
**The pension problem is not a uniquely 21st century one: it has always been with us. As early as 1697, Daniel Defoe put forward the idea of a national 'Pension Office' to provide pension and medical care come old age, incapacity, or widowhood. He argued for benefits proportional to contributions and for the scheme to be voluntary. More than three centuries later the debate continues along similar lines.**

Defoe had a bleak view of human nature:
***"Some men have less prudence than brutes, and will make no provision against age until it comes."***
Daniel Defoe (1697), An Essay on Projects.

This attitude has persisted through the centuries. The national target of 70% of workers achieving pensions of half their wages is not debated. The target is taken as self-evidently desirable. The debate focuses on how we can ensure that people will make due provision for themselves. And there are just two generic ways to lead such an assumed imprudent lot - with a carrot or with a stick.

The stick has been used, and used unsparingly, over the years. Even when past generations witnessed their elders cast on the harsh charity of the workhouse, they refused to spare themselves a similar fate. Carrots have been given, and given generously. Incentives for pension savings have been tied to income tax reliefs, so when income tax reached highs of 80% in the mid-1970s, so too did the carrots. Yet, this too had a very limited impact.

But Defoe's pessimistic view of human nature is not the only hypothesis that accounts for the facts. Ask yourself the question: what do people spend their money on rather than save it for their own retirement?

The biggest expenditure is, I conjecture, on their offspring. The workers, when they should be beginning to provide for their own age-induced dependency are instead investing in the human capital of the next generation - setting their children up in life as best they can. This investment is made by the most knowledgeable and dedicated of investors, but not primarily for their own benefit as King Lear dramatically reminds us. It benefits their children directly and, indirectly, their children's generation. Of course, this selfless giving is a biological imperative shared with brutes, but the consequences for our society, even when assessed on the crude measures of the economist, are divine. The driving force behind the development of our race, including its economic development, is ultimately traceable to this imperative.

Half those working for a wage in Ireland do not make any provision for their retirement. This leaves the other half whose perverse behaviour, according to the alternative hypothesis above, requires some explanation.

The explanation is obvious: three quarters of those making advanced provision for retirement are not doing so voluntarily; they are compulsory members of their employer's scheme. The rest may not be primarily stimulated to provide for their advanced years but rather incentivised to arrange their savings through tax-efficient pension products than other, comparatively less tax efficient, savings media. In short, this small group would have been saving anyway, they simply choose pension savings because it will give them more at the end of the day.

It is trickier to account for why employers set up pension schemes for their workers in the first place. We could speculate that it is less to do with a desire to ensure their workers can provide for themselves when their working days are over and more to do with the bargaining strength of workers. In some industries (e.g., politics, civil service, public and semi-state bodies, and industries with near monopolistic pricing), it may not be expedient to increase wages more as there may be a public outcry, so remuneration is conceal from public scrutiny by paying pensions. This conjecture accounts for the breakdown of occupational pension coverage by industry type.

The diagnosis of why people do not save for retirement is important because, not only does it help identify a cure, it also puts the issue into a wider context. In particular, it highlights that the cure could be worse than the chronic condition: it is no longer self-evidently good for society that people save for retirement when the opportunity cost is the wisely invested seed capital for the next generation. In particular, it highlights that pensions is not just about workers in the monetary economy but concerns all workers, including mothers whose role within the home helps society achieve 'the common good'. Significantly, it highlights the impotency of sticks and carrots when employed to betray our natural instincts.


The diagnosis above directs that the only cure to the age old pension problem is compulsion: pension saving must be made compulsory. But the modern debate on compulsory pension saving has it all wrong. Compulsion should not be on the older generation to provide for themselves – that is neither effective (just picking a fight with human nature itself) or, arguably, efficient for society as a whole. Compulsion must be on the children to provide for their parents. The amount of pension should be basic enough, just adequate to allow for the respectability of the children.

The scheme above is radical. It side-steps many of the problems created by forcing workers to save for themselves such as the long delay in paying pensions (as funded schemes require a couple of decades to build up) and the ultimate pension being dependent on the capriciousness of the financial markets and the solvency of financial institutions. But, radical though it is, the children-supporting-parents approach has been attempted for almost hundred years in Ireland. By any measure, it has been successful. And, unaccountably, popular.

We have to go back to the 1920s to find a time when the popularity of the Irish State pension was directly tested. The State pension was cut by about 10% in 1924 by the then Minister of Finance, Ernest Blythe, on the basis that the inherited public pension of the richest empire in the world was unaffordable to a small, recently independent, civil war ravaged, and very much poorer state. The public did not agree. The pension was quickly restored to its former level, but not without considerable and long term loss of support to the political party concerned. The old age pension, as my colleague Cormac Ó Gráda persuasively argues, was “the most radical and far-reaching piece of welfare legislation enacted in Ireland in the twentieth century” and literally shaped the nation as it effectively subsidised the rural community, cushioning it from the full forces of urbanisation over the twentieth century.

It is argued that the state pension is unaffordable into the future, because parents simply are not having enough children. Unaffordability has always been the key argument against the current design of the state pension. But state pensions have been paid for almost a century, during which time its level has increased, its coverage has widened, and the age from which it has been paid reduced. Forecasting into the dim future, its cost will increase but it will not be any greater than that currently borne by our continental neighbours. The advocates of the unaffordability argument are casting Irish children as Goneril or Regan to continental’s Europe’s Cordelia in the tragedy of King Lear.

The Pensions Board has recently submitted a report to the Minister on our national pensions policy addressing, in particular, how to meet the 70% coverage target. This report is due to be made public any day now (at the time of writing) and is viewed by many as the last word in the debate. It should be just the beginning. The coverage target itself should be debated. Equally, the Pensions Board is most unlikely to reach a consensus on a novel and bold policy resolve that is needed to resolve this ancient problem. The constitution of the Pensions Board is too broad for that. Labour (represented by the trade union movement), and capital (represented by employers’ association) together with others (the state, the existing pensions industry) have debated this issue more than a hundred years and the result is always the same: inconclusive.

Labour sees pensions as a basic human right and is not opposed to compulsion, capital is resolutely set against it, and the others find it hard to take sides. This has been the stand off for the last hundred years.

This time, however, something is different. There is a crisis in pension provision. The crisis is not a public one but a private one: the backbone and gold standard of occupational pension provision, the defined benefit scheme, is bowing out after centuries of distinguished service. There is nothing to fill the void its leaves. This may not be altogether a bad thing – I do not know. The issue is clearly important, it should be debated, and possible replacements identified.

It is time to take the pensions debate out of the business pages. The issue is more about a society’s values than an economy’s finances. It is fundamentally about our attitude to the elderly. I would like to see a symmetry between the duties of parents to their dependent infants and the duties of adults to their dependent parents – so picture a scheme built around the state as the intermediary.

As Defoe reminds us, the care of the elderly is wider than the issue of pensions. Perhaps the debate is best broadened to include healthcare as well as pensions.

*Dr Shane Whelan is an actuary in the School of Mathematical Sciences, UCD, and has published extensively on pension issues. He recently completed a report for the IAPF, Pension Provision in Ireland in the 21st Century (available from www.iapf.ie), to help further the national debate on pensions. This article represents his own opinions on the nature and way out of the pension crisis.*