

Tax Expenditure on Occupational Pensions in Ireland: relevance, cost & distribution

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Research for new economic policies



Outline

- 1. Introduction**
- 2. Data**
- 3. The Income of Pensioners**
- 4. Pension Contributions**
- 5. The Cost and Distribution of Tax Expenditure**
- 6. Comparisons, Context & Policy**
- 7. Conclusion**



1. Introduction

- A research project on pensions, pension contributions and associated tax expenditures
- Building on previous assessments
- Objective here:
 - o establish the role of pensions (various) in pensioners income
 - o estimate the distribution of tax expenditure on pension contributions
 - o Draw some evidence based policy recommendations



2. Data

- SILC
 - o 2013 used here (released January 2015)
 - o 4,922 households and 12,663 individuals
 - o sample weights to make nationally representative
 - o detailed income data
 - o data on pension contributions...



3. The Income of Pensioners

Terms:

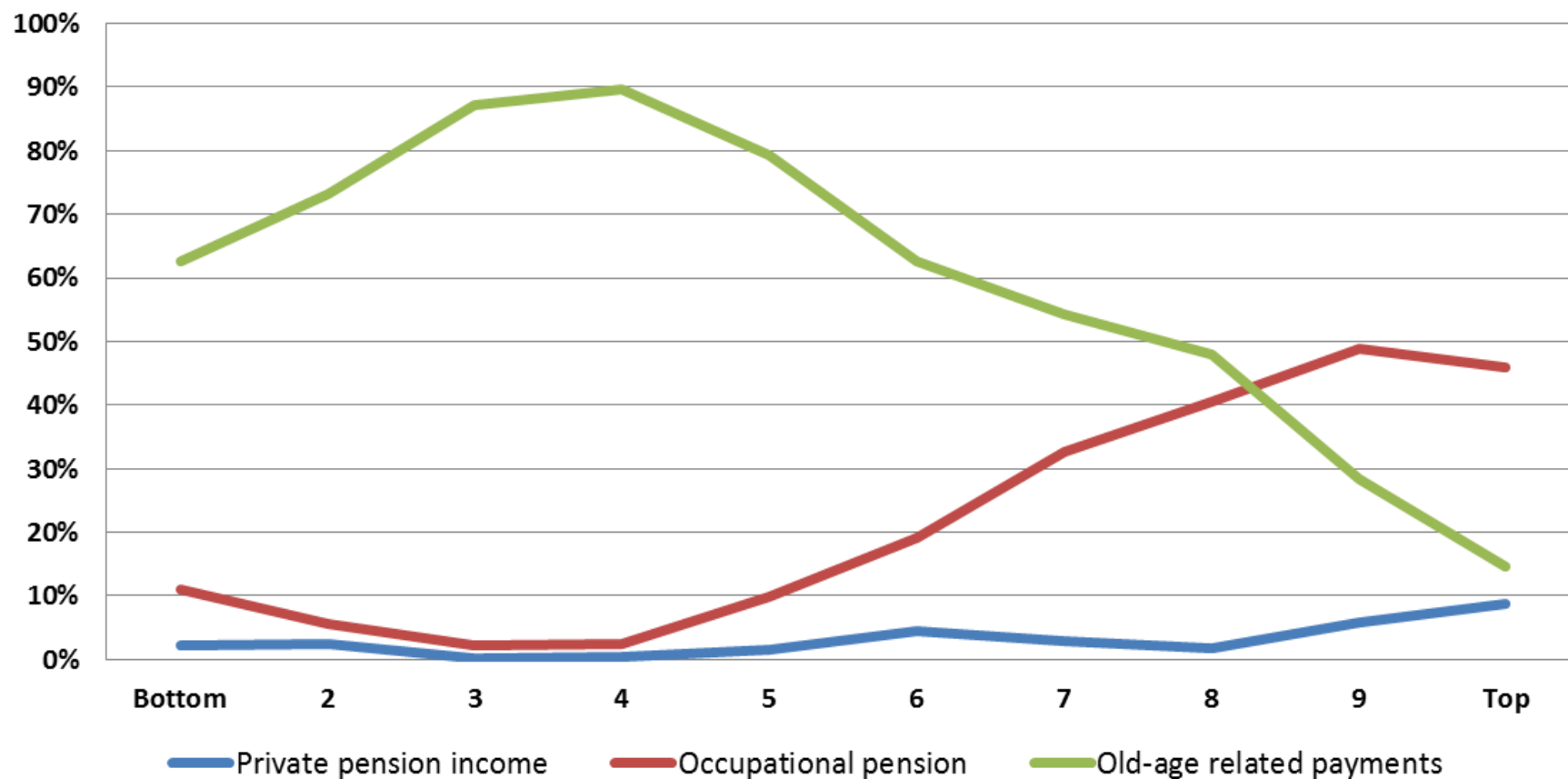
- ***Private pensions*** = private plans...not employment related
- ***Occupational pensions*** = pension scheme of company/organisation
- ***Old age related payments*** = various social protection payments



