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**A CASE STUDY INVESTIGATION OF THE EFFORTS OF A SUBSIDIARY OF
A US-BASED MULTINATIONAL CORPORATION TO PROMOTE PENSION
SAVINGS**

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1.0 INTRODUCTION

The pension situation faced by all Irish workers is complex and uncertain. Further, it is possible that the state will be unable to maintain the current level of pension provision in real terms. This is based on demographic projections that indicate that the ratio of working age people to pensioners will fall and assessments that the deterioration in the public finances will reduce the capacity of the state to maintain the real value of pensions distributed through the State-run Social Welfare system. Therefore, the pressure for individuals to save for retirement is intense.

For those in employment, their employer is potentially an important source of both pension saving contribution and pension information. This landscape is also complex for employers in terms of explaining the occupational pension choices and choosing the most appropriate information sources.

This is a report of exploratory research in a case study setting. Medtronic Vascular, Galway Ltd. is a US-based multinational that develops technologies to provide lifelong solutions for people with chronic diseases. Over 2,000 people are employed in Ireland with most of the company's employees working at the state-of-the-art facility in Galway. Medtronic offers a generous benefit package including compulsory enrolment in a Defined Benefit (DB) scheme funded through employer and employee contributions. In conjunction with Open Financial Services, Medtronic also offers a facility for employees to increase their retirement savings through an Additional Voluntary Contribution (AVC), a tax-favoured investment instrument.

This case study outlines Medtronic's pension plan structure and explains the communication strategy used to inform employees about their pension plan and to encourage additional pension savings. Using a cross-sectional database of employee information, it presents preliminary findings identifying the personal and employment characteristics of employees who chose to add to their retirement savings by contributing to an AVC. It also reports on the importance of tax incentives in encouraging additional savings.

This report is divided into four sections. The literature review follows this introduction. Section three describes the pension system of the case study organisation and the information sources it uses to communicate with its employees about pensions. It also presents a preliminary analysis of the variables that describe voluntary contributors to the AVC. The final section provides a discussion and ideas for future research.

2.0 LITERATURE REVIEW

This literature review discusses DB schemes and AVCs, the elements of the Medtronic occupational pension plan. The information sources and strategies used by organisations to promote retirement savings are outlined. Personal and employment variables associated with retirement savings are described in the third section. The final section explores the importance of tax incentives in promoting retirement savings.

2.1 DB Schemes and AVCs

An occupational or company pension plan is organised by the employing organisation and is often included as a benefit, forming part of an employee's remuneration package. DB schemes provide fixed pension income for retired employees, usually based on a predetermined formula applied to years of service and earnings from retirement until death. DB schemes are generally offered to public sector employees and people working for large private sector employers. They are considered to be the best pension plan from the perspective of employees. This is because a reasonable replacement income is guaranteed by the employer for the employee's life.

The number of DB schemes in Ireland is falling, but in 2009 the number of active members in these schemes rose by almost 10,000 (The Pensions Board 2009). International trends indicate that employers are winding up DB schemes, closing existing schemes to new entrants or decreasing the benefits paid to retirees (Mercer 2008; PricewaterhouseCoopers Pensions Group 2009) for several reasons. First, the benefit

received by the retiree is known, but the cost to the employer is unknown because it is based on fluctuating investment returns and the longevity of retired employees. Second, because corporate reporting requirements for DB plans have changed in the past 20 years becoming more comprehensive and transparent, companies offering DB schemes are subject to a funding standard that they are finding increasingly difficult to meet (The Pensions Board 2008; Mercer 2008; PricewaterhouseCooper 2009). Finally, employers offering DB schemes need to indicate on their balance sheet if there is a deficit or surplus in their pension fund, a potentially damaging disclosure.

In some cases, employees can make additional contributions to their DB scheme but in other cases, a separate scheme can be established with the cooperation of the employer. AVCs are extra contributions paid by an employee to increase their retirement benefits. Members are generally allowed to choose an investment strategy from a limited number of options with various levels of risk. Although employers that provide an AVC incur some costs, since they are not contributing to these schemes or bearing any risk, they are not subject to either the funding or financial reporting standards.

Table 1 highlights some of the differences between DB and AVC schemes in relation to risk for both employers and employees.

Table 1: Comparing Employer and Employee Risk under DB and AVC Plans

	DB	AVC
Post-retirement benefit	Known	Unknown
Risk of fluctuating investment return/employee longevity	Employer	Employee
Subject to funding standard	Yes	No
Subject to financial reporting standards	Yes	No

Contributions to occupational pension schemes are subject to Revenue limits. The percentage of an employee's income that can be invested increases with age. Employee contributions for both DB and AVC schemes are made at source from gross pay allowing for full and immediate relief from income tax and PRSI.

2.2 Communicating Pension Information to Employees

Larsson, Sunden and Settergren (2008) describe the characteristics of the pension product that make efficient information transferral challenging. The product itself is unusual because ‘...it is a contract, about money in the future, for money paid now’ (Larsson, Sunden and Settergren 2008: 134). There is a long time horizon between purchase and use. Often retirement income may be based on several sources and information must be collected from each source. As organisations move from DB schemes to defined contribution (DC) schemes, individuals need to understand increasingly complex information to make appropriate choices based on their individual situations and preferences.

For many employees, their occupational pension plan will provide their main source of retirement income. Therefore, employers are often the most important source of pension information.

