9th Annual NERI Labour Market Conference Webinar
Tuesday 6th July 2021

The Covid Pandemic and Pension Provision

Jim Stewart, Trinity Business School, Trinity College Dublin.

Bridget McNally, School of Business, Maynooth University

Both Authors are members of the Pension Policy Research Group

Pre –Pandemic Pension Issues

- **The OECD stated pre-pandemic (2020):-" Population ageing, with longer lives to finance in retirement and smaller cohorts entering the labour market as well as a low economic and wage growth environment, low returns in traditional asset classes and low interest rates, were already weighing heavily" on all pension system.**

- **For Ireland the recent 'Interdepartmental Pensions Reform and Taxation Group (2020)' stated:-**

- **"The policy objective has been to meet a target level of supplementary pension coverage (defined as 70 per cent of the workforce aged over 30) and an income replacement target, (defined as half of pre-retirement income).. .. .. .. both policy objectives have not been fully achieved".**

Structural Shifts in Economic Activity

- **The Covid 19 pandemic has resulted in large structural shifts in economic activity that may be long lasting - home working, on-line shopping, a decline in city centre economic activity, a growth in suburban activity and a collapse in airline passenger traffic.**

- **The problem is the pandemic has had very different impacts on different sectors. Some of these effects will result in reduced employment and firm closures. Others will result in increased employment and firm expansion for example logistics and warehousing.**

- **Home working/remote working may also lead to shorter duration employment contracts in certain sectors, for example those with certain I.T. skills.**

- **All this has implications for pension coverage and adequacy.**

Pension Coverage by sector

- Table (1) shows Pension Coverage is lowest in those sectors most affected by the Pandemic for example Accommodation and Food

Sector	Q1 2008	Q4 2009	Q4 2015	Q3 2018[1]	Q3 2019[1]	Q3 2020[1]
All sectors	56.3	51.2	46.7	47.1	50.4 (59.8)	55.0 (64.7)
Accomm. and food	22.7	17.3	13.1	9.2	11.2 (17.7)	15.0 (21.1)
Other NACE activities	30.2	27.0	23.3	22.9	23.7 (36.4)	25.8 (35.0)
Wholesale and retail	36.2	29.6	26.5	27.4	30.2 (39.3)	33.2 (41.7)
Admin and support	37.9	29.1	24.9	26.2	30.6 (45.3)	35.8 (49.7)
Part time	31.7	23.7	22.3	22.7	24.5 (38.1)	26.2 (40.1)
Non-nationals	53.6	28.1	29.2	30.0	33.0 (40.1)	41.0 (47.2)
Self employed	45.8	36.4	22.9	28.4	24.5 (38.1)	27.6 59.2)

- (1) includes deferred pensions

Membership and asset of occupational pension Schemes

- Membership has grown through time but especially amongst DC type scheme
- Greater growth in DC assets compared with DB assets reflecting growth in DC membership.

	DB Membership	DB Assets € billion	DC membership	DC Assets € billion	Total assets CB Data	Total Assets IAPF data
2020					**124.9**[1]	
2019	**500810**	**94.0**	**381430**[2]	**59.9**	**120.5**[1]	**153.9**
2018	**494289**	**90.7**	**351657**	**52.6**		**143.3**
2017	**457220**	**91.2**	**329297**	**56.4**		**147.6**
2016	**471608**	**77.9**	**299782**	**47.6**		**125.5**
2015	**465150**	**71.3**	**281629**	**43.7**		**115.0**
2014	**469766**		**263261**			

Personal Pensions 2019

- The largest number of employees have personal pensions (Table 3), although some may be additional to occupational pensions.
- Total assets and average values are low
- Table 3

Pension product	members/contracts	Value of Funds € billion)
PRSA	298,532	7.5
Retirement Annuity Contract (RAC)[1]	120,000-140,000	3.4
Buy out Bond/Personal Retirement Bond[2]	150,000	7.0
Single member DC schemes	66,201	?
Total	634,733[3]	

