

# Retirement Age Flexibility

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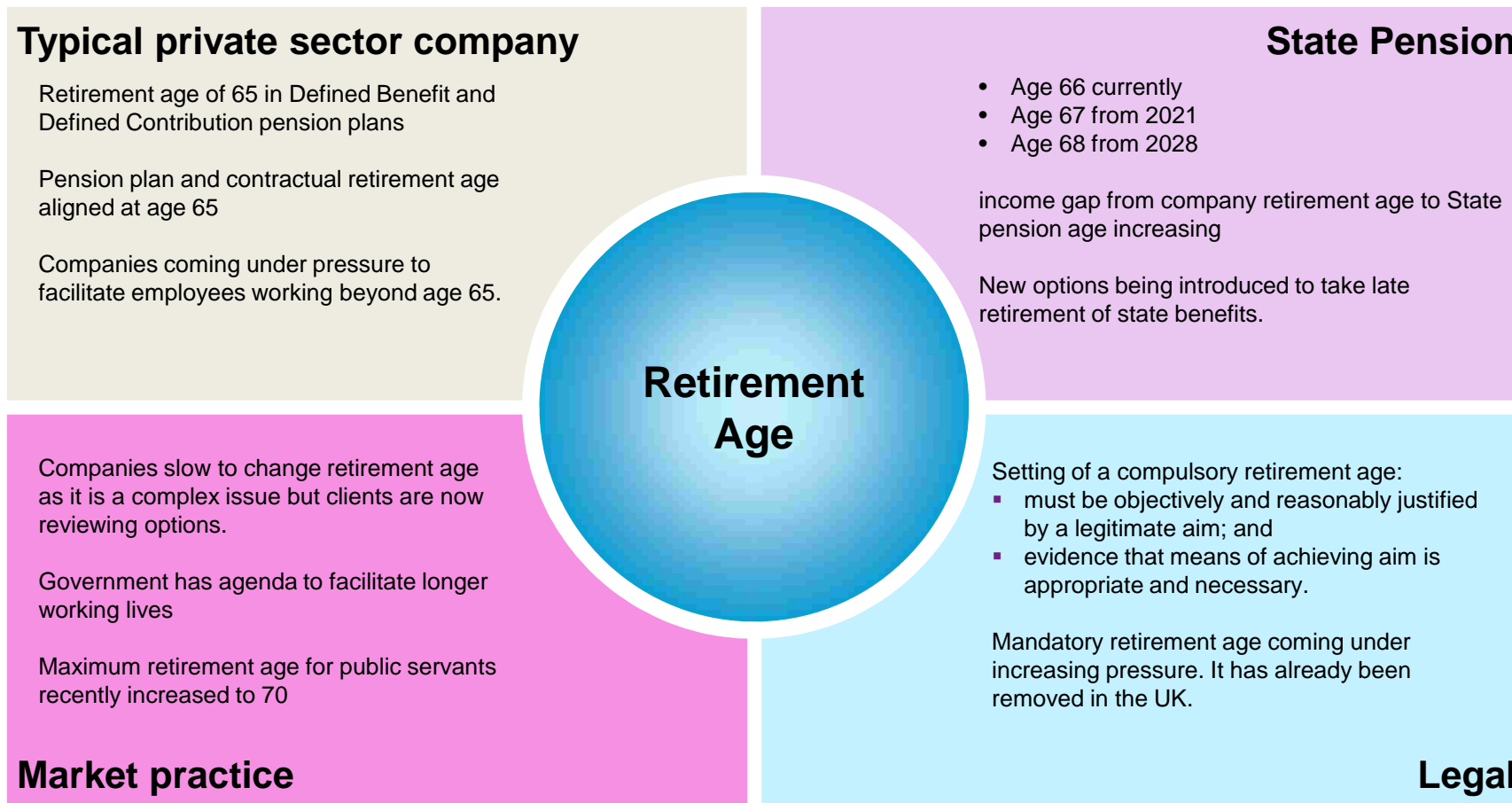
IIPM, 10 April 2019



# Agenda

1. Retirement Age flexibility: the pension and risk benefit challenges
2. Willis Towers Watson 2019 Retirement Age Survey results

