

Pensions in Ireland

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The Study of Health and Retirement in Europe (SHARE) released the first wave for Ireland in 2008. It provides a unique micro-dataset of older persons aged 50+. This bulletin gives a brief overview of statistics related to pensions and labour force behaviour.

JEL-Codes—H55 (Social Security and Public Pensions); J26 (Retirement Policies).

PENSIONS-INTERNATIONAL COMPARISON

In the OECD, Ireland stands out from public pensions in other countries (table 1). Old-age benefits as a share of GDP are only 2.5 percent. This is ½ of the US and only 1/5th of the Austrian expenditures. In line with the low expenditures, the payroll tax rate for old age benefits is relatively low in Ireland, at 12.5 percent of gross salary. Only the US has a lower rate, while most countries are near a rate of 20 percent. Of course, Ireland has a slightly lower old-age dependency ratio than most OECD countries, whereas most developed economies are experiencing an increasingly ageing population. By 2050, the ratio of retirees to workers will deteriorate from 1:5 to 1:2 in Ireland. This will impose a huge financial burden on the public pension system which is based on intergenerational redistribution.

Table 1. Public finances

Country	Old age benefits as % of GDP	Payroll tax rate	Old-age dependency ratio	
			2000	2050
Ireland	2.5	12.5	19	50
Austria	12.4	22.8	25	55
US	5.4	12.4	21	39
Germany	11.1	19.9	26	54
Switzerland	6.5	23.8	25	43
Sweden	7.4	18.91	30	43

Source: OECD (2007).

In most OECD countries, the standard age of retirement is 65 or 66, but the actual labour force withdrawal rate is quite different. Table 2 shows that it is generally lower, except for Ireland and Switzerland. Also, SHARE data confirms the average retirement age above 66. This indicates that Irish workers are willing to work longer than their European colleagues (Gannon, 2007). Due to the negative impact of an ageing population and

with increased life expectancy, the OECD recently recommended raising the retirement age beyond that of 65.

Table 2. Statutory vs. average retirement ages

Country	Statutory retirement ages		Average retirement ages	
	Males	Females	Males	Females
Ireland	65	65	65.2	66.2
SHARE			66.2	66.4
Austria	65	60	59.6	58.9
US	65	65	65.0	62.9
Germany	65	65	60.9	60.2
Switzerland	65	63	66.6	63.2
Sweden	65	65	63.5	62.0

Sources: OECD (2007), SHARE (2008).

The general target of public pension systems is either income replacement or minimum standard of living in old age. The Irish system targets the latter. Public pensions in Ireland are a basic first pillar of old-age income. The net replacement rate of pre-retirement earnings is relatively small in the low-income range (table 3). Since pension benefits are flat rate, the net replacement rate declines in the level of pre-retirement earnings. In contrast, countries like Austria have a public pension system that covers 90 percent of pre-retirement earnings for low and middle income earners. In an OECD comparison, the replacement rate in Ireland is uniquely low.

Table 3. Net replacement rate, selected countries

Country	Net replacement rate by earnings level by share of average pre-retirement net earnings, men					
	0.5	0.75	1	1.5	2	2.5
Ireland	65.8	49.3	38.5	29.3	23.5	19.5
Austria	90.4	90.6	90.9	89.2	66.4	53.7
US	67.4	58	52.4	47.9	43.2	38.6
Germany	53.4	56.6	58	59.2	44.4	35.4
Switzerland	75.7	69.4	64.9	46.2	35.4	29.2
Sweden	82.9	70.6	65.6	73.5	74.9	74.9

Source: OECD (2007).

PUBLIC PENSION BENEFITS

In Ireland, pension benefits are in principle flat rate, so there is no earnings test (table 4). There is no form of early retirement pension. Since 2007, the *Pre-Retirement Allowance* is no longer available. The *Invalidity Pension* can be claimed prior to the

statutory retirement age. Other forms of disability, survivor and homemaker benefits are available. At the age of 65, Irish workers are entitled to the *State Pension (transition)*, substituted at ages 66+ by the *State Pension (contributory)*. Eligibility and the level of benefits require a certain number of average PRSI contribution weeks per year. The *State Pension (non-contributory)* is available from age 66+ if these eligibility conditions are not met. Maximum pension benefits amount to EUR 230 per week. Supplements are granted for adult and child dependants. Individuals can supplement with occupational and private plans if possible.

Table 4. Public pension plans, Ireland 2009

Benefit per week	PRSI* Contributions	State Pension (transition)	State Pension (contributory)	State Pension (non-contributory)	Invalidity Pension
	48 +	230.30	230.30	219	209.80
Flat-rate benefit	20 - 47	n/a	225.80	219	209.80
	15 - 19	n/a	172.70	219	209.80
	10 - 14	n/a	115.20	219	209.80
Supplement adult dependant		153.50	Max. 153.50	144.70	149.70
Supplement adult dependant 66+		153.50	Max. 206.30	144.70	206.30
Supplement child dependant		26 or 13	26 or 13	26	26 or 13

Source: Irish Department for Social and Family Affairs (2009).

LABOUR FORCE BEHAVIOUR

Labour force participation rates of older workers in Ireland rank in the middle of the OECD distribution (table 5). There is a sharp decline in labour force participation between the age groups 60-64 and 65-69, because most workers retire at the statutory retirement age of 65. SHARE has a relatively exact approximation of participation rates in Ireland, except for the age group 60-64. There, the participation rate in SHARE Ireland is almost 10 percentage points lower than the OECD reported rate.

