Innovation in the Public Sector

Publin Report No. D13-2
Irish case study WP5

Personal Retirement Savings Accounts

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This document is a working paper produced by the PUBLIN research project. PUBLIN is part of the Programme for research, technological development and demonstration on "Improving the human research potential and the socio-economic knowledge base,1998-2002" under the EU 5th Framework Programme. For more information, see www.step.no/publin/.

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Personal Retirement Savings Accounts

A Case Study

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IRELAND

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Introduction

Following a reform process initiated by the Minister for Social Welfare in 1996, an extensive review of the Irish pension system was undertaken which incorporated the views of key interested parties through an extensive consultation process. This process was overseen by the Pensions Board, the statutory body with responsibility for the regulation of pension schemes and for providing advice to government on pension policy matters generally. The National Pensions Policy Initiative (NPPI, 1998) was the outcome of this consultation process, itself a major innovation in public policy deliberation. NPPI (1998) provided a blueprint for the future development of the pension system in Ireland; it put forward a series of policy recommendations which were supported by the social partners and other interests represented on the Pensions Board. This case study examines the introduction of a new individual supplementary pension product as recommended in NPPI (1998). These individual retirement savings accounts are known as Personal Retirement Savings Accounts (PRSAs) in Ireland and the first products have been available since 2003.

Why the case study was chosen

This case study has been chosen for four main reasons:

a) The significance of the development of a national pension policy plan using a consultative framework. The National Pension Policy Initiative (NPPI) included the formulation of a discussion document, a call for submissions, discussion and deliberation, co-operation between key interests and the production of a consensus document on the future of pension provision in Ireland.

b) The emergence of a new product innovation (PRSAs) in this area of public policy as an outcome from the NPPI process. PRSAs were designed to meet the needs of those not currently served by the pension provision in place; it sought to acknowledge the changed nature of employment and to facilitate greater access to supplementary pensions, either through employers or independent means.

c) Analysis of this product and policy innovation provides an insight into the policy making stages followed and the role of key actors in that process. It permits an examination of a new way of approaching pension provision, which combines obligations on employers and also allows supplementary pensions to be secured independently of them.

d) The case study facilitates an in-depth examination of a recent cross-cutting policy initiative in pensions and a preliminary assessment of the PRSA product innovation to date.

Initiation

State pensions make up the first pillar of the pension system in Ireland and are provided to those aged 66 years (and older) on the basis of social insurance contributions (contributory old age pension) or through the satisfaction of a means-test (non-contributory old age pension). There is high take up of state pensions and they remain a key source of income for older people. The state pension was valued at less than 30% of national average earnings at the time of the NPPI Initiative and therefore supplementary (second pillar) pensions were, and remain, an important component of the pension system in Ireland. Historically, supplementary pension cover was predominantly secured through occupational pension schemes with supplementary pensions provided by employers (on a voluntary basis). Alternatively, individuals took out personal pension plans although these were primarily targeted at the self-employed. The voluntary nature of occupational pension arrangements meant that there was a high level of supplementary pension coverage in particular areas of the labour force, such as amongst large firms and in the public sector, with lower coverage rates in others including smaller companies in the private sector. The result of this approach has been a roughly 50-50 split between those in the workforce with supplementary pensions and those without. PRSA products were introduced not to detract from existing supplementary pension provision but rather to provide an additional and flexible means of supplementary pension access for individuals. This product innovation marks a significant policy shift in opening up the availability of retirement savings vehicles for individuals who previously may not have had easy access to a supplementary pension. The introduction of PRSAs also represents a new way of thinking about retirement provision by encouraging individuals to take greater control of their choices in relation to planning for retirement.

There were three central recommendations arising out of NPPI (1998). Firstly, a target rate of 34% of national average earnings was set for state pensions. Second, a long-term fund was to be established to help to offset the future costs of state and public service pensions. Thirdly, a new individual pension product (PRSA) was recommended to promote supplementary pension coverage in a way that would increase access with the ultimate target of 70% supplementary pension coverage amongst the workforce over the age of 30 years.

A PRSA is essentially a personal pension plan that works like an investment account to save for retirement. A contract is entered into with a PRSA provider, either through a provider chosen by the employer or through a provider chosen directly by the account holder. It is a defined contribution pension as the benefits which accrue depend on the amount paid in along with the investment performance. The PRSA is a flexible product which allows for an increase or reduction in contributions, subject to certain conditions. It may be carried between employments and transferred to a different provider without penalty. PRSAs are available regardless of employment status and it is possible to contribute to a PRSA up to age 75. There are two types of PRSA – standard and non-standard. There are three key differences: with a standard PRSA there is a cap on the fees to be charged, there are restrictions on the investments and the account holder is not obliged to purchase another product alongside the standard PRSA (The Pensions Board & Consumers' Association of Ireland, 2003). Less than 50,000 PRSAs have been taken out since the product was launched (to the end of 2004). There has been a steady but slow take up of these products and their impact remains the subject of assessment as outlined below.

This case study documents the genesis of this product innovation and details their progress and implementation to date. The initiation of PRSAs marks an important policy development by introducing an element of pension provision which promotes supplementary provision as a commodity to be taken out by the individual, where occupational provision is absent. This policy initiative takes account of the changed nature of employment and seeks to respond to some of the impediments to accessing supplementary pensions. Finally, it provides an important case study of a key element of Irish welfare provision, which maintains an essential state input and an increasingly important role for private providers.

Context

The policy making process in Ireland is currently informed by a corporatist approach, commonly known as 'social partnership'. In consultation with government, the key social partners, namely trade unions, employers, farmers and the community and voluntary pillar[1] have agreed and signed up to a series of six National Agreements since 1987. These agreements were originally founded to address macro-economic issues in order to build co-operation between the social partners on economic and social policy matters in the national interest. The economic profile of the country has changed substantially since the introduction of this approach to policy making and some commentators identify 'social partnership' as a contributing factor to the subsequent economic growth in Ireland (O'Donnell, 1998, 1999, 2001).

Negotiation of each of the National Agreements is informed by a report produced by the National Economic and Social Council[2] (NESC, 1986, 1990, 1993, 1996, 1999, 2002) which details the shared views of the social partners and provides an outline of the context within which each new agreement should be drawn up (O'Donnell, 1999). The National Economic and Social Council was established thirty years ago and since that time has developed to play a central role in informing public policy developments in Ireland. The Council exists under the aegis of the Department of the Taoiseach and the terms of reference identify its central task in analysing and reporting on strategic issues that relate to the development of the economy and achieving social justice. Such matters may be taken up at the request of the Government or on its own initiative. The Council has published over 100 reports since 1973 in a wide variety of areas including: housing, poverty proofing, rural development, competitiveness, employment, education and training and labour markets. O'Donnell (1999) explains that the Council works on the basis of deliberation and reaching consensus rather than votes and few of its reports contain minority positions or reservations.