The strategies used by employers to communicate with employees about their reward system are increasingly complex and generally devised and enacted through HR (human resource) departments. Encouraging employees to join an occupational pension plan or to increase their retirement savings requires a strategy that engages employees’ interest (*Personnel Today* 2009; Sheridan 2006; Harrison 2008). Information should be presented in a way that does not assume prior knowledge and avoids jargon (*Personnel Today* 2009). The need for frequent communication is also highlighted (*Personnel Today* 2009; Caudill 2004) along with the importance of using a variety of media recognising that ‘If participation is going to be based on knowledge, that knowledge must be made available in every possible way’ (Caudill 2004: 48).

Timing of campaigns to increase retirement savings is also important. Caudill (2004) suggests coordinating promotional activities to promote pension contributions with pay increases. Particular attention should be drawn to the tax implications so that the

employee realises that their contribution to their retirement savings is greater than their reduction in take-home pay.

The highly individual nature of pension decisions requires information that is tailored to specific situations and preferences. Using technology to convey individualised account information ‘...that is delivered in an engaging, easy-to-use format...’ promotes better saving behaviour (Sheridan 2006: 18). Targeting communication to specific groups based on preferences, attitudes and behaviour is also helpful because channelling relevant information reduces the decision complexity (Sheridan 2006). One organisation that reported increased uptake of staff contributions to their pension scheme, hired a pension advisor to assist with the internal communication plan and to advise employees about retirement savings plans based on their individual needs (Harrison 2008).

2.3 Personal and Employment Variables Associated with Contributions to Pension Savings

International and Irish research and data collected from various sources highlight a number of personal and employment variables that are associated with individual or household saving for retirement. Personal variables include age, gender, education, marital status and nationality. Employment variables include income, tenure and full time equivalence.

Most of these sources are concerned with pension coverage (a person’s membership within a retirement saving scheme) rather than pension adequacy (a person’s income at retirement as a percentage of their income while working). However, these same variables may also be associated with Medtronic employees’ decisions to increase their retirement savings through AVCs.

Table 2 summarises the relationship between each of these variables and retirement savings.

Table 2: Review of Literature Examining the Relationship between Retirement Savings and Other Personal and Employment Variables

	Variables	Relationship with retirement savings	International	National
Personal	Age	Proportion of people saving increases for each age cohort but decreases for the oldest cohort	Madrian and Shea (2001); Aizcorbe et al (2003)	CSO (2008)
	Education	Savings increase with higher levels of education		O'Connell and Gash (2003)
	Gender	Men more likely to save than women	Madrian and Shea (2001)	CSO (2008, 2005); The Pensions Board (2005) O'Connell and Gash (2003); Hughes and Watson (2005)
	Marital Status	Married people most likely to save followed by separated/divorced, widowed and single people		CSO (2005)
	Nationality	Nationals more likely to save than non-nationals		CSO (2008)
	Employment	Income	Savings increase with income	Madrian and OShea (2001); Aizcorbe et al (2003)
Tenure		Positive relationship between pension plan participation and tenure; retirement savings increase with lifetime employment	Madrian and Shea (2001)	O'Connell and Gash (2003)
Full-time/Part-time		Part-time employees less likely to be members of occupational pension schemes than full-time employees		CSO (2005); O'Connell and Gash (2003)

2.4 Taxation and Contributions to Pension Savings

In Ireland, the tax system also encourages those on higher income to save because they receive tax relief at a higher marginal rate. Currently, those who are taxed at the standard rate, receive tax relief at 20% while those on higher incomes who are taxed at the higher rate receive tax relief at 41%. Although it is difficult to quantify exactly how this tax treatment affects retirement savings, Hughes (2005) and Moloney and Whelan (2009) report that most tax relief goes to higher paid employees who receive tax relief at the higher marginal rate.

A Budget change enacted for 2009 to the PRSI/Health Contribution has led to an anomaly in the tax system that may impact on a group of Medtronic's employees' willingness to invest in an AVC. For all employees PAYE and PRSI are levied on gross pay less the pension contribution. Employees on a net taxable income of €500 pay a Health Contribution tax of 4% while employees earning less than €500 are exempt. Therefore, if a weekly pension contribution lowers net pay to under €500, an employee can avoid the 4% PRSI contribution. Table 3 compares the after-tax income of two employees earning €525 per week. One employee does not make additional retirement savings and the other is a member of an AVC contributing €30 per week.

Table 3: Tax Treatment for a Single, non AVC Contributor Compared with an AVC Contributor Receiving €525 per Week

	Per Year	Per Week
Gross Pay	€ 27,300	€ 525
Tax Credits (Single Person and Employee [PAYE])	€ 3,660	€ 70.38
Standard Rate Cut-Off Point	€ 36,400	€ 700

	NO AVC	AVC	
Gross Pay	€ 525	€ 525	
AVC Contribution	0	30	Contribution deducted from gross pay
Net Pay	525	495	The "net pay arrangement" operates such that the employer deducts the AVC contribution before calculating PAYE, PRSI and Health Contribution due on the employee's earnings
PAYE			
Tax @ 20%	105	99	Standard rate (20%) applied up to a maximum of the standard rate cut-off point
Tax @ 41%	0	0	Higher rate (41%) on pay in excess of the standard rate cut-off point (if any)
Gross PAYE Tax	105	99	Add the figure of tax due at the standard rate (20%) to the figure of tax due at the higher rate (41%) (if any)
Less Tax Credit	70.38	70.38	
PAYE paid per week	€ 34.62	€28.63	
PRSI & Health Contribution			
PRSI	15.92	14.72	First €127 of net pay per week exempt; 4% on remainder
Health Contribution	21.00	0	4% of total paid on income of €500 per week or more
Total tax on income (PAYE, PRSI & Health Contribution)	€71.54	€43.35	
After-tax income	€453.46	€451.65	

Because the AVC is deducted from gross pay and taxes are levied on net pay, the AVC contributor pays less PAYE and PRSI. Further, the contribution has lowered this employee's income below €500 and therefore they are exempt from paying the Health Contribution. In total, saving €30 per week in an AVC has reduced the take-home pay of this employee by €1.81.