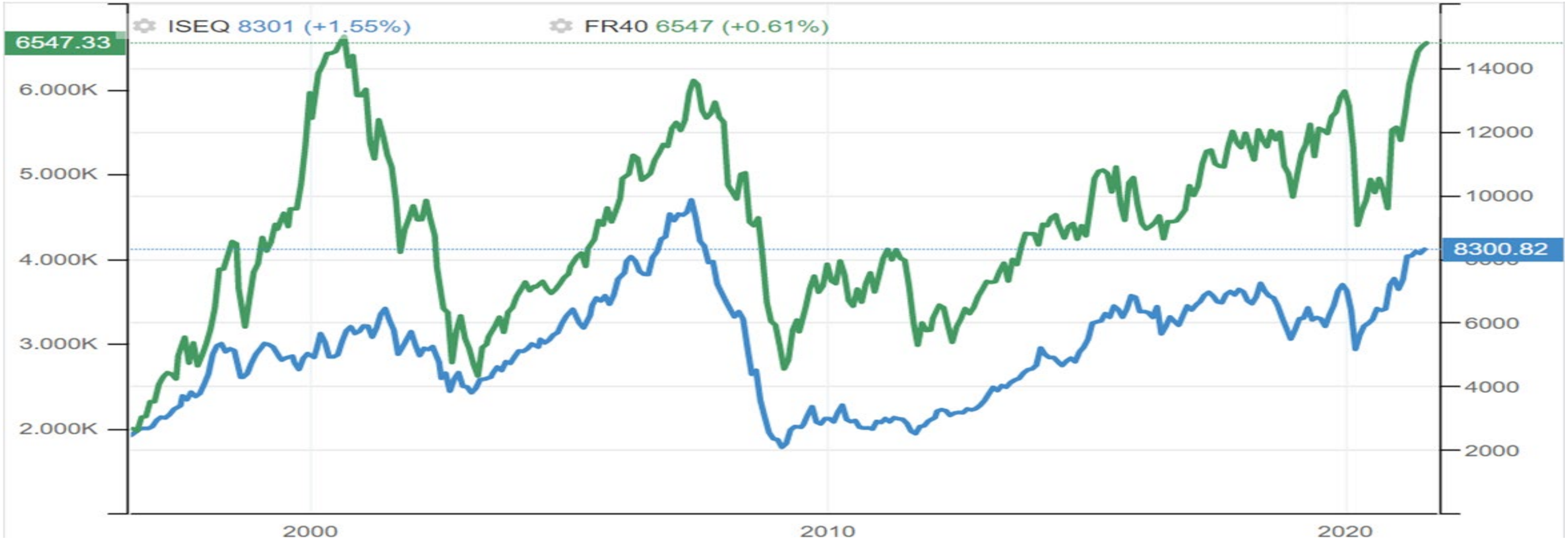
- The total includes members of Dc schemes, as well as those with more than one PRSA contract

Effect of the Pandemic on Pension Values and Returns

- A key question is the effect of the pandemic on pension values and returns.
- Two main categories of assets held by pension funds – equities and bonds.
- The most recent IAPF survey (2019) shows 42% of DB assets consisted of bonds and 21 % equities.
- DC schemes held just under 50% in equities and 22% in bonds.
- Financial markets have shown considerable volatility over the past 25 years.
- In general indices are now near their all time peak (there are exceptions for example for Ireland and Japan).
- A key question is will volatility persist ?
- Given volatility in values, pension payments on retirement have become a function of the time period when those assets were accumulated and the time those assets were converted into a stream of income.