This approach to policy making at a macro-level has been influential in defining the composition and workings of various advisory bodies to government. The Pensions Board is the main statutory body (outside of the Government departments) which advises the government and reviews policy in the area of pensions in Ireland. The membership of the Board has broadened over the years[3] and includes key social partners and interested parties in the area of pensions. The National Pensions Board was established in the 1980s to enquire into the pension situation and was re-constituted in the Pensions Act 1990 to hold a specific statutory function with regard to the regulation of supplementary pensions in Ireland. This Act also prescribes an additional role for the Board to examine pension issues and to advise the Minister of Social Welfare in relation to such matters. Since that time, the Pensions Board has been active in enforcing the regulatory procedures underpinning its mandate and in undertaking/commissioning research into specific aspects of pension provision in Ireland (Pensions Board, 2002). The Pensions Board provides a central forum within

[1] The community and voluntary pillar joined the negotiations for the first time in the run up to the fourth National Agreement, Partnership 2000, in 1997.

[2] The National Economic and Social Council (NESC) was established in 1973 and provides a forum in which the social partners and senior civil servants engage in discussion and analysis of key economic and social policy issues.

[3] The Pensions Act 1990 provided for 12 board members and the chairman. The Pensions (Amendment) Act 1996, doubled (from one to two) the representation of trade unions and employers. The membership of the Board was increased from 14 to 16 with the introduction of a representative of consumer and older persons' interests in the Pensions (Amendment) Act 2002.

which key actors and relevant interested parties deliberate upon pension policy matters. This is one of the distinctive features of the Irish approach to pension system development and reform, with pension policy issues being debated more prominently along party political lines in most other countries (CEO Pensions Board, 2005).

Over the last decade, there has been growing attention given to the long-term future of state pensions on a global scale and recommendations have been put forward (e.g. World Bank, 1994) on the need for innovation and reform. Changing demographic profiles provide the backdrop for concerns about the viability of pension systems worldwide and the rising costs associated with 'an ageing population'. Most countries are engaged in pension system reform at some level; there are numerous elements of pension systems which have been subject to review. The main areas of debate include the sustainability of the Pay As You Go model of pension funding, the long term future of social insurance pensions, promoting private pension arrangements, raising the age of retirement and increasing qualifying conditions for state pensions (Disney & Johnson, 2001; Gillion et al, 2000; Reynaud, 2000; World Bank, 1994). Examining the need for pension system reform is therefore not unique to the Irish context but part of a worldwide re-think on the nature and long-term future of pension systems generally.

At government level, the increasing attention placed on pension system reform and the adequacy of supplementary pension coverage in Ireland has also been informed by concerns about the long-term financing of pensions, particularly in the context of the emerging demographic trends. The Final Report of the National Pensions Board (1993) projected a decline in the active proportion of the population to dependant members from 5.4:1 to 3:1 by 2035. This, the report concluded *"Raises serious questions about the capacity of the present financing arrangements to meet these emerging costs."* (National Pensions Board, 1993, 47.) Attention followed over the course of the 1990s; the Department of Social, Community and Family Affairs commissioned an Actuarial Review of Social Welfare Pensions (Irish Pension Trust Ltd., 1997). In addition, research commissioned by the Department of Social Welfare and the Pensions Board in the mid-1990s suggested that almost half of the workforce had no supplementary pension cover and that the overall coverage rate had actually declined slightly from 54.4% in 1985 to 52% in 1995 (Hughes & Whelan, 1996). This level of second pillar pension coverage was a concern particularly in the context of a flat-rate state pension that at the time equalled approximately 28.5% of average earnings (NPPI, 1998) and as such raised the prospect of many older people being without adequate retirement income in the future.

Key actors within the pensions industry, including the Irish Association of Pension Funds (IAPF), were also aware of the need for a debate on the future of pension provision in Ireland. In March 1995 the IAPF organised a Pensions Forum in order to *"…allow the various interests involved with pensions in Ireland an opportunity to discuss ideas on the way forward for retirement provision into the next century."* (IAPF, 1995, 3.). Fifty four participants took part in the Forum, representing a broad range of interested parties. The Forum examined the major trends affecting pensions in Ireland, the strengths and weaknesses of the current pension system and ideas and recommendations were put forward for the future development of pension provision.

In a review of occupational and personal pension coverage in 1995, Hughes & Whelan (1996) found considerable variance in supplementary pension coverage according to public, private sector or self-employment, occupation, location, occupational status and gender. In short, coverage was highest amongst public sector employees (83%); it was lower in private sector (38%) and less frequent again amongst the self-employed (27%). Individuals not in permanent employment were also much less likely to have supplementary pension cover. The coverage rate for temporary and part-time workers was 11%. Hughes & Whelan (1996) identified a strong correlation between pension coverage and firm size in Ireland; almost 79% of those working in firms with over 500 employees were members of a pension scheme compared with just below 45% of those working in firm with 50-99 employees. This figure was lower for those in smaller workplaces. In addition, supplementary pension coverage was less likely among women, particularly those in lower income groups and those with 'broken' work records.

More recently, the CSO (2002) found that 50.7% of all persons in employment (between the ages of 20 and 69) had supplementary pension cover. Coverage varied by age, gender, marital status, the number of hours worked and the occupational sector occupied. The highest coverage rate exists in the public administration sector at 87.8%. Particularly low coverage rates were found amongst younger employees (24.4% of 20-24 year olds), those working in the catering and agricultural sectors (12.5% and 15.8% respectively), employees of small companies (9.7% of employees working in a company with less than 5 employees) and those not working on a full time basis (employees working 10-19 hours had a coverage rate of 15%). Overall, men (55.4%) were more likely to have supplementary pension cover than women (44.2%).

In addition, demographic projections suggest that the dependency ratio in Ireland will increase as will the cost to the state of providing pensions (linked to wages) into the future (Irish Pensions Trust Ltd., 1997). Ireland faces the same long-term demographic challenges as those envisaged elsewhere but it appears to have greater time to prepare, with a relative stable population over the age of 65 until 2010 and in the context of the very high young dependency ratios that were endured in the 1980s (Fahey & Fitzgerald, 1997; O'Connell, 1999).

The changing demographic scenario and the diversity in supplementary pension coverage rates provided the impetus for consideration of policy and legislative reform in pension provision. The government, and in particular the Minister for Social Welfare, Proinsias De Rossa TD, launched discussion documents on the future of social insurance (Department of Social Welfare, 1996) and the National Pensions Policy Initiative (NPPI) Consultation Document (1997). The Minister (in the Department of Social Welfare & the Pensions Board NPPI, 1997, preface) offered his commitment to the consultation process and the need for change:

> *"It is imperative that no further time is lost. I would urge all interested parties to assist in achieving this objective by giving their considered views on this major topic in response to this document. I look forward to receiving the report and recommendations which emerge from this process and I wish to give an assurance that it will be given priority attention."*

Key actors/interests in the area of pensions and representatives of workers and older people took the opportunity to make contributions to the consultation process by preparing submissions and engaging in research which was brought to the Pensions Board for their consideration (NPPI, 1998). The consultation and reform process was initiated and involved key actors from the outset, both through the composition of the Pensions Board and with the extensive consultation phase of the process. The result of this approach was that the reform agenda was generated in consultation with interested parties rather than as a direct result of government policy and position. This does not mean that agreement existed between the various parties at all stages but the approach was designed to generate room for consultation and co-operation on the appropriate policy reform mechanisms to adopt, with a view to arriving at consensus (CEO Pensions Board, 2005; Trade Union Voice, 2005).