The tax anomaly favours those employees whose AVC contributions reduce their net incomes to less than €500 per week. Their retirement savings are almost costless. Those on higher income that receive tax relief at the higher rate (41%) are still advantaged relative to those who can only qualify for tax relief at the standard rate (20%).

3.0 FINDINGS FROM THE CASE STUDY ORGANISATION

These findings are divided into four sub-sections. First, the details of Medtronic's occupational pension plan are presented. In the second sub-section, Medtronic's communication strategy and media are discussed. The third sub-section presents preliminary findings analysing personal and employment variables in relation to Medtronic employees' decisions to save for retirement through an AVC. Finally, the impact of the current tax regime on voluntary employee retirement savings is considered.

3.1 Medtronic's DB and AVC Scheme

Medtronic uses a total rewards approach and includes within their reward system all of '...the monetary and non monetary return provided to employees in exchange for their time, talents, efforts and results' (Christofferson and King 2006: 19). The benefit package is designed to be competitive within Medtronic's talent market and to meet the evolving needs of employees.

Retirement benefits are considered to be an important element within the benefit package. Going against the current trend, Medtronic continues to operate a DB pension plan and provides the facility to make additional voluntary contributions (AVCs). In addition Medtronic provides a free independent financial planning facility which all employees can use and informs employees about their pension plan using multiple information sources.

It is compulsory for all Medtronic employees to join the DB plan when they reach the age of 25. Pension income at retirement is based on the number of years that the person

worked for Medtronic and the member's pensionable salary. In addition to the pension benefits from the plan, members are entitled from age 65¹ to a state pension, subject to their meeting certain qualifying conditions. If an employee accrues 40 years of service, their retirement income including the state pension will amount to approximately two-thirds of their pre-retirement income.

With a DB plan, as long as the company continues to support and contribute the required amounts to the plan, the investment risk is borne by the company. If assets of the pension scheme fall in value, the company must pay more into the plan but employees get the same benefit. Therefore, Medtronic's annual contribution to meet the legislated funding standard fluctuates. Employees are required to contribute 5% of pensionable salary. Member contributions qualify for full tax and PRSI relief, subject to Revenue limits. Furthermore, members have no tax liability in respect of the company's contributions paid on their behalf.

A trustee from Irish Pension Trusts provides oversight for the Medtronic DB plan. Mercer Ireland is contracted as an actuary, investment strategy advisor and to ensure that the DB plan complies with legislation. All investment decisions are reviewed by senior Medtronic corporate employees.

The AVC facility is provided as a supplement to the main pension plan. As the name implies, contributions are voluntary and only employees contribute. However, since this service is available through their employer, contributions are deducted from gross income allowing for favourable tax treatment to be administered through payroll. Medtronic negotiated a favourable annual charge for AVC members based on the value of their fund and subsidises the administration fee.

There are a number of investment options for AVCs ranging from low risk funds such as the Cash Fund to high risk funds such as the Equity Fund. It is made clear to members that the amount employees invest and the investment return is their responsibility as they

¹ The age at which people can collect the state pension will increase if the Government's proposed Pension Framework is approved.

bear the full investment risk. Irish Life is Medtronic's investment manager and administrator.

3.2 Communicating Pension Information to Employees

Medtronic uses several methods to communicate with their employees concerning pensions. Most of these are either developed with or provided by Open Financial Services (Open), the broker for Irish Life. A qualified financial advisor employed by Open is available on-site at Medtronic four days per week.

There are four sources of two-way communication. All employees are entitled to a free pension consultation with the Open financial advisor during working hours on topics including:

- Current level of pension provision
- Shortfalls between their current level of funding and the level required to meet their retirement goals
- Pension savings choices that maximise tax benefits
- Methods of retirement saving using an AVC (lump sum, regular contributions, combination of both)
- Risk associated with various AVC funds and appropriate choices given individual financial situations and risk tolerance
- Specialist issues including transfers from other schemes, buybacks, Approved Retirement Funds (ARFs), etc.

Once a year, Medtronic organises an Employee Benefits Day. All employees are invited to the auditorium to attend presentations and to discuss specific benefits at information stands. New entrants to the company are required to attend a pension workshop as part of their induction training. Employees investing in an AVC can check their fund value using PensionPhone and Pension Planet, an online AVC information source provided by Irish Life.

Medtronic also provides a number of one-way media available by hard copy and/or on-line. Employees receive the *Medtronic Galway Employee Pension Plan Member Explanatory Booklet* which is updated bi-annually. It provides all of the details of the DB scheme as well as examples to illustrate the accumulation of retirement savings under different scenarios. A booklet is also available providing the details of the AVC plan. The *Total Reward Newsletter* is published several times per year and raises a variety of pension-related issues including budget changes affecting pension savings, details of specific AVC funds, and reminders to contribute bonus earning to an AVC.