# Retirement Age Flexibility: Background



# Legislation and recent developments



## Legislation

- Unlike other EU jurisdictions, no statutory retirement age in Ireland. Regulated instead by employment contracts.
- Private sector employers in Ireland are permitted to set mandatory retirement ages provided they are objectively and reasonably justified
- In 2016, a Bill was presented to the Dáil with the aim of removing mandatory retirement ages in the workplace. Government indicated that it supports the Bill in principle but has concerns over technical issues
- Citizen's Assembly and Joint Committee on Social Protection also calling for abolition of Mandatory retirement age

## Recent developments

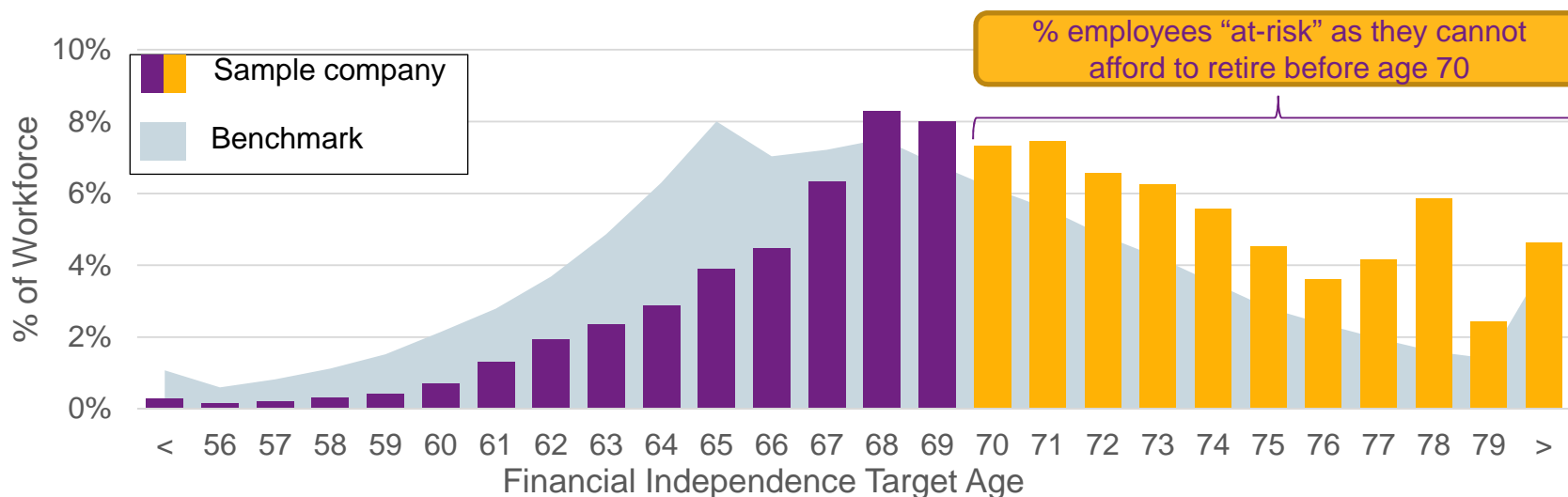
- **Mandatory retirement age for public servants** will increase from 65 to 70
- **Roadmap for Pensions Reform** – the Government expects increased retirement age flexibility and may introduce legislation if flexibility is not introduced.
- **WRC Code** sets out best practice in:
  1. Utilising the skills and experience of older workers
  2. Objective justification for retirement
  3. Standard retirement processes
  4. Dealing with requests to work longer

# Retirement income adequacy



What steps are Companies taking to prepare?

1. Establish what age their employees can afford to retire – sample analysis below
2. Pension income is becoming inadequate for employees due to increasing state pension age and less generous company pension schemes – Companies increasing pension communications and financial education to help employees take responsibility for their retirement planning
3. Companies are also working with consultants to model the profile of the future workforce if they allow retirement flexibility



# Company pension plans

Options available for longer working



## Defined Contribution

- Quite straight forward to adjust NRA
- Commonly contributions to the pension plan would continue for employees working past NRA
- The current amount of employer contribution would continue to be paid so there is no change in pension cost
- Member retirement accounts would be available to members on their later retirement date
- Need to consider any employees who are also members of a defined benefit pension scheme