Income Category	Average	Average
Employee Income	3.9%	789.63
SE Income	3.9%	780.97
Private pension income	3.7%	734.71
Occupational pension	27.0%	5,401.27
Old-age related payments	54.1%	10,837.50
Rent income	1.5%	291.57
Investment income	1.6%	325.83
Other direct income	0.0%	1.16
Housing allowances	2.7%	543.88
Other social transfers	1.6%	321.17
Gross Income	100.0%	20,027.70



Pensioners Income from Pensions, % Gross Income by decile





4. Pension Contributions

- SILC data allows us to examine 3 types of pension contributions:
 - employee into occupational pensions = **employee**
 - employer contributions for individuals = **employer**
 - private pension contributions = **individual**
- Employee contributions include PRD
 - Include PRD for public sector workers
 - This has been modelled and removed
- Contributions in:
 - Nominal terms €
 - % of earnings = employee and self-employment income



Table 3: Distribution of Contributions to Pensions by Income Amount in 2013

From	To	Employee, Individual and Employer contributions %	Employee and Individual contributions %
less than	249.99	2.9%	4.0%
250	499.99	6.4%	8.3%
500	749.99	6.7%	9.9%
750	999.99	4.7%	7.3%
1,000	1,499.99	6.0%	10.7%
1,500	1,999.99	6.4%	9.4%
2,000	2,999.99	14.1%	16.0%
3,000	3,999.99	12.0%	12.3%
4,000	4,999.99	7.8%	5.1%
5,000	5,999.99	7.6%	4.5%
6,000	6,999.99	4.7%	2.7%
7,000	7,999.99	5.3%	1.7%
8,000	8,999.99	2.5%	1.3%
9,000	9,999.99	2.3%	0.8%
10,000	19,999.99	7.3%	4.5%
20,000+		3.1%	1.5%
Total		100%	100%
Mean contribution		€4,856	€3,281

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All sources:**20% < €1,000****46% = €1k-€5k****33% > average****10% > €10,000**



Table 4: Distribution of Contributions to Pensions by % Earnings in 2013

From	To	Employee, Individual and Employer contributions %	Employee and Individual contributions %
	less than 1%	4.7%	6.7%
1%	4.99%	25.7%	47.9%
5%	9.99%	31.3%	27.9%
10%	14.99%	23.6%	7.9%
15%	19.99%	7.4%	3.2%
20%	24.99%	2.2%	1.4%
25%	29.99%	1.5%	0.9%
30%	39.99%	1.1%	1.3%
40%	plus	2.6%	2.8%
Total		100%	100%
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5. The Cost and Distribution of Tax Expenditure