Each employee receives an annual personal pension benefit statement providing information on accrued and projected pension benefits from their DB plan. If they participate in the AVC scheme, they will also receive an annual personal statement showing contributions, fees, and the current value and projected future value of their pension fund. Employees can also access information concerning their AVC on-line through Pension Planet. Medtronic's Total Reward Website posts announcements, provides links to benefit providers and archives all reward documents including the explanatory booklets and newsletters. Announcements, newsletter and benefit enrolment forms are also available in the canteen on the Total Well Being Notice Board.

Table 4 summarises the 10 formal sources of pension information available to Medtronic employees.

Table 4: Pension Information Sources Provided for Medtronic Employees

Source	Type	DB	AVC	Details
Employee Benefit Day	Two-way	x	x	<ul style="list-style-type: none"> • General pension planning • Employee-specific questions
Financial Advisor	Two-way	x	x	<ul style="list-style-type: none"> • Retirement income planning • Efficient tax investment • AVC choices • Employee-specific questions
Member explanatory booklet	One-way / soft copy & hard copy	x	x	<ul style="list-style-type: none"> • Detailed explanation of schemes and examples
Pension Planet	One-way / on-line		x	<ul style="list-style-type: none"> • Fund balance • Facility to change funds
PensionPhone	Two-way		x	<ul style="list-style-type: none"> • Individual questions on AVC fund value
Pension workshop	Two-way	x	x	<ul style="list-style-type: none"> • Details of Medtronic pension plan provided as part of induction training
Personal pension benefit statement	One-way / hard copy	x	x	<ul style="list-style-type: none"> • Accrued and projected benefits • Fees
Total Rewards Newsletter	One-way / soft copy & hard copy	x	x	<ul style="list-style-type: none"> • Impact on pensions of changes to tax system • Discussion of retirement savings choices • Timely reminders to open AVC
Total Reward Website	One-way / on-line	x	x	<ul style="list-style-type: none"> • Notices • Links to pension providers • Document archive
Total Well Being Notice Board	One-way/ hard copy	x	x	<ul style="list-style-type: none"> • Notices and Newsletter posted • Benefit enrolment forms

Informally, employees contact HR department representatives and are generally directed to these dedicated information sources. Employees are notified after the annual Irish Budget announcements if there are any changes that will impact on their terms and conditions.

To summarise, Medtronic obviously takes its responsibility to communicate with employees about their pension provision seriously. In line with the best practice identified in the literature review, it has developed a sophisticated communication strategy designed to engage employees' interest (*Personnel Today* 2009; Sheridan 2006; Harrison 2008). Ten formal communication mechanisms were identified in table 4 presenting knowledge '...in every possible way' as suggested by Caudill (2004: 48).

Medtronic communication is frequent, at least several times per year. It is timed to promote AVC contributions following bonus awards and Budget changes (Caudill 2004).

The importance of engaging expert advice was highlighted by both Harrison (2008) and in *Personnel Today* (2009). Medtronic works closely with the broker of the life assurance company that operates as their investment manager and administrator for the AVC. Because Medtronic recognises that pension decisions are individual, this pension advisor is available on site to meet with employees. As suggested by Sheriden (2006) employees receive individualised pension information for both their DBs and AVCs.

3.3 Personal, Employment and Policy Variables Associated with Contributions to Pension Savings

The database used in this analysis was compiled in April 2010. The information provides cross-sectional information for 1933 Medtronic employees. Preliminary analysis was conducted using PASW Statistics 18. Summary information for each variable is shown in Table 5.

Table 5: Summary Information on Personal, Employment and Policy Variables

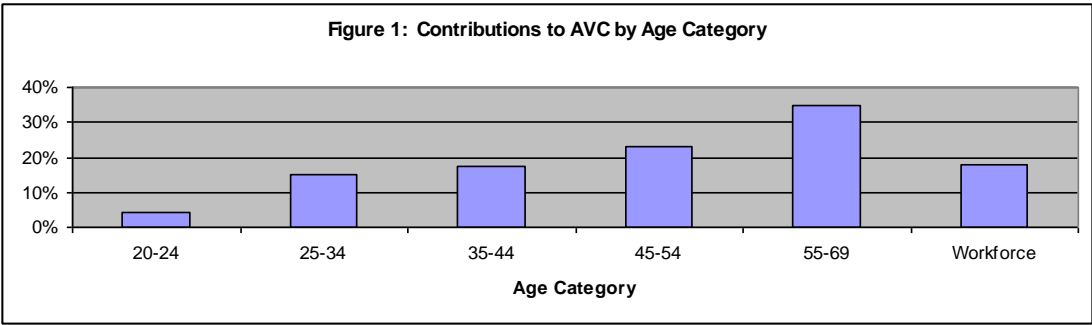
Type	Variable	Possible values	Frequency	Percentage (%)	Mean value	Standard deviation
	Age	1=20-24 2=25-34 3=35-44 4=45-54 5=55-69	24 792 722 306 89	1.2 41.0 37.4 15.8 3.6	2.82 37.63 (years)	.877 8.554 (years)
	Education	0=Not indicated 1=Junior Cert 2=Leaving Cert 3=Third Level (cert, diploma, degree) 4=Masters 5=Doctorate	212 36 615 911 138 21	11 1.9 31.8 47.1 7.1 1.1	4.09	1.761
	Gender	1=male 2=female	830 1103	42.9 57.1	1.57	.495
	Marital Status	0=Not indicated 1=Divorced 2=Married 3=Separated 4=Single 5=Widow	1 14 851 23 1037 7	0.1 0.7 44.0 1.2 53.6 .4	3.09	1.007
	Nationality	1=National 2=Non-national	1609 324	83.2 16.8	1.17	.374
	Tenure	1=0-5 years 2=6-10 years 3=11-15 years 4=16-20 years 5=Over 20 years	964 554 221 88 106	49.9 28.7 11.4 4.6 5.5	1.87 8.3 (years)	1.128 5.754 (years)
	Grade (Proxy for income)	1 2 3 4 5 6 7 8 9 10 11	1267 22 59 85 135 193 115 30 20 6 1	65.5 1.1 3.1 4.4 7.0 10 5.9 1.6 1 .3 .1	2.564	2.369
	FTE (Full- time equivalence)	1= Full-time 2= Part-time	1734 199	89.7 10.3	1.10	.304