Political debate over the various elements of the reform and wider ideological positions held by various political parties was relatively limited owing to the consultative social partnership process through which the NPPI (1998) report was produced. A change of government in 1997 did not detract from the consultation process underway. It is interesting to note that subsequent parliamentary questions about pension policy asked in Dáil Éireann (Irish House of Parliament) were frequently responded to by way of reference to what had been agreed between the social partners and the Pensions Board. The relative strength and implications of this participative model of policy making is the focus of some discussion in Ireland, particularly in the context of its potential impact for representative democracy (O'Cinnéide, 1998).

The wider economic environment of the late 1990s might be said to have been broadly favourable to considering longer term public policy issues of this type. At that time, Ireland was enjoying a period of unprecedented economic prosperity, with average growth rates in excess of 8% between 1993 and 1998 (O'Connell, 1999). This provided a climate in which issues of a more long-term nature were perhaps not as daunting as they might otherwise have been. This economic transformation required that projections of demographics and costs needed to be re-visited. However, in short, the favourable economic circumstances meant that commitments to reform and their cost implications were taking place at a time when the objectives may have been seen to be more realisable.

Process

This case study investigates the introduction of Personal Retirement Savings Accounts (PRSAs) in the context of the overall strategy devised for the future of the pension system in Ireland. It is important to note that PRSAs were not devised in isolation from the other elements of the pension system but with full regard to them and with a view to the wider factors that impinge on supplementary pension arrangements (CEO Pensions Board, 2005; NPPI, 1998). As a result this case study details the development and implementation of PRSAs in this overall policy context. The course of action outlined below, locates the emergence of PRSAs in the wider reform agenda out of which they emerged. The process of consultation and consideration of the reform options that dominated the latter part of the 1990s are documented before the planning and implementation of PRSAs is outlined. Any assessment of the implementation of PRSAs undertaken at this stage must be mindful of the fact that the first PRSA products have only been available since 2003 and that the Pensions Board and the Minister for Social and Family Affairs remain committed to monitoring their subsequent uptake and implementation.

There were a number of significant policy developments during the latter part of the 1990s which facilitated the process of pension system reform in Ireland. Firstly, in October 1996 the National Pensions Policy Initiative was launched under the direction of the Department of Social, Community and Family Affairs and the Pensions Board. Its purpose was to facilitate national debate on the development of the pension system and to examine the various options in arriving at a strategy for the future. A Consultation document was published in February 1997, which laid out the context for the debate with reference to the wider pensions environment including supplementary pension coverage, demographic projections over the longer term and the position of pensions on and in the economy. It set out a number of key questions relating to the overall objectives of the national pensions policy, and detailed existing arrangements, second pillar coverage, the involvement of the state and examples of pension arrangements in other countries. It also identified potential initiatives and proposed time-scales on which submissions were invited (NPPI, 1997). A total of 143 submissions were received from a variety of sources including employers, trade unions and staff associations, government departments, pensioner and social interest groups, pension funds and trustees, financial institutions, pension specialists and experts and individuals. Submissions varied in length and focus with NPPI (1998, 219.) reporting that: *"The nature of responses was constructive but there were few radical or unexpected suggestions. There was considerable concern for the common good and few were based on overtly commercial or sectoral interests."*

Prior to the publication of the NPPI (1997) Consultation Document, the Commission on Public Service Pensions was set up (in February 1996) to investigate the pension arrangements of public servants in Ireland and to report to the Minister for Finance on these matters (Commission on Public Service Pensions, 1997). The following year, the government gave an undertaking in the fourth National Agreement, known as Partnership 2000, to consider a report from the National Economic and Social Forum[4] (NESF) on pension policy issues. The NESF identified six key themes for consideration: adequacy issues, the impact of changing work practices (including atypical workers), the situation of the unemployed, and the position of those working in the social economy, equity and equality issues and institutional issues. Options for reform were outlined and some of the differing views of the social partners recorded (NESF, 1997).

A National Pensions Conference was held in July 1997 which allowed those who had made submissions to the NPPI (1997) consultation process to present and discuss their ideas. The second phase of the Initiative involved further analysis of the submissions and the appointing of consultants to facilitate completion of the final report. The Pensions Board organised internal workshops and meetings took place with various representative groups (NPPI, 1998). The National Pension Policy Initiative (NPPI) Report of the Pensions Board was published in May 1998.

[4] The National Economic and Social Forum (NESF) was established in 1993. It comprises the social partners and considers key matters of public policy. Their reports are subsequently reviewed by the government cabinet of the day.

The NPPI (1998) Report presented a strategy for the development of the national pension system and included proposals and recommendations to government. The third chapter of the report reviews the current environment by examining existing pension provision in terms of: the extent of coverage, the adequacy of coverage, personal sector savings, and income replacement rates, the market development of supplementary pension provision, consumer protection and market issues covered in the consultation phase. Chapter 4 outlines the demographic considerations and economic prospects over the longer-term. Provision in the first and second pillars and the implications of their development are explored in depth in chapter 5. Chapter 6 contains details on the expansion of second pillar pensions and the proposal for the introduction of Personal Retirement Savings Accounts. Other key issues such as the position of women, achieving the objectives of the strategy and implementation issues are addressed in chapters 7 & 8. In short, the report provides an in-depth account of the main features of the Irish pension system; it locates the debate in the wider economic and demographic environment and outlines a comprehensive series of recommendations on the development of the pension system in Ireland. The key recommendations include:

a) Proposed target of 34% of average industrial earnings for first pillar or state pensions (the post 1998 budget figure was 28.5%)
b) a special fund be established to save and help to offset the future costs of state pensions
c) the introduction of Personal Retirement Savings Accounts (PRSAs)

The fifth National Agreement, The Programme for Prosperity and Fairness (2000), included a section on pensions. Five actions are listed which, broadly speaking, commit government to implementing the recommendations outlined above. The target for old age pensions is acknowledged as one to be met over a 5-10 year period and commitment is given to preparing the necessary legislation for the special fund (the National Pensions Reserve Fund) and for the introduction of PRSAs. The current National Agreement, Sustaining Progress (2003) refers to the parties' continued shared objectives in relation to NPPI (1998) and, in particular, the target supplementary pension coverage rate of 70% of the workforce over the age of 30. It also acknowledges the current difficulties in the pensions arena, making reference to the poor returns on pension funds and the inadequacies in some defined contribution schemes. Tracking the impact of the introduction of PRSAs is also a priority in Sustaining Progress, which makes reference to the major review of developments to be prepared for the Minister by 2006. The current Programme for Government (2002) include commitments to increasing the state pension to at least €200 by 2007, to examine disincentives to people of pension age continuing to work and the establishment of a group to report on options for lower income groups to ensure that they can have an earnings related pension on retirement.