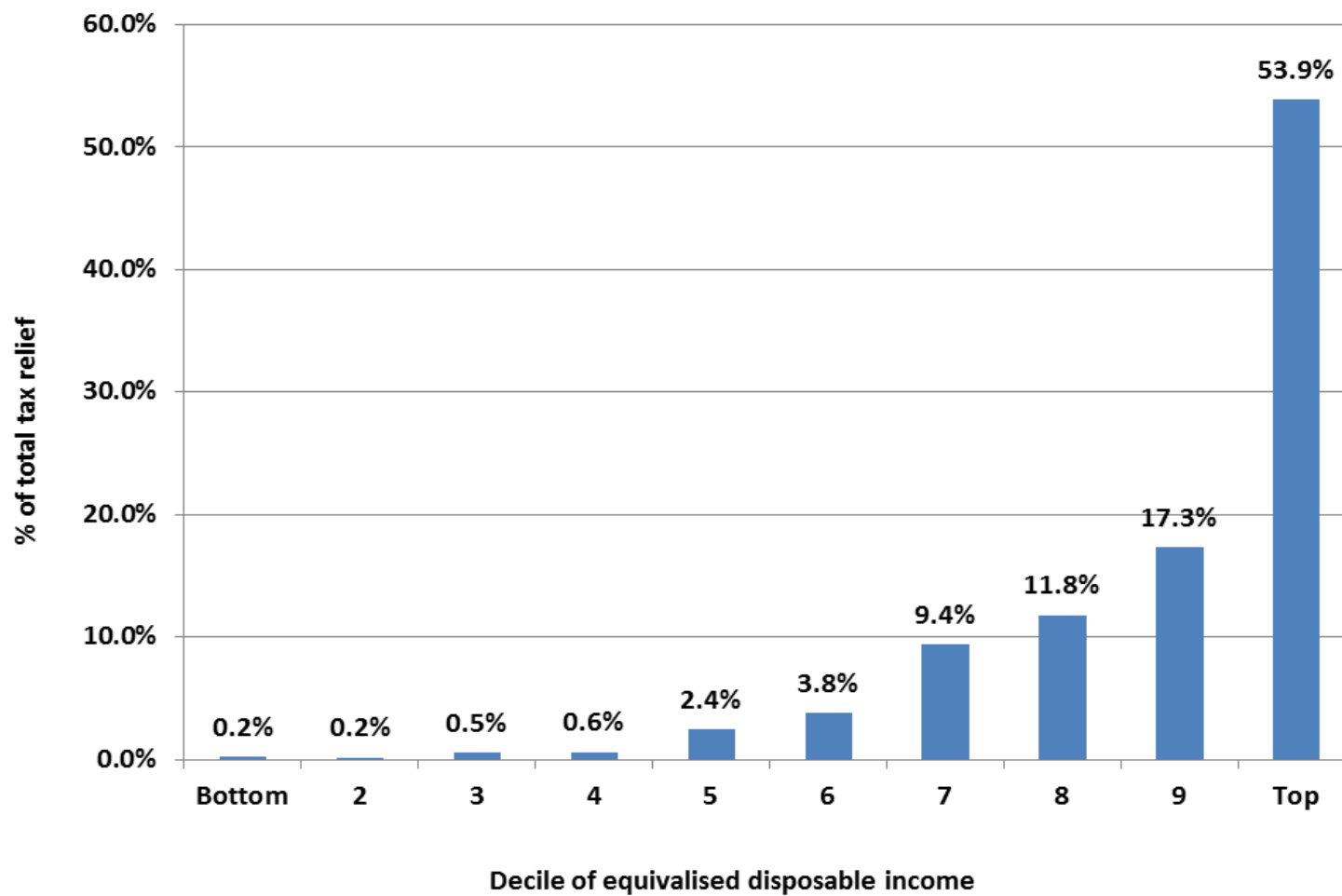
- We have overall Revenue data (improving...)

Table 5: Cost of Pension Tax Expenditure by Component in 2013

Tax expenditure category	2005 Cost €m	No. Availing	2013 Cost €m	No. Availing
Exemption of investment income and gains of approved superannuation funds	1,050.0	n/a	865	n/a
Employees' contributions to approved superannuation schemes	423.5	565,200	551.9	592,700
Exemption of employers' contributions from employee BIK	370	296,700	497	313,100
Pension contribution (Retirement Annuity and PRSA)	399.9	154,100	211	99,800
Employers' contributions to approved superannuation schemes	90	296,700	132	313,100
Tax relief on "tax free" lump sums	120	n/a	134	n/a
Total	2,453.4		2,390.0	