Table 5. Labour force participation, selected countries

Country	Labour force participation rates by age group				
	55-59	60-64	65-69	70-74	75+
Ireland	63.5	46	18.5	8.6	3.4
SHARE	68.7	37.9	18.4	9.1	3.2
Austria	57.2	8.4			
US	72	53.3	29.7	17.2	6.8
Germany	74.6	36.1	3.6		
Switzerland	82.2	55.3	17	9.4	3.8
Sweden	82.8	63.6	15.0	6.5	

Source: OECD (2007), SHARE (2008).

SHARE is a panel study of people aged 50+. What is their socioeconomic situation (figure 1)? Overall, approximately 1/3 has already taken up retirement, 1/3 is still participating in the labour force, and the other 1/3 is homemakers, disabled or living off own property. While almost 1/2 of the male sample is retired, only about 27 percent of females live on a pension. 43 percent of men are still in the labour force, while the female share is only 30 percent. This reflects that male labour force participation rates are in general higher than female

participation rates. The mirror image of this pattern is a much higher share of homemakers among women (35 percent) compared to men (1 percent). The shares of unemployed and disabled people are in contrast relatively equal across genders.

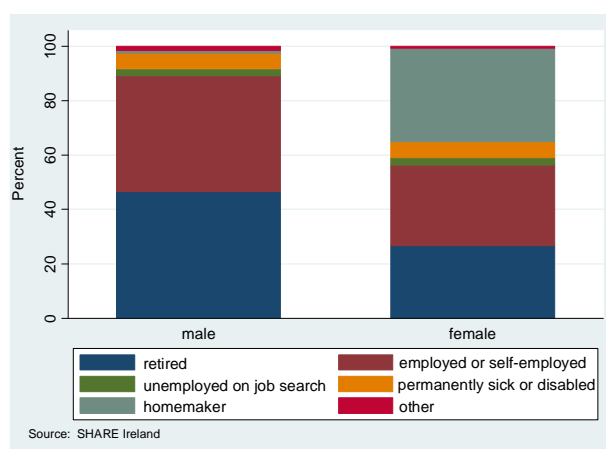


Figure 1. Current job situation

PUBLIC PENSION PROGRAMMES

Figure 2 shows that the major pathways into retirement in Ireland are the *State Pension (contributory)* and the *State Pension (non-contributory)*. Of the people who reported to have already retired, almost 68 percent of males and 52 percent of females are on one of these pension programmes. The share of female retirees receiving a regular public pension is 16 percentage points below the male share. This reflects the lower labour force participation of women. For this reason and because of the longer life expectancy of females compared to males, the share of widower's pensions is much higher for females.

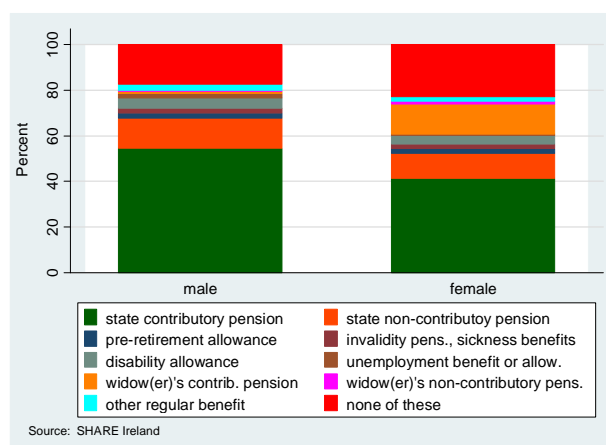


Figure 2. Public pension programmes by participants

OCCUPATIONAL PENSIONS

A second pillar of retirement income is an occupational pension. There is a huge differential in the share of males and females receiving this form of retirement income. While

roughly 40 percent of male retirees have a second pillar income, only about 26 percent of female retirees receive an occupational pension (figure 3).

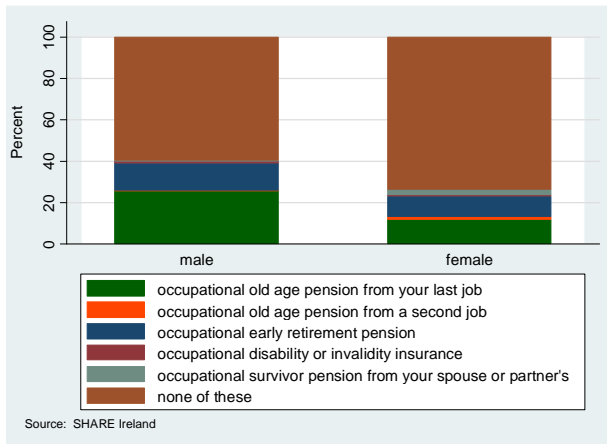


Figure 3. Occupational pensions

SUMMARY

The data in SHARE provides access to the analysis of labour force behaviour of older workers in Ireland. Pension programmes and the financial incentives embedded in them play a crucial role in the decision to retire. Therefore, we will use this data to evaluate the role of pension schemes in the retirement decision. Future research at the Irish Centre for Social Gerontology will deal with the impact of specific pension plan features on retirement.

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