In terms of the main NPPI (1998) proposals, both the Minister for Finance and the Minister for Social and Family Affairs and their departments were central to the implementation of the proposals. In the case of recommendation a) target of 34% of average earnings for the state pension, both government departments are required to play a role in terms of financing and delivering on this policy objective. The Minister and the Department of Finance were instrumental in the establishment of b) the special fund set up to offset the future cost of state and public service pensions. The fund, known as National Pension Reserve Fund, was established in 2000. There is now a statutory obligation on government to pay a sum equivalent to 1% of GNP to the fund each year until 2055. The proceeds of this fund may not be accessed until 2025. The third major recommendation c) the establishment of Personal Retirement Savings Accounts (PRSAs) got underway with the drafting of new legislation passed in the Pensions (Amendment) Act 2002. The government also approved funding for a National Pensions Awareness Campaign which commenced in autumn 2003. The details provided above identify the macro-level policy making institutions and actors which facilitated the debate on the direction of pension system reform in Ireland. The following section outlines the steps undertaken to implement the PRSA proposals made in NPPI (1998).

PRSAs as part of a broader strategy

The introduction of PRSAs was part of a wider package of policy initiatives designed to provide a strategy for the future of retirement income in Ireland (CEO Pensions Board, 2005; NPPI, 1998). There was a clear acknowledgement of the need to devise a plan for the future of pension provision at Pensions Board, Ministerial and government levels. Apart from the significant policy making structures in place to deliver a policy strategy, there were a number of supporting rationales for the development of an individual retirement savings product. The international pensions climate continues to be informed by widespread reform and restructuring, with trends tending towards increasing personal responsibility with a greater role for the private sector in pension provision. The national pension system did not ensure access to pensions beyond the state pension, which was less than 30% of national average earnings. In this context a comprehensive second pillar took on much greater importance. In addition, the significance of pension systems to wider economic and social matters (over the short and longer term) prompted the development of a reform agenda.

The introduction of pension system reform (and ultimately PRSAs as part of the outcome) can be seen in both proactive and reactive terms. The strategy sought to respond to existing shortcomings in the pension system but it also aimed to put in place a strategy for the longer term which might be considered proactive in comparative terms. The establishment of the National Pensions Reserve Fund is frequently recognised as a distinctly proactive innovation in this regard. PRSAs were designed to deal with the more immediate problems associated with supplementary pension coverage in order to bridge the gap in coverage in a way that was accessible, flexible and responsive to the needs of individuals, offering a new vehicle through which supplementary pension cover could be improved. The development of an individual retirement savings account in the form of PRSAs marks a significant policy development and product innovation in the context of the Irish pension system.

PRSAs were devised in response to the low supplementary pension coverage rates found amongst certain sectors of the workforce. In particular, these new pension products sought to overcome some of the traditional barriers of access to supplementary pension provision. Traditional barriers of access to supplementary pension cover include the non-existence of occupational schemes in certain sectors, lack of affordability amongst lower paid workers and a pension system which was relatively unresponsive to the realities of the labour market and the needs of temporary and atypical workers. In addition, it was also difficult to move from one pension scheme to another. A tailor made retirement savings package designed to meet the needs of individuals formed part of the reform agenda. The benefits of this individual savings account, according to the CEO Pensions Board included:

> *"It was available to everybody, whereas the other type if you were in one type of employment you could have one if you were in a different type of employment you have another. This was available to everybody; employed, self-employed, unemployed, homemakers, carers, you name it, everybody could do this product so that was the main rationale behind the product."*

The PRSA product by its nature embodies the principles of other savings products in the private sector but with added public policy input in terms of incentivising take-up (using mechanisms such as tax relief). The idea of individual retirement savings accounts was developed in consultation with the social partners (through the Pensions Board) and the government departments subsequently prepared the necessary legislation. This is not to imply that all of the actors held similar views on PRSAs; it is clear that the various parties had taken up different negotiating positions but were prepared to support and test this initiative, so long as a commitment pertained to return to the issue in the event that PRSAs failed to deliver on their objectives (NPPI, 1998; Trade Union view, 2005).

The Wider Environment

The wider political and economic environment in which Irish pension system reform has taken place is also significant. Many international organisations hold a keen interest in pension policy, engage in research on demographic and cost projections and offer prescriptions on pension policy reform. This was most notably undertaken by the World Bank (1994) which advocated the strengthening of the private provision of pensions and warned against excessive state provision. The World Bank placed considerable emphasis on the merits of the Chilean model of pension provision which was offered as a blueprint for other countries to follow. Other international organisations such as the OECD continue to advocate for pension system reform on a global scale. In an address to the "Competing in a Fast Changing World: Strategies for Success" Conference dealing with financing retirement, the Secretary General of the OCED (Johnston, 2004, 2.) points to population ageing and the associated policy concerns and warns of the danger of reaching a serious crisis; he advises:

> *"To avoid these dire consequences, governments around the world need to continue reforming their public pension systems by adjusting their parameters (increasing retirement age, linking benefits to life expectancy, providing appropriate actuarial adjustments to benefits to early/late retirement, raising contribution rates) and promoting policies which are expected to help making ageing population sustainable."*

In tandem with these reforms, the OECD also seek a better public private mix in pensions, the objective of which is to promote risk diversification, balanced burden sharing between the generations, and greater flexibility for individuals in making their retirement decisions (Ibid.). The reform process undertaken in Ireland and the introduction of PRSAs might be seen to be broadly in keeping with these objectives. Pension system reform has been a predominant feature of 1990s welfare state reform internationally. The pace and scale of the reform has differed but there is evidence of a tightening up of eligibility to state schemes where the scope is available, a limit on the expectations to be placed on state schemes and promotion of greater private provision where possible. These are observable as overall trends in pension system reform although it is important to note that comparability in pension schemes is virtually impossible. Some pension systems remain state dominated (e.g. Germany, France and Italy) while other states have rolled back their commitments (e.g. UK) in favour of greater private provision.

The Trade Union view considers that the international climate of reform was also influential in shaping the context of pension system reform (and the introduction of PRSAs) in Ireland.

> *"… The idea didn't come out of the air, there were similar initiatives taken in other jurisdictions; there were similar initiatives in the US and there was a similar initiative in the UK. It also took place, and this is very important, it took place very much in an international context, because the international context is basically huge political pressure to move away from public provision of pensions into the private provision of pensions…"*

Much has been written in the literature about the nature of welfare reforms and the external forces coming to bear over the last decade in particular. Some commentators (Mishra, 1999) take the view that welfare reform has been hastened through the predominance of a neo-liberal approach to welfare rights sometimes aided by the discourse of globalisation. Others offer an alternative explanation that acknowledges welfare state reform or restructuring but see this more essentially in terms, not of a race to the bottom, but rather leading to greater convergence in the delivery of welfare and pensions. This wider environment of welfare reform may be said to have provided a positive impetus for the introduction of PRSAs with similar initiatives in place elsewhere. The 401k plans in the USA and the introduction of Stakeholder Pensions in Britain meant that the principle of the provision of pensions through such a vehicle has precedence elsewhere, notwithstanding the unique variants of the initiatives in each of these countries.

The main influencing factors behind the impetus for this phase of pension policy innovation in Ireland included the increased attention to issues of pensions, retirement and ageing, research and debate and the policy review and consultation phase which occurred between 1996 and 1998. The partnership process delivered consensus between key actors, despite the potential for conflict between the interested parties in the pensions arena. This helped to secure broad political support for the introduction of PRSAs. Challenges associated with the introduction of PRSAs were primarily of a structural nature in that new legislation was required to oversee the induction and regulation of PRSA products and greater resources were required by the Pensions Board to undertake this task.