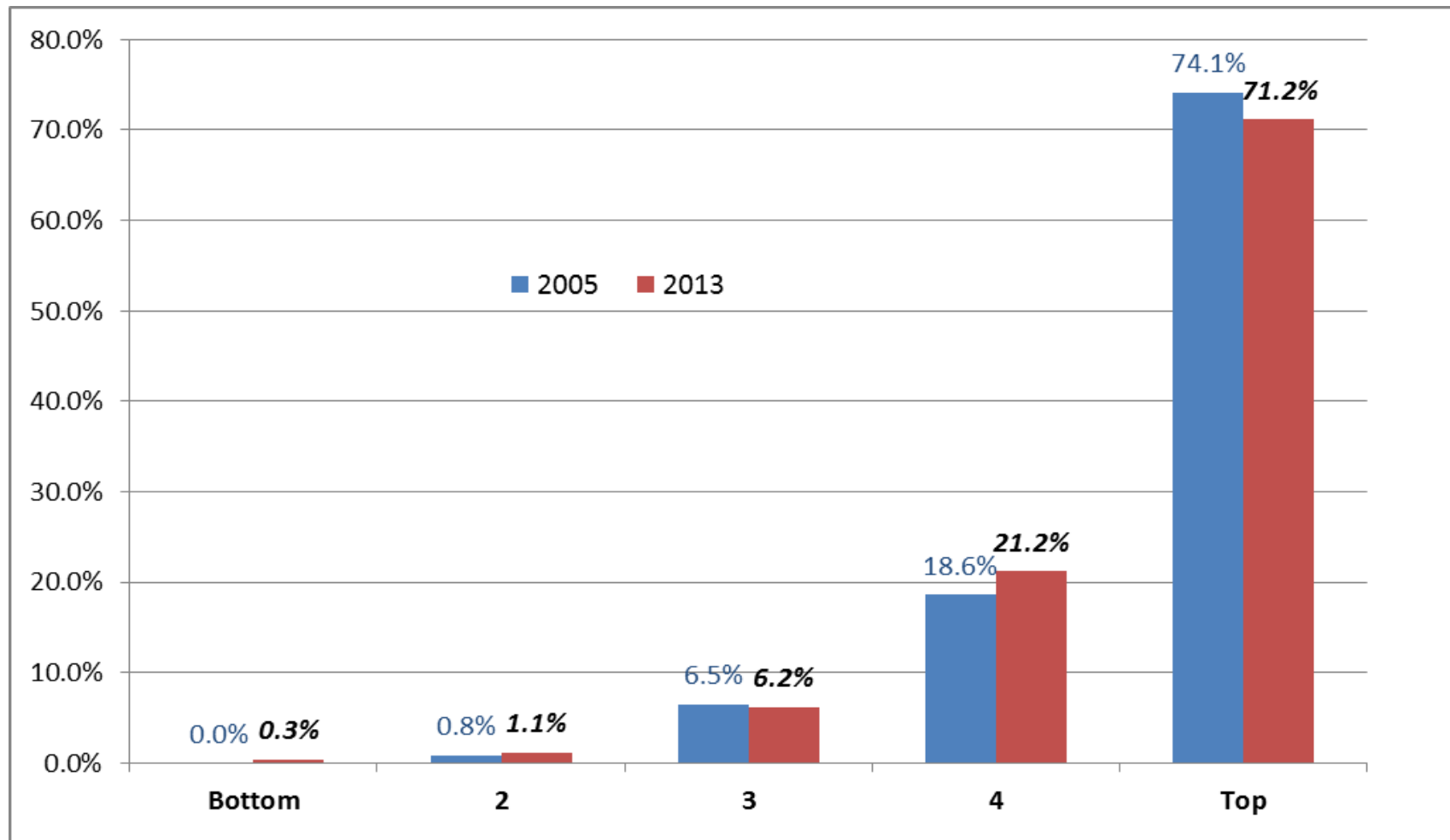
- Some assumptions to establish an initial estimate
- 2013 tax year
 - o have assumed all individual earners
 - o have their taxable income
 - o determine what rate people are on (0%, 20%, 41%)
 - o have their total pension contribution (all three combined) after adjustment for PRD
 - o can estimate tax expenditure cost
 - o Models well when benchmarked to admin data (Revenue)