Policy	Tax	0=No tax	619	32.0	1.87	.701
		1=Lower Rate	949	49.1		
		2=Upper Rate	365	18.9		
Dependent	AVC	0=Not indicated	3	0.2	1.18	3.85
		1=No	1582	81.8		
		2=Yes	348	18.0		

From Table 5 it can be seen that 18% of Medtronic employees opened an AVC. The following analysis uses cross tabulations to compare this percentage with the personal and employment variables that have been identified in other studies as associated with retirement savings. There are significant differences between this study and those identified in the literature review. Most of the other studies and surveys are either investigating individuals' choices to voluntarily enter a pension scheme or reporting on pension coverage using a national sample. In this study, all Medtronic employees are compulsory members of a DB pension scheme and the AVC comprises additional savings for retirement.

Age

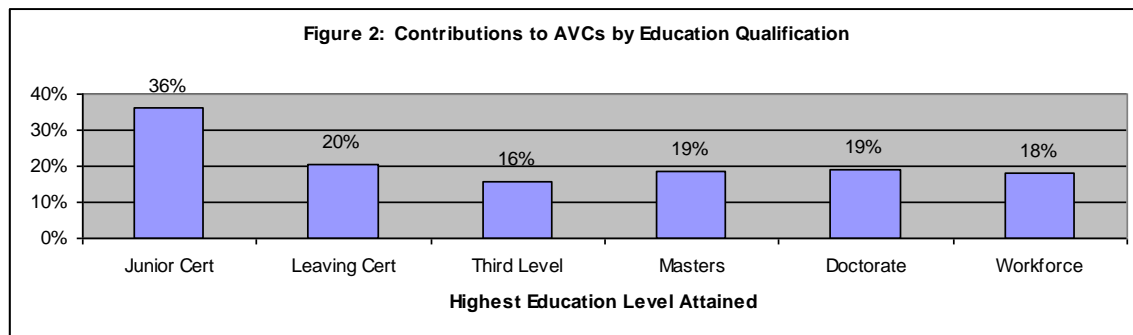
Medtronic employs a smaller proportion of people under the age of 25 and over the age of 45 than in the national labour force. Over three quarters (78.4%) of Medtronic's workforce are aged between 25 and 44 compared with just over half (55.1%) of the national labour force (CSO 2010). The proportion of each age category contributing to AVCs compared with the workforce proportion is shown in figure 1.



For Medtronic employees there is a positive relationship between age and saving for retirement through an AVC. This result is similar to the findings of Madrian and Shea (2001) and Aizcorbe et al (2003) and survey results for the national labour force reported by the CSO (2008) except that in those studies and surveys, the percentage of people saving for retirement increased until the last age cohort and then fell.

Education

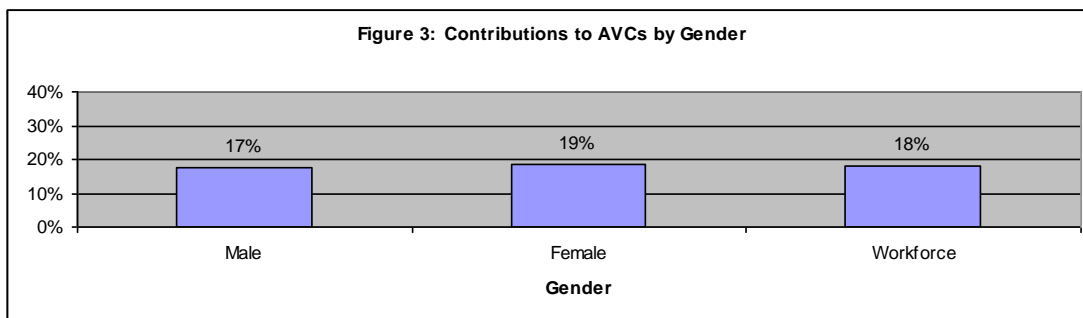
The contribution of Medtronic employees to AVCs categorised by their highest level of educational attainment is shown in figure 2.



Only 36 employees attained the Junior Cert as their highest educational qualification. However, the proportion of this group (36%) that contributes to an AVC is considerably higher than any other group and twice as high as the workforce percentage (18%). This finding is significantly different than O’Connell and Gash (2003: 90) who found that ‘Higher levels of education are associated with higher rates of pension entitlements’ for both men and women.