The NPPI and PRSA innovations could be broadly characterised as policy-led and may be understood as 'top down' to the extent that the initiation and the consultation and review process that followed was led by key policy makers in the area. This is not to say that concern did not exist 'at the bottom'. Representative groups for workers and older people (and other interested parties) frequently voice their concerns about the overall adequacy of pension arrangements. As a public policy issue, the optimum provision of pensions is central to issues of work, retirement, economic growth and poverty avoidance and as such is relevant to all citizens (both current and future 'pensioners'). The universal nature of application does not of necessity generate widespread interest and concern, as many individuals view pensions as an issue 'out there' in the distant future, a point alluded to by some of the participants in the research.

The Design and Development of Personal Retirement Savings Accounts

The preliminary design of PRSAs was contained in the NPPI (1998) report. Considerable space was given in the document to outline the proposed key features, legal protection and the potential scope of PRSAs in terms of the growth of coverage and on lower paid sectors with historically weak coverage. Substitution effects, tax rules, the provision of universal access to employees, umbrella schemes, minimum standards and quality measures, terms and conditions, information for consumers, value for money, charges and commissions, investment choice, investment mandate, annuity purchase an index-linked securities and supervision, integration with existing schemes, regulation and approval of PRSA providers and education and awareness were also considered at this stage.

The Department of Social, Community and Family Affairs prepared the Pensions (Amendment) Bill 2001 in collaboration with the Pensions Board (Pensions Board, 28/03/02, press release). The Bill was launched in July 2001. Key actors continued their interest in the process with the IAPF holding a one day conference titled *Bringing NPPI to Life* in September 2001 (Irish Pensions Magazine, November, 2001, 28.). The Pensions (Amendment) Act 2002 was passed which provided the legislative basis for the introduction of PRSAs, allowed for the establishment of a Pensions Ombudsman and placed the onus of approval and regulation of PRSA products with the Pensions Board. The Pensions Board undertook the task of setting up the regulatory framework for the approval of PRSAs and began taking applications from financial providers in November 2002.

PRSA products are jointly approved by the Pensions Board and the Revenue Commissioners. Providers must be authorised by the Central Bank of Ireland or the Department of Enterprise, Trade and Employment. Application for approval must be made by two directors of the company along with a certificate from a PRSA actuary that submits that in their opinion the product meets the regulations and statutory requirements. The Pensions Board and the Revenue Commissioners have a number of criteria which must be satisfied. Fees are payable on application to the Board and product approval procedure will be completed within three months of receipt of a completed application (Pensions Board, 2003).

PRSAs may be offered on a standard or non-standard basis. Standard PRSAs have a cap on the charges which may be applied[5] by providers. No such cap applies in the case of non-standard PRSAs. The first 41 PRSA products were approved by the Pensions Board for sale to the general public in February 2003 (Pensions Board, press release, 24/02/03). All employers are obliged to provide payroll access to a PRSA (subject to certain conditions in relation to occupational pension schemes) since September 15th 2003 although there is no onus on them to contribute nor do they hold

[5] Charges cannot exceed 5% of contributions and 1% of the PRSA assets per annum on standard PRSAs.

any responsibility in relation to the investment performance of the fund (Pensions Board, 2003).

There are a number of rules in relation to the disclosure of information which providers must follow. These include expression of charges, information on commission and other charges, a Preliminary Disclosure Certificate (this shows the overall expectation of the benefits using certain assumptions before the contract is entered into), a Statement of Reasonable Projection (This shows the expected benefit of the fund based on certain assumptions related to future contributions and investment returns and to include other advice such as making adequate provision and a statement of the value of the state pension. It must be issued within 7 days of entering the contract.), statement of account (to include the total contributions and the transfer value of the fund, this must be issued at intervals not longer than six months), report on investment funds (also at intervals not longer than six months) and the disclosure of information to the Pensions Board (Pensions Board, 2003).

Selection, Diffusion, and Utilisation

The Implementation of Personal Retirement Savings Accounts

The Pensions Board has approved 10 providers and 56 PRSA products. The providers comprise the major life assurance companies and one building society operating in Ireland. Recent data indicates that 46,257 PRSAs have been taken out to the end of 2004. Almost 80% of these have been standard PRSA products. The total number of standard PRSAs purchased stands at 36,557 of which 20,286 have been taken out through their employer (Pensions Board, press release, 04/02/05). The Quarterly National Household Survey (CSO, 2004) indicates a slight increase in the supplementary pension coverage rate, from 50.7% in 2002 to 52.4% in 2004. Approximately 300,000 more pensions need to be taken out in order to meet the 70% target. While it is clear the PRSAs have not had an instantaneously large impact on pension coverage rates, over time there is evidence of a steady but very slow rise in their take-up. The significant questions that arise are a) whether this is trend set to continue and b) if they are reaching their target group.

There was widespread agreement amongst the participants that PRSAs are good and 'safe' products which are widely available and a reasonable amount of satisfaction was expressed in relation to the potential of the product overall. However, the challenge identified by all of the participants is to translate this greater availability into increased take-up. The participants considered their assessment of the implementation and success of the PRSA initiative to date. A variety of views were put forward, some acknowledging that while potential for this type of product exists PRSAs have not yet achieved the level of success expected of them. A number of obstacles were identified. Firstly, it appears that there is now greater regulation than was originally anticipated. As the Insurance voice puts it:

> *"…the checks and balances were sensible but they were developed with consumer protection paramount. They're safe; the product is safe but you've got a multi layer protection and an exhausting sales process which is defeating the purpose…"*

Participants did not object to the regulation of the products per se, but rather expressed concern about elements of 'heavy' or 'over' regulation. The Pensions

Lawyer considers that perhaps the Pensions Board and IFRSA regulations *"…are not quite joined up and I don't know whether that might have been planned a bit better…"* The business and employers representative organisation, IBEC, suggest that *"there is maybe an issue on the regulation that it's little bit more bureaucratic than it needs to be"* however IBEC point out that this does not offer a complete explanation for the lack of effective marketing of the product.

On an initial analysis, PRSAs may appear a potentially lucrative market for the pensions industry to pursue. However, two of participants questioned whether the capping of charges may have resulted in an absence of enthusiasm in selling these products in favour of others, where brokers may *"see profits elsewhere"*. The argument that pensions are sold and not bought has resonance here, because if there is a sense that the new products are not being sold then this may offer a partial explanation for the low take-up. Other elements of the findings suggest that the issue may be more complex because, while there are criticisms of the selling of PRSAs, participants agreed that the products were accessible, particularly through the major financial institutions. At one level therefore, there is much greater availability for those who wish to take out a PRSA, however, the sales process is reported by some to be difficult. For example:

> *"I am told that it is difficult for a provider to sell this product through an employer because they can't make one sale, if the employer has got 100 employees…there isn't an easy way to sign up 100 people they have to do them one at a time and they have to do documentation with each one of them…"*

From the employer's perspective there can be challenges too. According to IBEC:

> *"It's supposed to be a saving mechanism that the employer facilitates access to. Its a cost on the employer if its sitting there and employees aren't taking it up and no employer is going to contribute if they see their employees won't contribute in the first place."*

IBEC also expressed disappointment at the lack of selling of PRSAs by the Unions to their members. On the other hand, the SIPTU trade union President, Jack O'Connor has criticised employers who have saved on their PRSI contributions, where employees have taken out a PRSA, for not passing these savings on to the workers (SIPTU press release, 10/09/04). Similarly, the General Secretary of the Irish Congress of Trade Unions argues that *"The bottom line is that experience in Britain and the US clearly indicates that PRSA type pensions only work if the employer also contributes"* (Begg in The Irish Times, 14/09/04).