## Defined Benefit

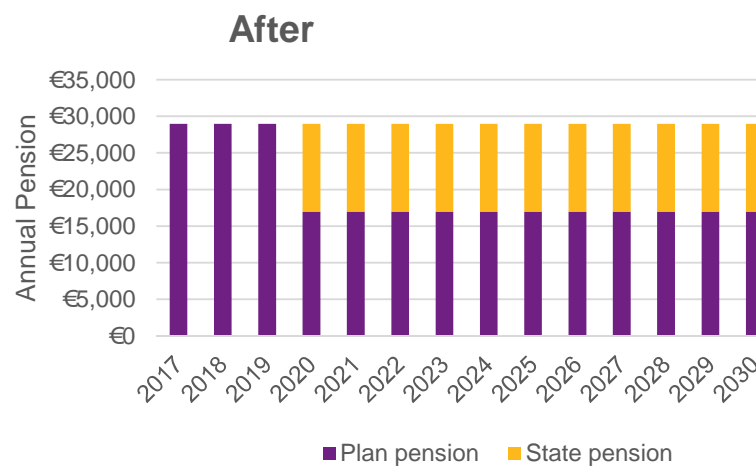
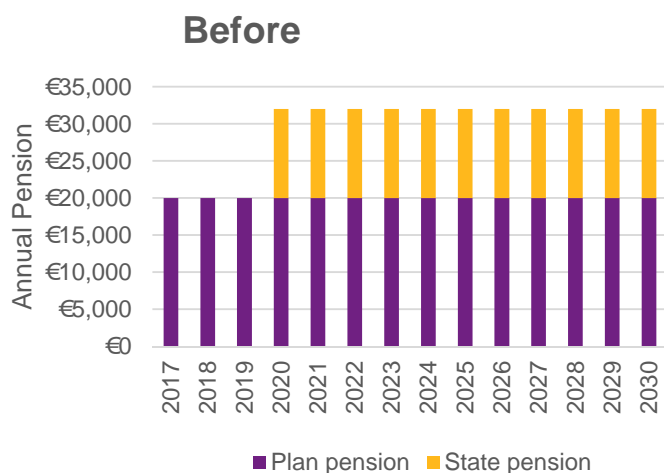
- Much more complex than defined contribution plans
- Complicated to change NRA for all members due to Pensions Act legislation
- The most commonly pursued options are:
  - Increase NRA on a case by case basis and allow members to continue to earn pension benefits
  - Pay pension from later date and allow members to join the defined contribution pension plan for service after NRA
- The pension cost reduces for both of the options above as the pension is paid from a later age. In some cases, there may be no further pension cost
- Need to consider employees who were in defined benefit plan but now earning benefits in the defined contribution plan

# Pension levelling - illustration

## Alternative option for Defined Benefit pension



A member exchanges a portion of their annual defined benefit plan pension for an additional pension amount equal to the State pension which is payable between retirement age and State pension age



- Cost neutral terms
- Allows employees to manage the income gap between their retirement and state pension age
- Allows employees to get a level pension in aggregate
- Additional administration complexity
- Typically high take up given “bird in the hand” mind-set

Some Companies have put this in place to help employees bridge the income gap and avoid the need to work longer



## Risk benefits

### Death and disability benefits

- Most companies provide death in service and disability benefits to employees - typically insured with an Insurance Company
- Important to consider the implications of any retirement age flexibility on these benefits. Companies should liaise with their insurer to investigate what is possible before communicating with employees
- Legal advice typically states that we need to continue to provide these benefits in retirement to prevent age discrimination claims – however, this creates complications

#### Death benefits

- Insurer not likely to extend cover on a case by case basis
- May be underwriting requirements to extend retirement age
- Cost likely to increase marginally