Gender

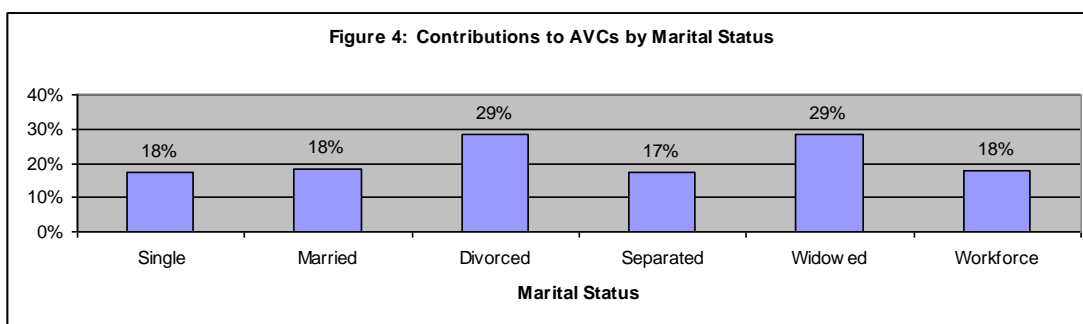
As shown in table 5, the majority of Medtronic’s workforce is female (57.1%) while women comprise less than half (44.1%) of the national labour force (CSO 2010). The proportion of Medtronic employees contributing to AVCs categorised by gender is shown in figure 3.



There is little variation between the workforce percentage (18%) and the percentages for men (17%) and women (19%) contributing to AVCs. This finding differs from other studies and surveys. A study conducted by Madrian and Shea (2001) in the U.S. found that when employees could volunteer for participation on the 401(k), the participation rate of women was about 10% lower than for men. A number surveys and studies in Ireland have shown that pension coverage for women is consistently lower than for men (The Pensions Board 2005; O’Connell and Gash 2003; CSO 2008).

Marital Status

The proportion of Medtronic employees contributing to AVCs categorised by marital status is shown in Figure 4.

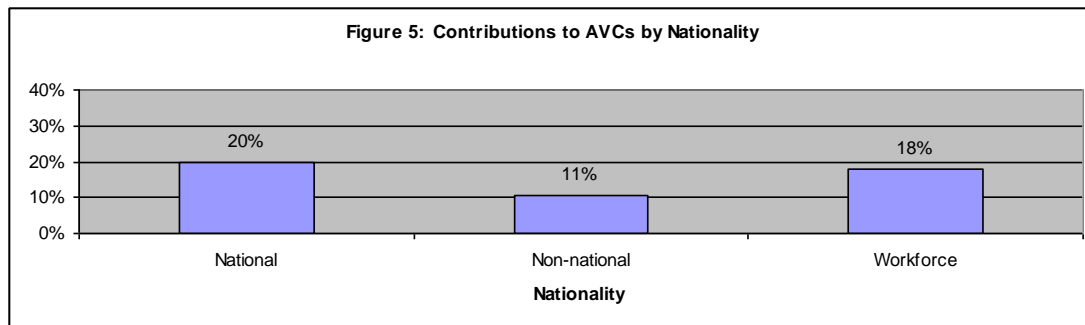


There is little variation among the marital status for categories with the largest number of employees; the proportion of single and married employees contributing to AVCs is the same as the workforce percentage. A much larger proportion of divorced and widowed employees are members of the AVC (29% for each category). However, as indicated in

table 5, the number of employees in each category is small (14 and 23 respectively). This data differs from the Quarterly National Household Survey which indicates that married people (63.3%) are most likely to have pension coverage followed by those who are separated or divorced (50.3%) and widowed (50.1%) while single people (45.3%) are the least likely to have pension coverage (CSO 2005: 5).

Nationality

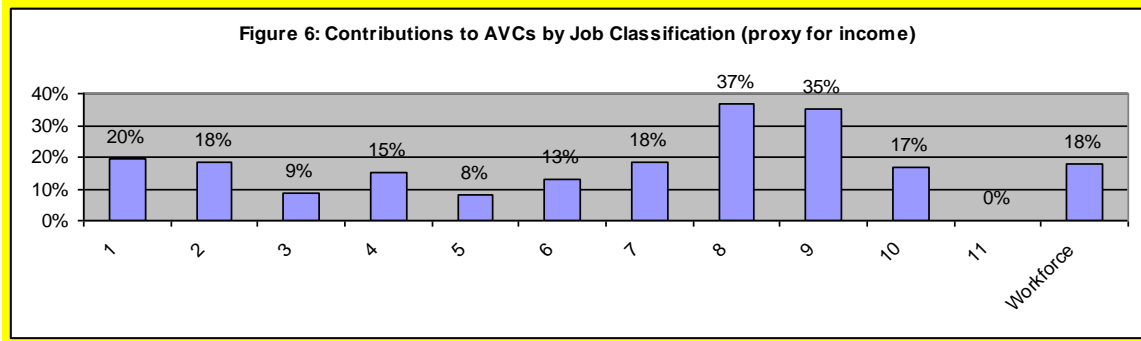
There is a larger proportion of non-nationals in the Medtronic workforce (16.8%) than in the national labour force (12.8%) (CSO 2010). The proportion of national and non-national employees who are increasing their retirement savings through AVCs is shown in figure 5.



There is a significant difference in the proportion of nationals (20%) contributing to AVCs when compared to non-nationals (11%). This pattern is also observed in a recent Quarterly National Household Survey which indicated that pension coverage for Irish nationals (58%) is more than double the pension coverage for non-Irish nationals (28%) working in Ireland (CSO 2008: 2).