The overall question that arises relates to the lack of PRSA take-up in the context of widespread availability, if not the widespread selling of these pension products. The Trade Union view identified an ongoing *"awareness barrier"* and similarly the IBEC participant argued that; *"…I still don't think it's well enough known out there."* The Pensions Awareness Campaign that has run on an annual basis for the last two years appears to have had some impact in raising awareness but a significant challenge remains as the CEO of the Pensions Board points out *"…the awareness is up but the difficulty is to translate that into action."* This is a critical point in the development of pension policy; frequently individuals are aware of the need for pensions but ensuring that adequate provision is actually taken out is an issue of policy concern in many countries. The challenge that exists for all systems operating a voluntary system of supplementary pension provision is how to maximise the participation and contributions to retirement savings, given the long term nature of the outgoing. As one participant explains:

> *"There has to be something which makes somebody want to put away some money, there has to be something which makes somebody want to not spend now, to forego whatever enjoyment comes out of that consuming something at this point in time and put that away on the understanding that they're going to be able to use that later on, and they're going to get something for doing that…"*

It could be argued that this is already being addressed through the tax benefits available on PRSAs. However, some of the participants discussed what they saw as the limited capacity of the current structure of tax benefits to act as an incentive to lower paid workers. The supplementary pensions tax benefit system provides a tax exemption on a percentage of one's net income, calculated on the rate of tax paid. For those outside of the tax net, there is no immediate financial gain to contributing to a supplementary pension scheme. The Pensions Board has commissioned research on the role of incentives in increasing private pension coverage and this will form part of an overall report to the Minister later this year.

An additional point worth noting on the take-up of supplementary pensions (including PRSAs) relates to the possible influence of 'age-related' acknowledgement of the need for pension cover. The CSO (2004) survey indicates that supplementary pension coverage rate is lowest amongst the 20-24 age group at 23.2%. Coverage is highest for workers in the 35-44 year old age bracket at 62.2%. Given the relatively young population in Ireland, it is possible to speculate that as this group enter their 30s there may well be greater individual action and take-up of PRSAs in the coming years. Furthermore, it is important that the introduction of PRSAs is understood in terms of an addition to existing supplementary pension arrangements and to this extent, the longstanding role of occupational pension provision should not be overlooked. Indeed, one of the participants made reference to the important role that the original occupational and personal pension provision has played and continues to have in supplementary pension provision overall.

In terms of the impact of the new pension products, all of the participants referred to the question of PRSAs reaching the target group for whom they were intended. While data is not available to confirm this point, participants felt that there was evidence to suggest that PRSAs *"don't seem to have penetrated into the lower paid people, which is where we were originally trying to penetrate"*. More specifically the employers' group IBEC, the Trade Union and the Insurance participants expressed the view that PRSAs may sometimes be used by individuals with other supplementary pension arrangements. According to IBEC, *"They're probably being used as much as a supplemental pension vehicle as they are a primary pensions vehicle and that is something that will need attention obviously."* The Insurance voice felt that PRSAs are not reaching their target. With reference to the most recent figures on PRSA take-up, they consider that "*…at least half of that 40,000 are people who would have had* *pensions anyway."* Similarly the Trade Union voice offered the view that *"a number of the PRSAs that have been taken out are being taken out by people who are already over-pensioned…"*

Accounts of why PRSAs had not reached the target group varied widely between the participants. All viewed information and the need to promote greater awareness and action as key. In addition, the Insurance voice points to the lack of education in relation to financial planning and argues that: *"consumers don't have the knowledge of what their future financial needs are…"* Thereafter opinions varied on the slower take-up amongst the primary targets of the initiative. IBEC viewed marketing, and the lack of it, as the central consideration. The Union view pointed to the issue of affordability.

> *"There was always going to be one issue that was going to work as a barrier against them…affordability – people on low incomes not having, not feeling they have enough surplus cash to put away on a regular basis and to tie it up for that long…"*

While the participants agreed that PRSAs were not adequately reaching the target group and indicated where they felt the take-up was strong, they differed in their overall analysis of the success of the initiative to date. Some participants held negative views about the capacity of PRSAs to deliver on their policy objective. In contrast, IBEC maintain that *"…they have the potential to do so…"* but acknowledge the current difficulties as issues that need to be addressed. Despite the differing views on the long-term potential of PRSAs to meet their policy objective, there were certain common explanations to account for the slow take-up within the target group in the first place.

Attention was given to the wider financial environment within which the PRSA product was launched. The high stock market returns of the late 1990s was followed by much more modest returns on financial investments and this more difficult climate was acknowledged by the Chief Executive of the Pensions Board and by the Trade Union participant who pointed out that *"unfortunately for everybody the PRSA hit the market just at the worst possible time"*. Others also addressed the difficult timing of the initiative pointing to the dip in equity markets, the slow down in the economy at that time and some bad press received by a small number of financial services providers. Another influencing factor identified to account for the limited take-up by the target group was the prior development of a government savings initiative known as the Special Savings Incentive Account (SSIA). This was launched by the Minister for Finance in the Finance Bill 2001. The scheme allowed all individuals over the age of 18 residing in the state to contribute to such an account. The saver's contribution (up to a limit of €254 per month) is matched by an additional state contribution of 25% over a period of five years. Any investment income or gains will be taxed at 23% at the end of the five year period (Department of Finance Committee Stage Proposals, 06/03/01). The scheme commenced in May 2001 and accounts had to be opened by the end of April 2002. SSIAs were popular and broadly subscribed to with 1.13 million accounts currently in existence. Commentators in the field also made reference to the challenge faced by PRSAs in competing with this very attractive shorter term savings vehicle.

Current Evaluation of the Personal Retirement Savings Account Innovation

Notwithstanding the challenges presented by the take-up of PRSAs to date, it is clear that there have been some positive benefits from their initiation. It would appear that awareness levels in relation to planning for retirement and the need for long-term saving have improved. While this has not necessarily led to a corresponding shift in behaviours, perhaps this is something that, of necessity, takes time. In addition, the introduction of PRSAs has located access to pension provision arrangements with employers and although views differ on the absence of a mandatory obligation to contribute, the provision of a key point of access remains important. Thirdly, the issues that arise in relation to the composition and needs of the take-up group suggest that research and monitoring be on-going. Key actors in the process continue to indicate a keen interest in the wider issues of pension provision for the future.