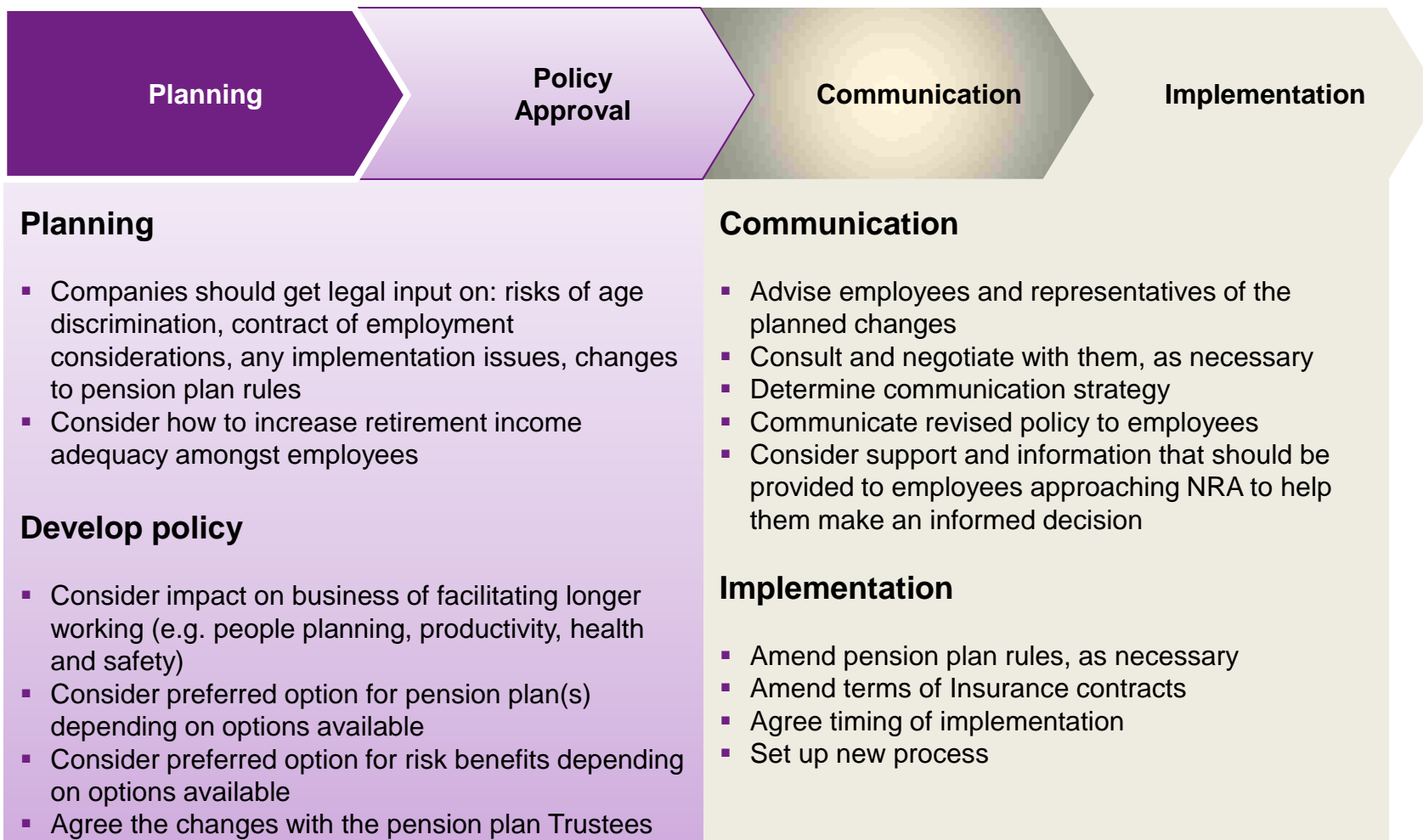
#### Disability benefits (i.e. income protection)

- More difficult to change retirement age in insurance contract
- Insurer not likely to extend cover on a case by case basis
- May be underwriting requirements to extend retirement age
- Insurers will not extend retirement age for employees currently in ill-health
- Cost likely to increase significantly if retirement age is increased



# Summary

## Typical project plan



An aerial, high-angle photograph of a large, busy public square. The ground is paved with grey cobblestones. A dense crowd of people of various ages and ethnicities is scattered across the square. Some people are standing in small groups, while others are walking. In the upper left quadrant, a camera on a tripod is visible, suggesting a media event or survey. The overall atmosphere is one of a bustling public space.

# Retirement Age Survey Results

February 2019

## Background

WTW carried out a survey of companies on their response to retirement age flexibility. The survey was carried out against the background of significant developments in this area including:

- changes in State Pensions Age
- an increasing number of cases being brought forward to the WRC on age discrimination
- the Workplace Relations Commission (WRC) issuing guidance on retirement age flexibility
- the newly introduced option for public servants to work until age 70
- the Government's 2018 Pensions Roadmap recommending additional flexibility in this area

The survey was open from during December 2018 and January 2019. This document summarises the responses received from 136 companies in the following sectors:

Sector	%
Banking, Insurance & Financial Services	19%
Energy & Natural Resources	4%
FMCG	10%
High-Tech	13%
Pharmaceutical	14%
Professional Services	12%
Public Sector	1%
Retail	3%
Manufacturing	7%
Other	17%