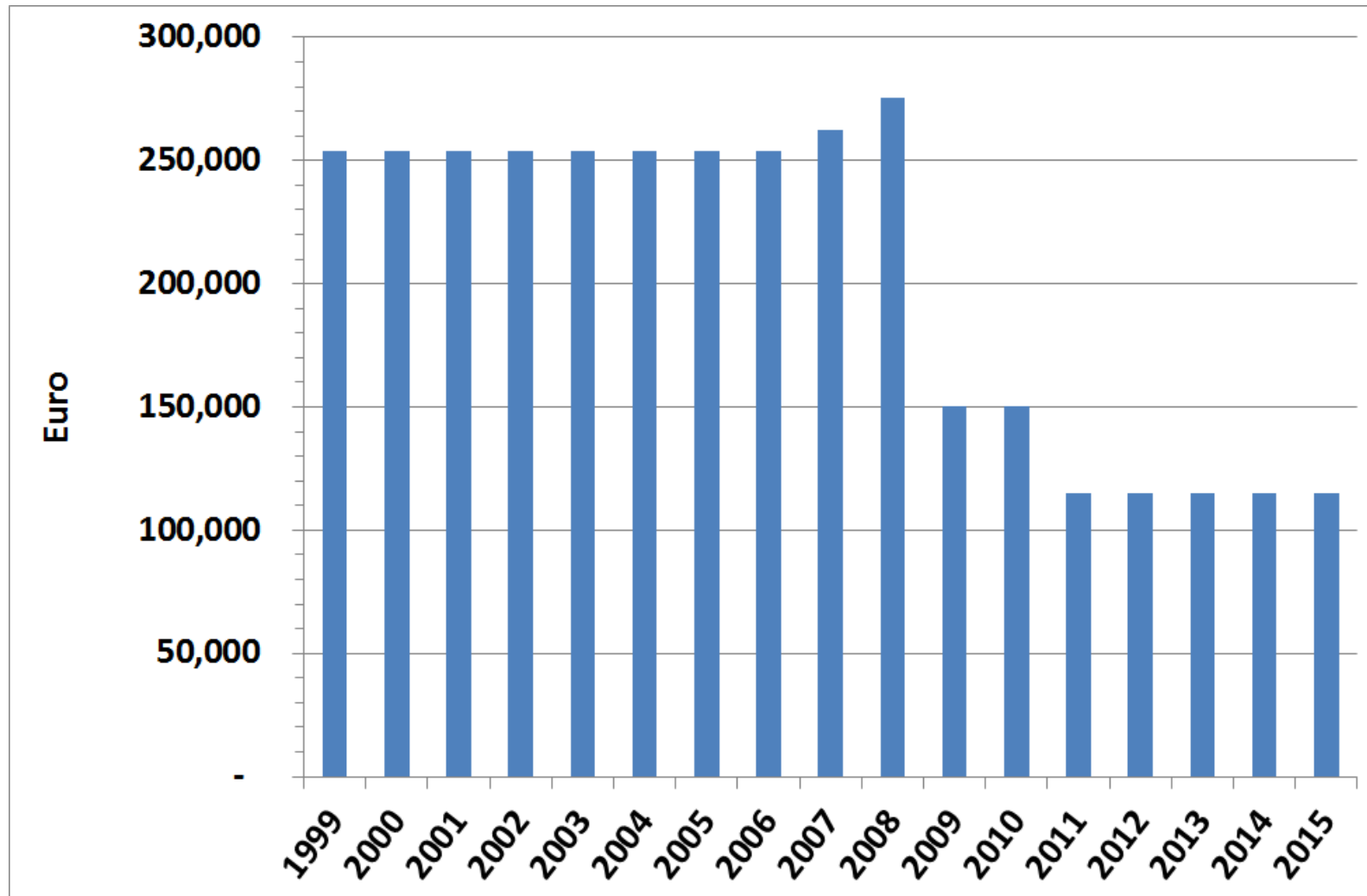
6. Comparisons, Context & Policy



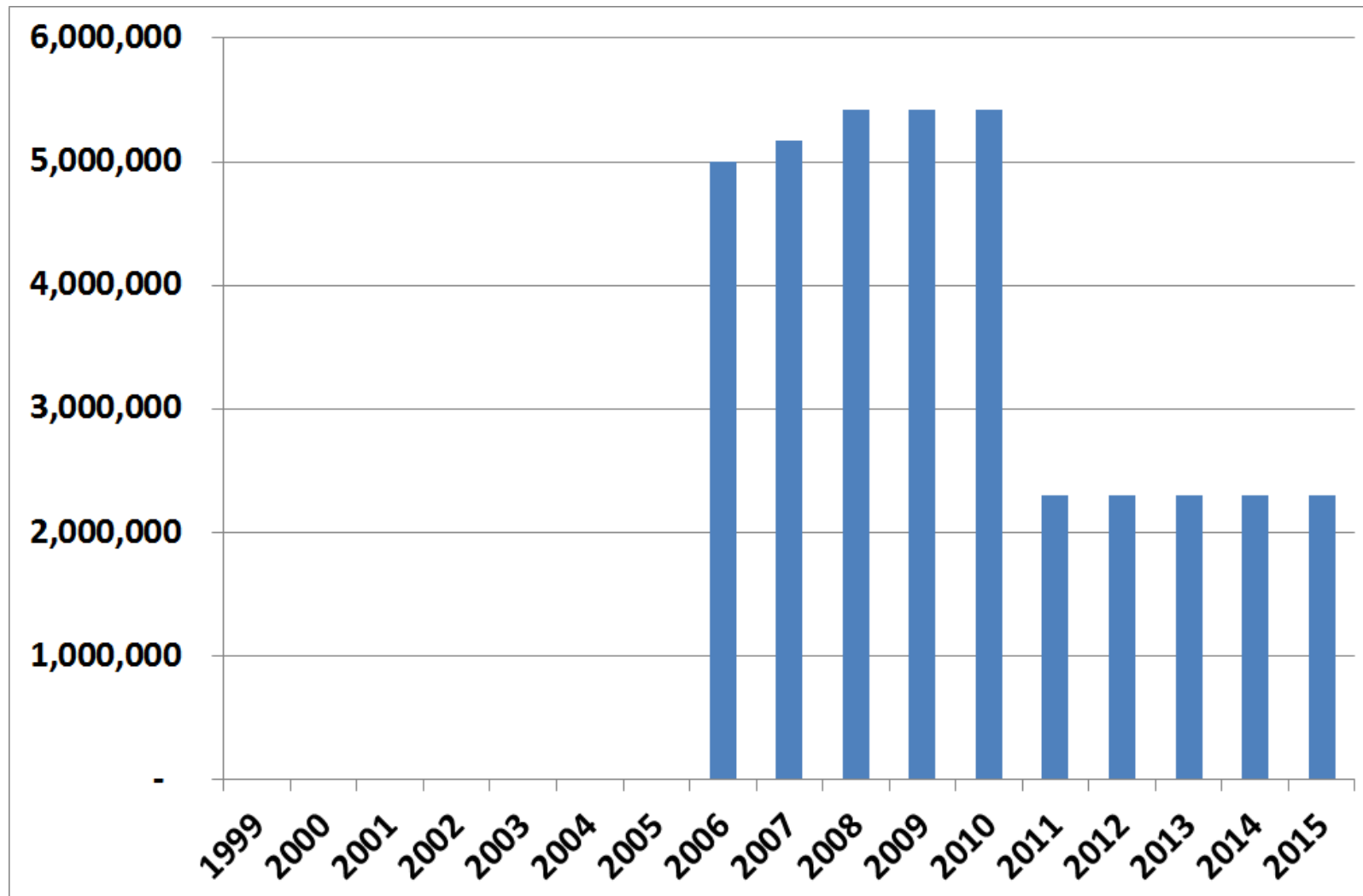
Comparison of Distribution of Tax Relief on Employee Contributions in 2005 and Employee and Individual Contributions in 2013



Annual Absolute Earnings Employee Contribution Limit (€), 1999-2015



Annual Limit on Size of Individual Pension Fund (€), 1999-2015





What Should Caps Be on Earnings Contributions & Lifetime Size of Fund?

Changes in 2009, 2011 & 2013 reduce earnings contribution cap & lifetime size of fund by nearly 60%

But limits apply only to employee contribution

“Changes could be made to the terms of employment contracts, due to the reduction in the annual earnings cap, to provide for a switch from employee contributions to employer contributions.”

(Minister for Finance, written reply to PQ 6 Oct. 2009)

Earnings cap should apply to combined employer and employee contribution & should take account of integration of State and private pension benefits

Earnings Cap & Integration of State and Private Pension Benefits

Table 6: Comparison of Caps on Pensions in 2013 and a Proposal to take account of Public Pensions

Pension Components	Caps in 2013 (€)	Proposed Caps (€)
Annual earnings limit	115,000	72,000
Maximum subsidised pension	60,000	36,000
State Pension (Contributory)	-	12,000
Maximum occupational or individual pension	60,000	24,000
Lifetime size of pension fund (Occ. pension x 30)	1,800,000	720,000
Tax free lump sum	200,000	108,000
Standard fund threshold	2,000,000	878,000



7. Conclusion

- Pension costs = €2.5b + €5b
- Distributions of Tax Expenditure skewed
- Contrast to profile of public pension recipients
- Reform of private pension system:
 - Slow and often stymied
 - Small reduction in regressive shape of pension tax expenditure compared to 2005
 - Would need more radical policies to address regressivity
 - If not standard rating, then other reforms (as we suggest)
 - Pathway to fairer and better use of these resources