Personal Retirement Savings Accounts preliminary positive outcomes
Greater public awareness of the issue of retirement savings
Widespread availability of retirement savings products – banks, building societies etc.
Provides a well regulated and flexible retirement savings product
Allows supplementary pension access through the medium of employers
Awareness promotes discussion and debate at a variety of levels – policy makers, key actors etc

Table 1: PRSA innovation – preliminary positive outcomes

The table above illustrates some of the positive benefits associated with the introduction of PRSAs identified in this research. In this difficult area of public policy many of these are significant outcomes, while noteworthy at this stage, can only be fully evaluated over the longer term. PRSAs have only been available for two years and in that context it is somewhat premature to offer anything other than a preliminary assessment of the implementation of this policy innovation at this stage. The solid design, regulation and accessibility of PRSAs were sources of positive comment across the participants. The full potential of PRSAs may yet be realised but key actors were conscious of some of the negative external factors which came to bear on the take-up on PRSAs at the outset. Furthermore, all of the participants were concerned about the ability of the initiative (in its current form) to reach its intended target group.

In general terms, the participants expressed disappointment and concern about the limited impact of PRSAs to date. Specifically, while the publication of data is awaited to confirm the argument, some participants were convinced that a sizeable proportion of the PRSA uptake was amongst a group which it was felt would have made or gained access to supplementary pensions without the new initiative. In short, the concern centred on the perceived lack of PRSA penetration within the target group. This is one of the key findings of the case study in that it highlights the difficulties in promoting retirement savings in general and in motivating and facilitating the inclusion of the target group in this type of retirement saving in particular. The table below offers a synopsis of the main challenges facing the PRSA innovation at the present time.

Personal Retirement Savings Accounts current challenges
Translating greater public awareness of the issue of retirement savings into action.
Addressing perceptions of excessive regulation and lack of simplicity.
Promoting and incentivising PRSAs amongst the target group.
Re-evaluating the effectiveness of the PRSA initiative in the context of overall pension provision and the target set.

Table 2: PRSA innovation – current challenges

With regard to the development and promotion of the PRSA product itself, obstacles are perceived to exist in relation to levels of information and education, regulation requirements and take-up amongst the intended target group. A policy review is currently being prepared by the Pensions Board for the Minister for Social and Family Affairs which will encompass an examination of the strategic objectives put forward in NPPI (1998), a review of the coverage targets set for supplementary pension provision, consideration of the current position of second pillar pensions and an examination of wider options in relation to adequacy and coverage (Pensions Board, March 2005). It appears therefore that debate on the optimum provision of pensions and preparation for retirement is likely to be re-visited later this year, both in the context of the Report being prepared for the Minister and in the upcoming National Social Partnership talks in the autumn. In addition, the various actors in this area continue to work on their positions and ideas in relation to a pension strategy for the future. Two of the participants pointed to alternative proposals being put forward by various groups for the future of pension provision, outside of PRSAs.

Alternative Policy Proposals

Pension providers and other interested parties continue to advocate for further developments in pension policy in Ireland – a small sample of these are briefly outlined here.

The Irish Association of Investment Managers (IAIM) argue that the lack of access to money put away for retirement is a difficulty in encouraging people to save for the longer-term. The IAIM suggest that the introduction of a Lifetime Flexi Investment Account could promote saving for retirement while allowing individuals to access up to 30% of the contributions of the previous five years. Under these proposals the IAIM suggest that tax relief should be available at the standard rate of tax (20%) on contributions up to 3,000 per annum. Individuals outside of the tax net should receive a 20% government bonus on their contributions. The objective is outlined by the IAIM retail funds committee chairman: *"What we are trying to do is incentivise people to save for the long term but not prevent access to the money"* (Connolly in

Slattery, 18/03/05). The IAIM suggest that SSIAs should be allowed to be used to start up such a scheme.

The Irish Insurance Federation (IIF) prepared a pre-budget submission which placed considerable emphasis on *"closing the Irish savings gap"*. With regard to pensions there were three main elements to their proposals a) financial incentives to SSIA account holders to encourage them to reinvest in retirement savings b) the introduction of a personal pension for every child in the state and c) the widening of access to Approved Retirement funds. The key talking point from this submission is the proposal to provide every child in the state with access to a personal pension. The rationale for this proposal is outlined as follows:

> *"A persuasive argument can be made for the establishment of a personal pension for every child (up to age 18) within the state, building on the successful State/citizen partnership SSIAs. All the evidence demonstrates that there is a serious crisis ahead in relation to pensions and that radical steps are now required without further delay."* (IIF, 2004, 8.)

Specifically the IIF proposal outlines both a mechanism and cost base for such a scheme. They propose to deliver their initiative along the lines of the SSIA, but with a flat government payment for all children which could be supplemented by a parent or sponsor of the child, and to which the government could add (€1 for every €5 contributed by the sponsor). At the age of 18 the fund is taken over by the individual. At age 25, the individual may withdraw 25% of the gross value of the fund, on the condition that he/she has contributed 5% of earnings when working. The IIF (2004, 9.) stress that this initiative is not primarily concerned with the size of the fund but rather, *"it is about the development of a "Savings Habit" at an early age which if successful will produce an adequate retirement income."* The largest trade union in Ireland, SIPTU have expressed their support for such an initiative (SIPTU, press release, 30/04/04).

The financial service provider, Friends First has recently argued that the state may need to consider making supplementary pensions compulsory in order to get more people committed to retirement provision. In particular, they advocate the removal of the 23% exit tax on SSIAs for individuals who decide to place the proceeds in a pension (McCaffrey, 26/01/05). The importance of incentivising a transfer from the SSIA to a PRSA has also been stressed by the Chairman of The Irish Association of Pension Funds (Feely in The Society of Actuaries in Ireland Seminar, 15/10/2002):

> *"A major opportunity also exists to encourage those who have found the ability to save through the SSIA scheme to continue to save for retirement when the SSIA scheme finishes, though we need to reduce the overall level of complexity in pensions if we wish to substantially increase pension take-up."*

Wider pension issues also remain the subject of discussion amongst the interested parties in Ireland. The Society of Actuaries in Ireland (2003) argues that increasing the retirement age is the best way to reduce the cost of state pensions in the future. Others suggest that greater flexibility in retirement policy would be useful. Some actors point to the need to consider a scheme for lower paid workers to top-up their contributions to a state fund. It appears therefore that the debate around the appropriate overall balance in pension provision is set to continue.

Finally, this micro-examination of a key initiative in public policy is illustrative of wider debates which presently pertain on the nature and balance of welfare and social service provision in Ireland. The comparatively low replacement rate of state pensions demands a robust and accessible second pillar for supplementary pensions. This reflects the wider weaknesses of the Irish welfare state and pension provision appears to follow a pattern which reflects the dualist nature of the welfare state in evidence in many other areas of public policy such as housing and health. Ireland occupies an unusual position in pension terms; it clearly offers a stronger element of state protection and provision than that which exists in the UK but it is equally removed from the more state dominant pension models which prevail elsewhere in Europe. Any subsequent reforms need to be mindful of the balance which is sought in the overall approach to pension provision now and into the future.

Case Lessons and Policy Advice

The Process

The interviews conducted for this research found considerable support for the consultative and participative process through which PRSAs were arrived at as part of the overall package of policy measures designed to provide a strategy for the future of pension provision in Ireland. All of the participants interviewed spoke in broadly positive terms about the social partnership model of policy making in this area of public policy, although the Union view was critical of the earlier composition of the Board, in terms of the balance of representational interests. The advantages identified with this approach included the participatory nature of the process, the fact that so much time and expertise was given voluntarily by interested parties, the value of arriving at a consensus in order that support existed between key actors and was of benefit in promoting a particular strategy/approach which prevented a more divisive political debate from taking place.