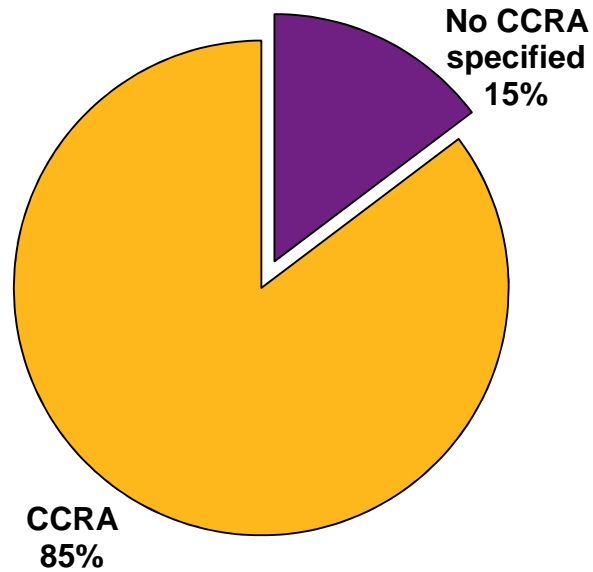
We would like to thank all respondents for taking the time to complete the survey and we trust that they will find the survey results of interest.

# Objective justifications used for enforcing a mandatory retirement age?

	Answer	*%
1	Intergenerational Fairness (allowing younger workers to progress)	55%
2	Motivation and dynamism through the increased prospect of promotion	39%
3	Health and Safety	50%
4	Creation of a balanced age structure in the workforce	39%
5	Personal and professional dignity (avoiding capability issues with older employees)	30%
6	Succession planning	71%

- ❖ Companies have listed multiple justifications - %s above represent the prevalence of each factor within the survey results.
- ❖ Legal advice generally points to the enforcement of a mandatory retirement age being more robust if a number of (valid) objective justifications are used.