Irish and French Indices 1995 -2021

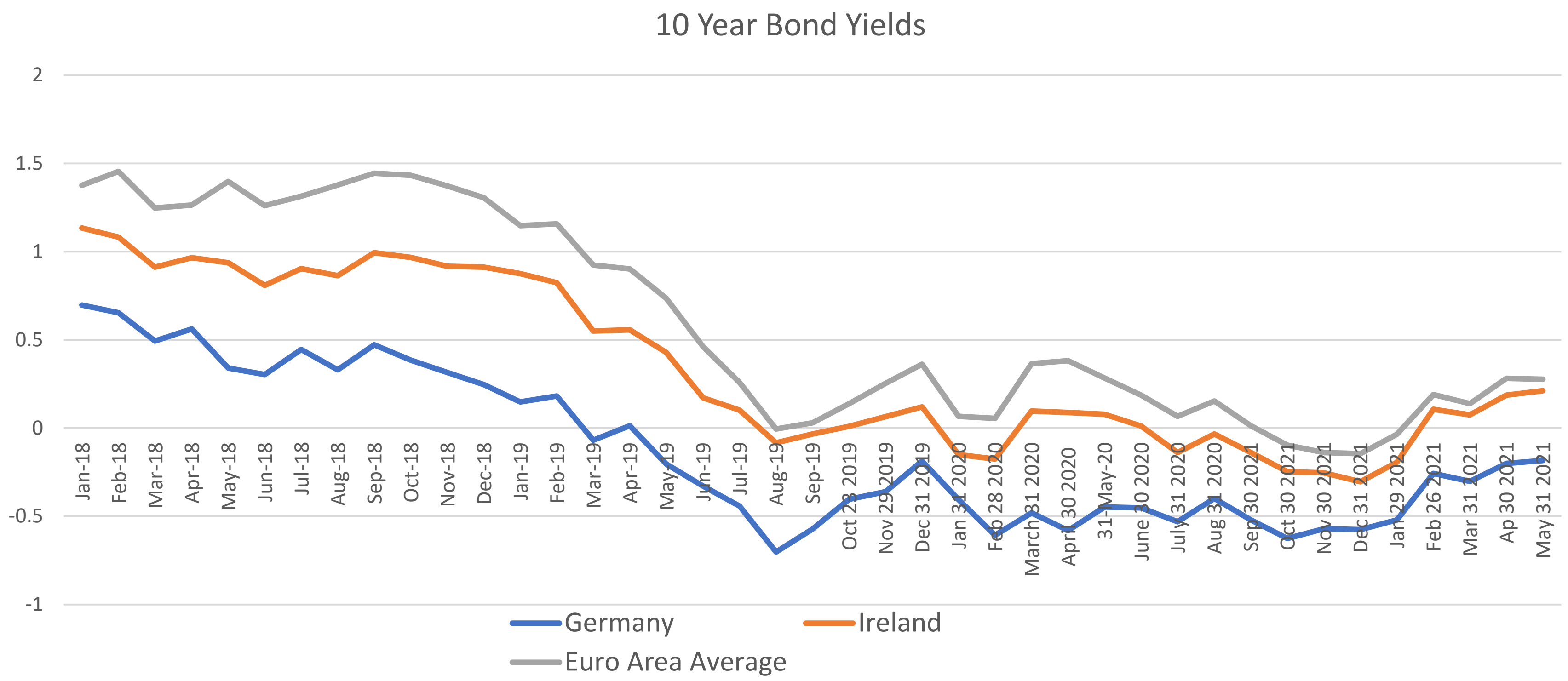
- Share price indices have shown considerable volatility in recent decades.
- This is indicative of volatility in value of pension fund assets



- Source:Trading Economics

Bond Yields Jan 2018 – May 2021

- The chart has two main features that have negative effects on pension fund assets.
- (1). Negative yields from March 2019 for Germany. Other Euro area countries show a similar pattern
- (2) A return to positive but low yields for Irish bonds. However this rise in income is associated with a drop in capital values.
-



Implications of low Bond Yields

- The long bond yield is used in converting lump sums to a stream of pension payments.
- Low or negative yields mean the accumulation of sufficient funds to provide adequate pensions is difficult.
- The size of fund required to fund an adequate pension stream requires a high proportion of savings from current earnings.
- Yields amongst other factors reflect ECB and EU countries response to the pandemic in terms of increased borrowing.
- This has increased risk to financial markets from inflation and interest rate rises as a policy response.