This particular approach to pension system reform has been the subject of much international interest and the Pensions Board has been invited to several countries to outline the process of policy development adopted in Ireland (CEO Pensions Board, 2005). Notwithstanding the wider discourse that exists in relation to the merits or otherwise of this approach to policy making, the level of international interest in both the process and the outcomes of this area of public policy innovation is noteworthy.

Implementation and Review

The timing of the introduction of the PRSAs was widely recognised as difficult. The decline in pension fund returns after the buoyant years of the 1990s brought a certain degree of nervousness around the long term value of pension products and this was not helped by the poor press given to particular products and some financial institutions. PRSAs were launched a number of months after the government's savings initiative (SSIA). It was difficult for PRSAs to compete with both the generous returns and more importantly the shorter term nature of the saving. Post 2001 also saw a slightly more cautious outlook on economic growth in Ireland.

NPPI (1998) stressed the importance of simplicity in developing the pension system. The addition of a new more flexible pension product was to be introduced in a way that would maximise its effectiveness, particularly in being simple, accessible and value for money. The cap on charges was identified as a possible explanation for the lack of selling by some brokers. However, it was also important that the products be properly regulated and there appears to be overall satisfaction in this regard. Concerns highlighted in this case study identified areas where regulation had led to overly cumbersome sales procedures and an absence of selling overall, particularly to the group for whom the PRSA products were intended.

One of the most positive aspects of this product innovation is the way in which availability has been increased both at the level of financial institutions, through off the shelf type products, and in employment. It is a remarkably innovative product in this respect which allows individuals to move freely between employments without impeding their pension rights and retirement savings. The statutory obligation on employers to facilitate access provides an important mechanism through which retirement savings can be made. The design of PRSAs has managed to succeed in providing widespread availability of the products but ensuring their take-up has been more difficult and demonstrates the wider challenge that exists in ensuring effective implementation in this area of public policy.

PRSAs are subject to tax benefits similar to other supplementary pension arrangements and these have been the main incentive mechanism used in many countries, including Ireland. It appears however that tax benefits have not been sufficient in attracting individuals to take out PRSAs in the numbers hoped for. Some participants pointed to the limitations of the tax benefit system for lower paid workers in particular. Closer examination of the structure of incentivisation for the target group emerges as a policy lesson from this case study.

Finally in terms of implementation, while the PRSA offers a uniquely flexible retirement savings product there was a general acceptance that the relatively low take up rate would have to be addressed. For some participants this raised the importance of the current review of the implementation of NPPI (1998). As previously outlined the Pensions Board is in the process of preparing a Report for the Minister on the National Pensions Policy Initiative. The ongoing nature of the monitoring and impact assessment is a central feature in the implementation process of this initiative to date.

Policy Advice Arising Out of the Case Study

The policy advice outlined below covers the range of views expressed in the interviews and/or evident in the debate on pension provision in Ireland at present.

Simplification

- Work towards greater simplification of the pension system as a whole.
- Clarity in relation to the different supplementary pension options available and consideration of whether Retirement Annuity Contracts[6] are required to remain in existence.
- Greater simplification of the sales process for both PRSAs provided through employers and in the 'off the shelf' products.

SSIAs

- The introduction of an incentive scheme to encourage individuals to transfer from the SSIA to a PRSA product.
- Bank of Ireland found in survey of its SSIA customers (23% of the market share) that 86% would continue to save if incentivised. They also found that 51% would transfer all or part of their monies to a pension fund if a tax incentive was introduced. The survey indicated that that 70% of the customers identified pensions as their first savings priority (Finfacts, 2005).

Incentives and the Target Group

- Create a more detailed profile of the target group in order to build up a package of incentives applicable to their situations.
- Investigation of alternative incentive package(s) should be considered for the target group. Suggestions include a minimum refundable tax credit to low paid workers (SIPTU, press release, 30/04/04) or the application of the SSIA (or other similar model). Alternatively, some of the target group may be better served by having the opportunity to contribute additional or AVC type payments to their social insurance pension (Rapple, 16/07/00).

Education and Information

- Education programmes on managing personal finances (possibly beginning in school)
- Promote greater awareness of the benefits of PRSAs (short term and long term)

Consideration of policy alternatives including:

- Improving incentives for lower paid workers
- Mandatory employer contributions
- Compulsory pensions
- Pensions for Children
- Lifetime Flexi Investment Account

Wider pension issues also arose in the context of the interviews conducted but were considered beyond the scope of the research for inclusion here.

[6] Personal pension plans (other than PRSAs)

Conclusion

This case study offers an insight into the process, design, implementation and review of a major policy and product innovation in the pension system in Ireland. The unique nature of the reform process and its defining characteristics are explored and the main features of the implementation of PRSAs are outlined. While the initiation of process dates back to 1997 it is important to note that this case study documents a work in progress to some extent, given that the product has only been available for two years at this point. To this extent, an overall assessment of this product innovation is not possible although the research conducted indicates the importance of both policy innovation and policy learning through the implementation stage.

The findings of this research highlight the impact of the unique social partnership approach applied to this area of public policy making in Ireland and illustrate the capacity for pension system reform to be delivered using this model of policy making. Specifically in terms of the initiative in question, PRSAs offer an example of a significant product innovation in pension provision. It documents the outcomes and achievements of the initiative but also identifies the challenges posed by the steady but relatively slow take up of these products to date. The findings of the fieldwork and recent commentary have informed the overall evaluation offered and the policy advice put forward. The author is grateful to all of the interviewees that agreed to participate in this research.

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Research Design

This case study relies on both documentary analysis and in depth interviews with key interests in the area of pensions in Ireland. The documentary and policy analysis establishes the policy and legislative context and reform process out of which PRSAs emerged as a new product innovation in the Irish pension system. The documentary analysis provides important background and contextual information within which both the deliberative process and the product innovation itself may be more fully understood. Recent data and current policy positions are outlined with reference to key statistics and policy statements available from key actors. A wide range of sources have been used for this purpose.

Face to face in-depth interviews were conducted with a broad range of actors in this area of public policy. All of the interviewees have been involved in the consideration of pension system reform and/or the introduction of PRSAs at some level in Ireland and were in a position to offer great insight which has provided a very informative source of material for this case study. A number of individuals from a range of agencies and positions were invited to participate in this research and every effort was made to secure a balanced sample of participants. Five in-depth interviews were conducted with expert participants from various constituencies. The interviewees included the Chief Executive of the Pensions Board, Ms. Anne Maher. The employers' body IBEC also participated in this research. The three other interviewees offered personal and/or agency/organisation views. For this reason and for the purposes of clarity, reference is made to their contributions by way of a broad title only and cannot be taken to be representative of the views of any entire constituency, agency or organisation in particular.

Interviewees were drawn from the following sectors:
The Pensions Board
Irish Business and Employers' Confederation
Trade Union
Pensions Lawyer
Insurance Industry