# What is the Company's CCRA for the general workforce?

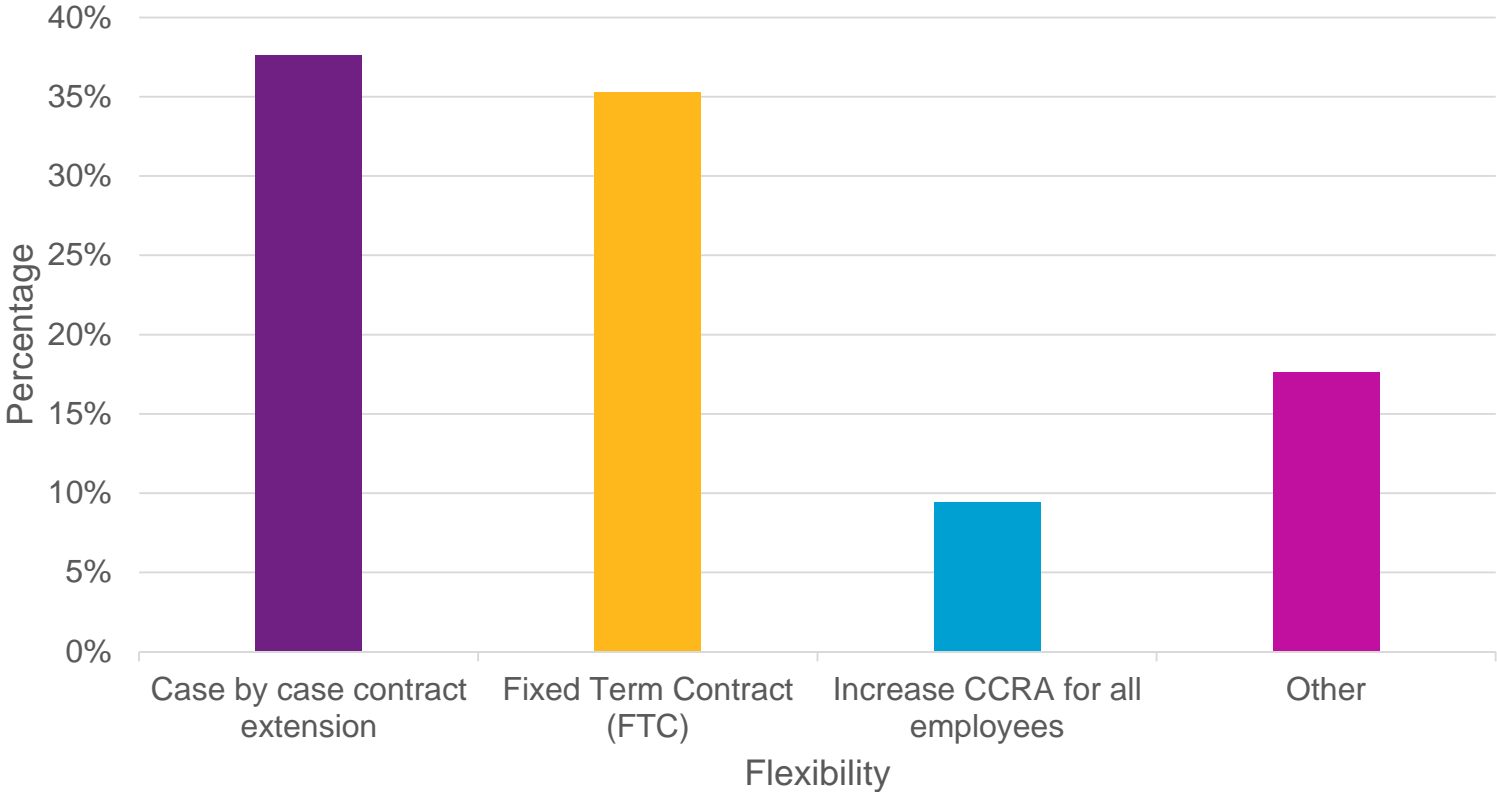


The survey used the term “Current Contractual Retirement Age” (CCRA)

CCRA	
60	2%
62	1%
63	1%
65	89%
66	3%
68	3%
70	1%

- ❖ Approx. **70%** of employers surveyed have received employee requests to work beyond CCRA.
- ❖ Almost **2/3rds** of employers involved in the survey have considered retirement age flexibility.
- ❖ Of those surveyed, only **18%** of companies have developed a formal policy on retirement age flexibility. Of those companies:
  - over **one third** have introduced flexibility to align CCRA with State Pension Age
  - **60%** said new flexibility would be communicated within 12 months of CCRA, with the remainder of employers communicating to all employees irrespective of current age.

# How will flexibility be introduced?

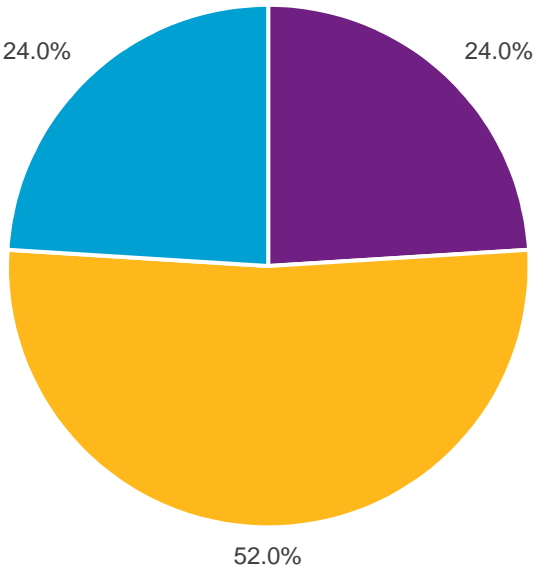


- ❖ Of those responding **other**, additional responses included:
  - ❖ No formal retirement age imposed.
  - ❖ No flexibility.



# What will happen to pension benefits for employees remaining in employment post CCRA?

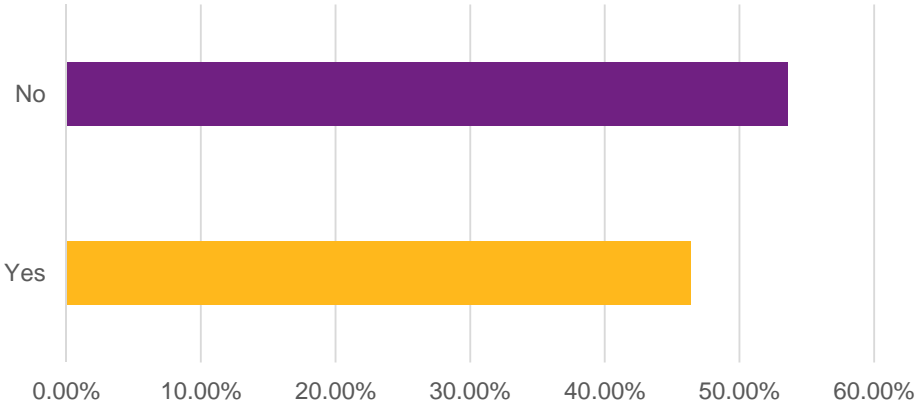
### Defined Benefit (DB) pension



- Continued DB pension accrual with no late retirement increase
- DB pension accrual ceases and moved to DC pension provision
- Late retirement increase applied to DB benefits at CCRA