Job Classification (Proxy for Income)

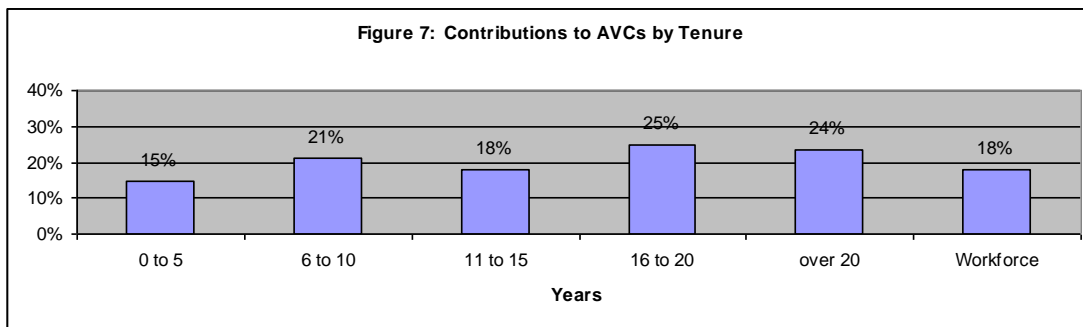
Income information was not available from Medtronic. However, since salary tends to increase for each job classification, this variable is used as a proxy for income. The proportion of Medtronic employees saving for retirement through AVCs categorised by job classification is shown in figure 6. (Classification 1 has the lowest salary range.)



It is difficult to identify a trend in this data. Job classification may not be a good proxy for income. Alternatively, the tax system may provide a more powerful influence on retirement savings than income. The results differ from U.S. studies which suggested that participation in 401(k) schemes increased with income (Madrian and Shea 2001) and that ‘...the percentage of families holding assets in ...tax-deferred retirement accounts increased with both income and net worth’ (Aizcorbe et al 2003: 11). Similarly, in Ireland, Moloney and Whelen (2009: 8) found that ‘Private and occupational pension coverage is not uniform over different income levels, but increases with increasing income...’

Tenure

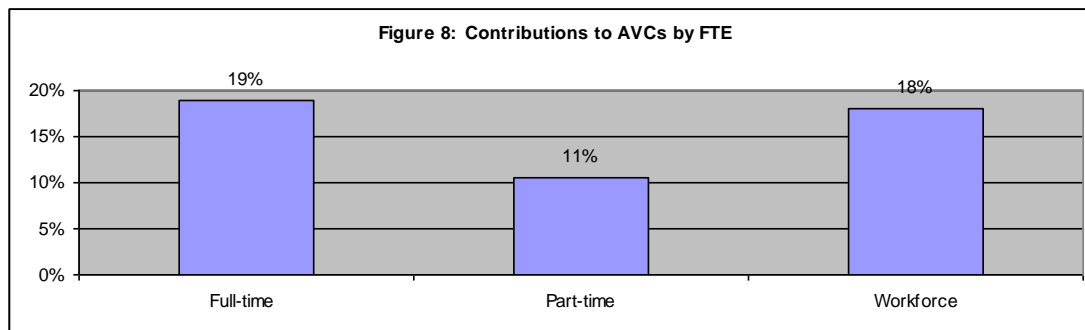
Tenure refers to the length of employment with Medtronic. From table 5 it can be seen that the tenure of 50% of employees is less five years or less. The relationship between tenure and retirement savings through AVCs is shown in figure 7.



Employees hired most recently (0 to 5 years) are least likely to invest in an AVC. The cross-sectional Medtronic data indicates that the proportion of employees investing in an AVC in the next category of employees with longer tenure (6-10 years) is 5% higher than more recent hires. This find is partially similar to a longitudinal study conducted in a large US corporation that investigated the savings behaviour of employees participating in a 401(k). When employees voluntarily opted for participation, ‘...the most important determinant of 401(k) participation is tenure...’ and ‘...much of the increase in participation occurs during the first ten years of employment...’ (Madrian and Shea 2001: 1158-1159). The Medtronic data does not show a positive relationship between tenure and contributions to AVCs. This evidence conflicts with data collected in the *Living in Ireland Survey*. The survey did not look at continuous employment with the same organisation, but considered the impact of the proportion of lifetime spent in employment and found ‘...a strong and positive effect on pension entitlement’ (O’Connell and Gash 2003: 90).

Full-time Equivalence

Although table 5 indicates that most employees are full-time, 10% (199 employees) are part-time. Figure 8 shows the relationship between full-time equivalence and saving for retirement through an AVC.



The proportion of part-time Medtronic employees saving for retirement through an AVC is considerably smaller than full-time employees. This finding is similar to other surveys and studies that suggest that pension coverage for part-time employees is lower than for full-time employees (CSO 2005; O’Connell and Gash 2003). It must be noted that part-

time Medtronic employees are in a more favourable situation since they do have pension coverage; the AVC is additional retirement savings.

