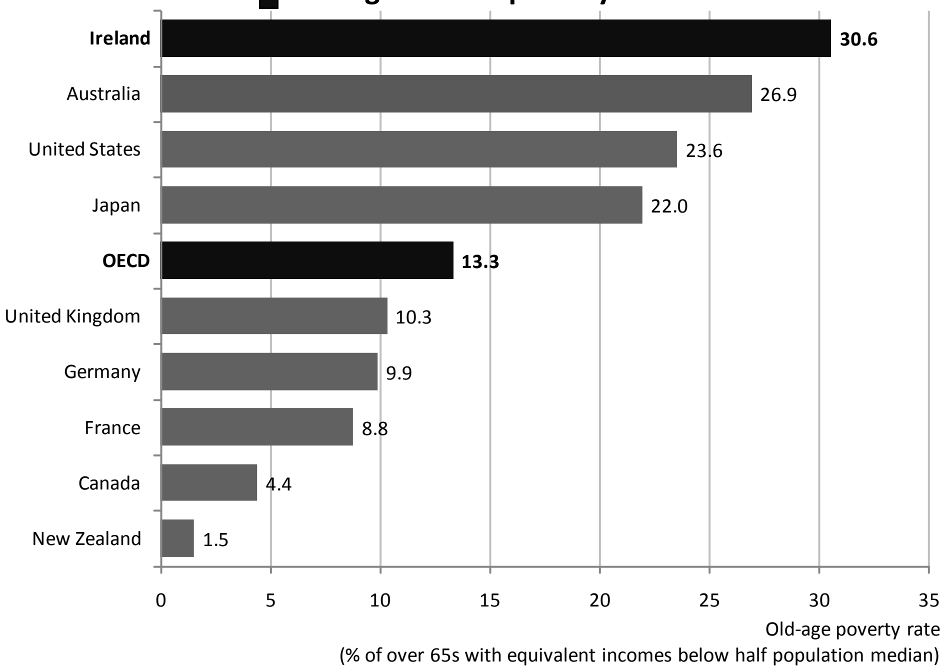
"Most people don't want to make active investment decisions about their retirement savings", said Edward Whitehouse, lead author of the OECD report. "Governments should encourage lifecycle investing because it puts people's retirement savings on auto-pilot and will protect old-age incomes from future crises", he continued. The OECD recommends that lifecycle investing should be the default investment option.

Old-age poverty

More than 30% of over 65s in Ireland had incomes below the OECD poverty threshold (half of median household income) in 2005. Only Korea and Mexico of the 30 OECD countries have higher old-age poverty rates. Although increases in public pensions since that point will have improved the economic position of older people since 2005, there is a need to resolve the debate over a second pension. Ireland and New Zealand are the only OECD countries that do not have mandatory second pensions.

The OECD report analyses a range of policy options. The report concludes that tax incentives are expensive and not well targeted on lower earners and younger workers who do not currently save for old age. Automatic enrolment is an attractive way forward: private pensions would remain voluntary, but people would be required to opt out of rather than into private plans. "The early success of KiwiSaver in New Zealand suggests that this is a good model for Ireland", said Edward Whitehouse. Some 43% of employees in New Zealand are KiwiSavers: before the introduction of the scheme, only 13% of employees had an occupational pension and 5.5% a personal plan.

2 Old-age income poverty rates



Source: OECD (2009), *Pensions at a Glance: Retirement-Income Systems in OECD Countries*, Figure 2.5

3 Key facts

		Ireland	OECD
Pension replacement rate	Average earner (%)	34.2	59.0
	Low earner (%)	64.8	71.9
Public pension spending	% of GDP	3.4	7.2
Life expectancy	at birth	79.7	78.9
	at age 65	83.5	83.4
Population over age 65	% of working age population	17.7	23.8
Average earnings	EUR	30 000	28 600

Note: replacement rate is pension entitlement from all mandatory sources of retirement income relative to individual earnings. Calculations for a full-career worker entering the labour market in 2006. Low earner is assumed to earn 50% of the average.

Source: OECD (2009), *Pensions at a Glance: Retirement-Income Systems in OECD Countries*

Notes to editors

Pensions at a Glance 2009:
Retirement Income Systems in OECD Countries

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The report includes 17 indicators of retirement-income systems for the 30 OECD member countries plus four special chapters on (i) pensions and the financial and economic crisis; (ii) incomes and poverty of older people; (iii) recent pension reforms; and (iv) voluntary retirement savings.

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