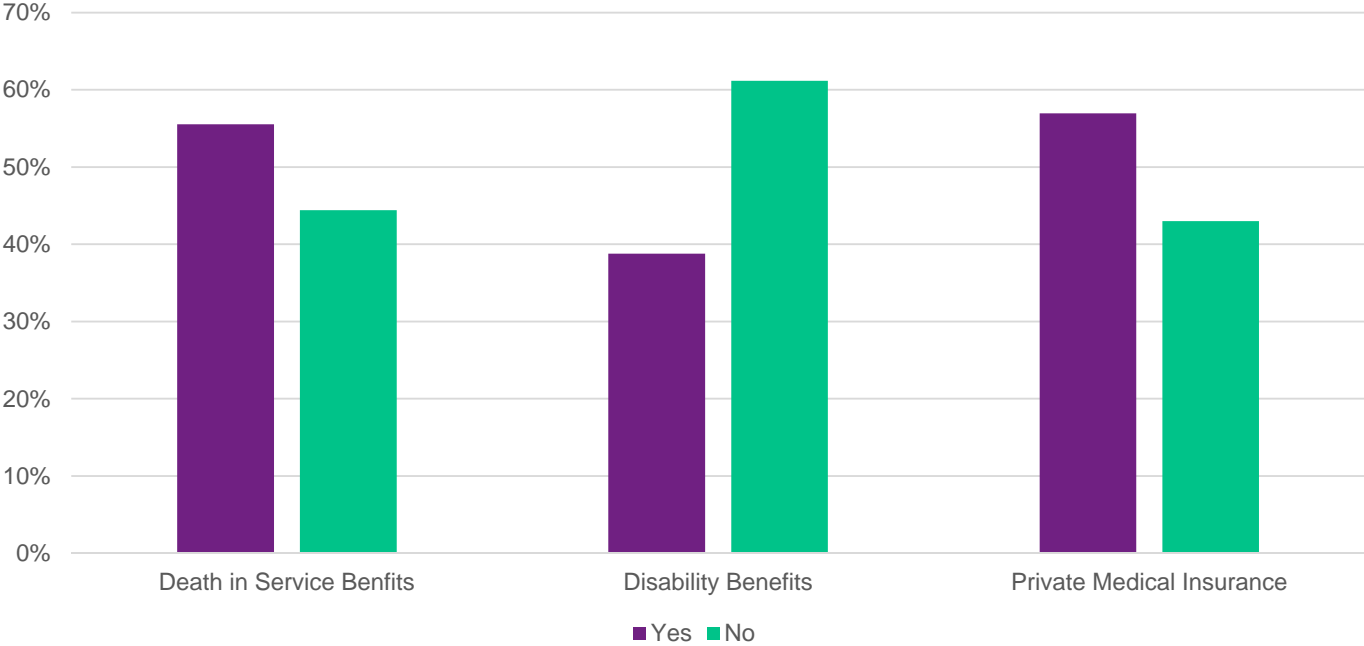
### Defined Contribution (DC)

Will employer and employee DC pension contributions continue post CCRA?



Only approx. 46% of employers continue DC pension contributions past CCRA.

# Will other benefits be provided for employees working beyond CCRA?



Typically employment law advice that we have seen has recommended the continuation of all employee benefits for employees that continue in employment post CCRA as to do otherwise would leave the employer subject to **age discrimination** claims. While an argument can be made to not provide benefits if they are not widely available, our experience is that insurance companies will provide insured benefits at least up until State Pension Age.



## Other comments and feedback

- ❖ It would appear that a number of employers are allowing employees to work past CCRA on an ad-hoc basis with no formal policy.
- ❖ Many of the survey respondents are not under pressure to tackle the issue as they have a young workforce.
- ❖ Some companies are also waiting to see what others in their industry are doing – don't want to be first mover.
- ❖ Some decisions on benefits and rewards are dependent on benefit providers and/or their requirement to extend cover and/or the underwriting requirements.

# Questions



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