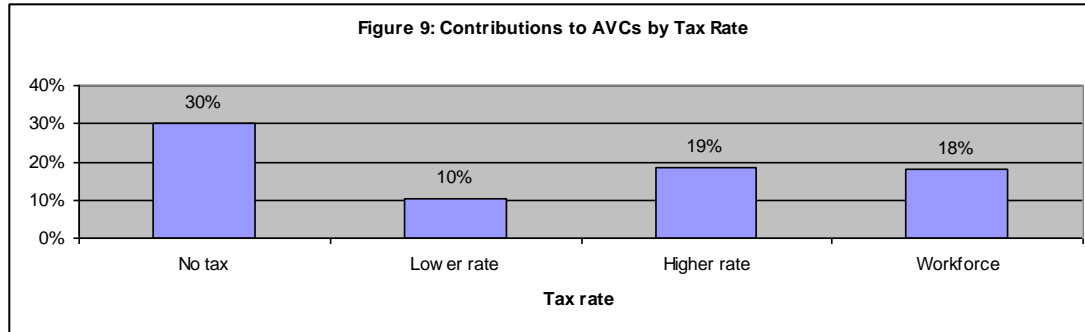
To summarise, Medtronic data for five personal and three employment variables were analysed to identify trends in the data, and to compare it, with qualifications, to other studies and surveys. The findings of this study are in line with other research in relation for only three variables: age, nationality and full time equivalence.

There is no obvious trend in the Medtronic data between educational attainment, job classification (proxy for income) or tenure and saving for an AVC. These findings differ from other research that found a positive relationship with each of these variables and pension coverage.

In terms of marital status, a similar proportion of single and married Medtronic employees are saving for retirement through an AVC while CSO (2005) data indicates that pension coverage is significantly higher for married people. Of Medtronic employees, women are slightly more likely to invest in an AVC than men. National and international studies and surveys consistently found that pension coverage for men is higher than for women.

3.4 Taxation and Contributions to Pension Savings

Table 5 indicates that the tax variable has three possible values. ‘No tax’ is associated with employees taxed at the 20% rate who benefit from the PRSI tax anomaly outlined in Table 3. An employee in this category can save €30 per week in their AVC while only reducing take-home pay by €1.81. ‘Lower rate’ indicates that tax relief for retirement savings is applied at the employee’s marginal tax rate of 20%. These employees do not benefit from the PRSI tax anomaly. Employees classified under ‘higher rate’ receive tax relief at the marginal rate of 41%. Figure 9 shows the proportion of employees in each tax category who add to their retirement saving using an AVC.



The proportion of employees on the higher rate (19%) contributing to an AVC is significantly higher than the proportion on the lower rate (10%) of taxation. The disproportionate tax relief to higher earners was reported by Hughes (2005) and Moloney and Whelan (2009). This is related to the regressive nature of the Irish tax system that allows greater marginal tax relief for people on higher levels of income. However, the ‘no tax’ group is the most likely to contribute to an AVC. Of the 619 employees in this category, 30% are adding to their retirement saving using an AVC.

To summarise, employee contributions to an AVC appear to be related to the marginal tax rate. The largest proportion (30%) of employees saving for retirement is paying ‘no tax’. The next highest proportion (19%) contributing to their AVC is receiving tax relief at the higher rate while those on the lower rate are the least likely to contribute (10%).

4.0 DISCUSSION AND IDEAS FOR FUTURE RESEARCH

This case study reports on an organisation that offers both a compulsory DB scheme and an AVC facility. Therefore, the organisation is attempting to convince employees with some pension provision to contribute additional income to retirement savings. No other Irish case studies have been identified and more are needed to examine the policies and practices of organisations with different pension provision arrangements. Only then will the potential contribution of employers to promote pension savings be understood.

Medtronic is clearly committed to contributing to the retirement income of their employees. The company also communicates extensively providing information over

different media so that employees should be well-informed about the AVC facility to increase their retirement savings. In spite of this, only 18% of Medtronic employees have contributed to an AVC.

Inertia has been identified as one explanation for the failure of individuals to save sufficiently for their retirement (Madrian and Shea 2001; Benartzi and Thaler 2007). People tend to procrastinate when present costs of an action are more salient than future costs (Akerlof 1991). The complexity of pension decisions is thought to increase inertia. On the other hand, research suggests that persuasive communication can overcome inertia enabling people to make reasonable decisions about their retirement savings (Weiner and Doescher 2008).

In the case of Medtronic employees, it is unclear if employee inaction is based on inertia. Alternatively, based on information received through formal media sources, Medtronic employees could be making a rational decision that their DB scheme provides sufficient replacement income for their retirement. Qualitative research would help to clarify these contradictory explanations. It could lead to a more segmented approach by Medtronic to identify those employees who are at risk of insufficient retirement income. Targeted communication to particular segments can reduce decision-making complexity and promote action (Sheridan 2006).

Further research in other settings is needed to see if there are predictable relationships between personal/employment variables and retirement savings. The relationships between gender, education, marital status, income and contributions to retirement savings in this study differed from the findings reported in other studies and surveys. This could mean that there are organisational and environmental factors that influence these relationships. For example, although men are generally better represented within occupational pension schemes, within specific employment contexts, male and female saving behaviour may be similar. In an external environment characterised by great uncertainty the relationship between educational attainment and retirement savings may

be less robust. In national contexts where tax benefits do not favour those on higher income, the positive relationship between income and retirement saving may be altered.

Qualitative research is also needed to understand the way that Medtronic employees are balancing their retirement saving decisions with other saving decisions. Samwick (2006) identifies three savings motives: liquidity (for unexpected events), specific purchases (for houses, education) and retirement. Because AVC savings cannot be used before retirement, this may explain why Medtronic employees are reluctant to invest additional income into this facility.

This research reinforces the view that tax incentives can be used to promote retirement savings. Longitudinal research on Medtronic employees would confirm whether or not their saving behaviour persists if the tax-based savings incentive is removed by future Budget changes.

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