Wealth and Pension Coverage

- **Owner occupiers) ae 2.8 times more likely to have pension coverage compared with rentiers (HF&CS 2018 Table 3).**

- **Table 4 shows, in contrast to a positive relationship between housing wealth and pension coverage, a negative relationship between pension coverage and covid-19 support schemes.**
- **One effect of the pandemic is to widen inequality between and within countries.**
- **Youth unemployment (those aged 15-24) while consistently higher than standard unemployment (those aged 15-74), rose to 64% in April 2020, compared with an overall rate of 30%**
- **US research indicates that lower income households have experienced much larger proportionate changes in income and wealth than higher income households.**

Pension Coverage and Covid Support Schemes

Sector	Members of pension scheme % (1)	Members of pension scheme % (2)	Employees Benefitting from Covid support scheme %
Agriculture, forestry and fishing	31.4	48.8	1
Construction	44.6	61.8	7
Wholesale and retail trade; repair of motor vehicles and motorcycles	33.2	41.7	13
Transportation ad storage	54.5	67.0	8
Accommodation and food service activities	15.0	21.1	30
Information and communication	62.6	73.5	1
Financial, insurance and real estate activities	81.3	90.1	1
Professional, scientific and technical activities	46.1	62.5	6
Administrative and support service activities	35.8	49.7	6
Public administration and defence; compulsory social security	93.0	95.8	0.4
Education	80.8	86.2	4
Human health and social work activities	61.0	68.7	7
Correlation	-0.7	-0.8	

Sectoral Effects of the Pandemic

- **The MNE sector in particular pharma, internet and social media firms and their employees have benefitted. Public sector employees have maintained their jobs and pay**
- **In contrast there has been large disruptions to indigenous business with rises in unemployment, in retail services, hospitality and tourism.**
- **Some of these differential effects can be seen from numbers of employees of the Employment wage subsidy scheme in Table (5) below.**

Industry Sector	No of Employers	No of Employees	% of Total Employees
Wholesale and Retail	6290	70340	20
Accommodation and Food	5180	66823	19
Construction	5550	38687	11
I.T. and Other Information Services	740	3517	1
Across all Industries	37000	351700	10

What Solutions are being put forward?

- **The OECD (2020, p. 42) state the solution is “maintaining investment strategies” and “portfolio investment”.**

- **These views have also been supported by the pensions industry (Mercer, 2020, p. 9 and 20).**

But…

- **It is unlikely those with low wage jobs, without financial assets and especially housing assets, will increase savings for retirement.**
- **Many of these (?) will have ceased contributing to occupational and personal pension plans because of unemployment, short time working etc.**
- **An unknown number will experience longer term unemployment post recession because of sectoral shifts in employment.**
- **Increased saving for this latter group is not possible.**
- **Those that have lost personal wealth may not find it possible to replace.**
- **In particular current younger age cohorts are likely to have future lower net financial wealth because of low house ownership rates.**

Possible solutions

- **A partial solution is economic growth that results in job creation, rather than nominal GDP growth.**
- **Embracing EU driven economic policies (carbon neutrality, environmentally sustainable occupations.**
- **A universal low cost pension provision - State Social security based pensions.**
- **This means an increase in overall social security rates (employer and employee combined).**
- **There needs to be a second tier low cost pension scheme for those without pension coverage, which is voluntary.**
- **This should not be a funded scheme (with all the costs, risks and other disadvantages), but could be a Pay-as-you-go scheme but with pension payments directly linked to contributions.**
- **Returns as in the Swedish case (Nominal Defined Contribution) could be linked to the rate of growth in wages.**

Other Changes

- **Other changes are also required, for example extending working lives.**
- **This needs careful integration with existing occupational pension arrangements**
- **For Social security pensions there needs to be choice of retirement dates and flexibility in relation additional earnings**