

## Green Paper Consultation Responses

### Access to funds

#### Submission 28

I am an individual with an interest in finance. I have a few suggestions for overhauling the pension system in Ireland.

I believe the largest issue facing government in relation to private sector pensions is encouraging private sector employees to save towards their pensions. This is simple to achieve, we just need to align the pension system more directly with individuals' financial objectives/milestones.

Assuming people can be convinced of their need to save for the future there are several obstacles facing individuals who want to start saving for their retirement;

1. understanding the benefits to their pocket by using a pension vehicle;
2. fear of poor return/loss of money with a pension due to past experiences with complicated financial products;
3. fear the company that are operating their pension fund will go bust, and they lose their pension;
4. fear of needing the money after they lock it into their pension fund;
5. fear they will not be allowed access their fund till 70 or 80 due to future changes in the law.

**1 & 2** can be answered through education & making the system simpler e.g. SSIA style the govt will match any contribution you make to a pension fund.

**3** can be answered through government guarantee law & education about the guarantees & laws.

**4** can be answered by allowing people access to the fund whenever they need it; after all it is their money. The tax relief/govt contributions would be reclaimed if part of the fund is withdrawn before retirement age.

**5** should be changed by law, allowing anyone to access their fund on a retired basic from the age of 50.

My main two points are simpler SSIA style matching on contributions, and allow access to the fund at any stage.

As informed individuals we know that the ideal is that people start saving from as soon as they enter paid employment, and allow the power of compounding interest rates work for them. I think the main reason a rational person, who understands the current pensions system is unwilling to start saving into a current pension vehicle is due to the fear of not having access to the funds for 30 or 40 years, and possible needing that extra money for a car, house, year off, crèche fees, going back to college etc., This fear is real as young people have several financial milestones and a lifetime of unknowns ahead of them which may require every extra penny, e.g. saving for a house, getting mortgage under control, having children, taking a year out. Against this backdrop you can see why people would rather save the money outside of a current pension vehicle, and only start the pension late in life, when their major financial milestones have been reached.

As an aside, we should push for a common (single market) EU pension system, this would give our citizens better value for money, and also allow our financial services industry to grow into a new European wide market.

## **Submission 46**

### Pensions Green Paper Submission

1. In the short time I've been contributing to a pension (less than 10 years), I've managed to end up with a Personal Pension, two company pensions and a Buy out bond. The complexity of current arrangements are absurd and do not deal with the realities of modern private sector life which may see you change employer frequently. Adding to this complexity are revenue taxation rules which again seem to make what should be a simple operation needlessly complex.
2. What I would like to see is a single personal pension "container" which can be carried from employer to employer. Currently, I can contribute AVCs and get tax relief from only one pension which means I am forced to use my employer's pension arrangements (to get the employer contribution). As a young person I wish to take on higher risk investments than my employers pension allows.
3. Fees are significant for all pension types at present. I would wish to have the ability to buy a diversified ETF (Exchange Traded Fund) index fund portfolio for my pension, but again I am constrained by my employer's scheme. This would allow me to reduce the fees that are being paid to advisors from the current 1.5% to little under .5% of my portfolio.
4. In an effort to attract those who do not have pensions, it should not be necessary to downgrade the benefits applying to those of us who have been financially responsible to date.

5. It should be possible to move all pension contributions into an ARF at retirement age. Forcing people to buy annuities in the current low interest rate environment makes pensions an unattractive prospect. If ARF benefits were limited from where they are at present I would no longer contribute to a pension as it would not make economic sense.
6. I agree with the assessment that many people are unwilling to contribute to a pension for fear of needing access to the money and being unable to do so before they retire.

### **Submission 85**

In discussion with family and friends here are our findings:

Female 45, no private pension.

Female 44, no private pension.

Female 42, no private pension.

Male, 60, no private pension.

#### **Reasons:**

1. The stock market is crashing and all we hear about is the amount being wiped off pension funds. Why would we want to invest in such funds with no guarantee of the final amount?
2. No spare money - we are all on low incomes, earning less than €25,000 each, some less than that, some working within the home with no personal income at all.
3. No flexibility on when the pension (which is just a form of saving) can be accessed.
4. A private pension is taxed when it is drawn down. Why? What is the logic of that? How does it encourage people to save?
5. The pensions section in Sligo now DO NOT do pension projections for people aged 60! Why? How does that encourage people to start a private pension?

#### **Suggestions:**

1. An SSIA type account, with flexibility as to when it can be drawn down.
2. Income tax, if deducted at all, is deducted on an ongoing basis, so that people know where they stand financially.
3. Tax relief is deducted like on a mortgage, at source. Many people do not claim their reliefs. Make it easy.

4. Reinstate and ADVERTISE the pension projection service. I know the calculations are hugely complex but it could even be extended to the under 60's to let people know where they stand.

### **Submission 145**

I have a small point to make in relation to my pension and it relates to an issue I find discriminatory and exclusive. As a permanent and pensionable employee of a semi state body, I am forced to participate in our pension scheme and I support this approach wholeheartedly as it forces younger employees to participate in a pension scheme at early stage of their career.

However the pension scheme administered by [employer] has a compulsory 'spouse and child' element. I would have no problem with this if it were optional, however I strongly object to an ongoing compulsory payment of spouse and child provisions when all payments made into the scheme are absolved by the Fund, if I do not marry or have children. Surely I should alternatively be entitled to nominate a family member/partner to receive the benefit. My marital status should not exclude me from designating who receives the benefit of years of these contributions.

### **Submission 184**

#### **Access to Funds:**

Please provide access to funds in pension fund after a specified period, say 5 years from contribution date without any tax payments. This will encourage people to save for the future and will be an SSIA-type of successful scheme.

#### **Property Pension:**

Allow PAYE employees to start Property pension and allow tax benefits on self-occupied house for capital repayment on the same. This will encourage everyone to save more money on their mortgage interest and save for future.

#### **Migrants:**

Please allow any migrants returning to their home country to take their pension fund free of tax and lock in to their home country. This will make sure that migrants can save for their retirement without fear of access to their funds and also in case they become Irish citizens they are not a burden on state in their old age.

## **Submission 196**

### **Comments in relation to Chapter 7 of the Green Paper: Supplementary Pensions – Incentives for Retirement Saving**

#### **SSIA-Type Incentive to Save for Retirement**

I firmly believe that the current tax arrangements to encourage pension provision through Revenue Approved Pension Arrangements are too complicated to be easily understood by a typical non-financially educated worker and the system is also heavily biased to the higher-rate tax-payer.

I believe that the tax relief should be given in the form of a credit to the amount invested, in my opinion this would be more easily understood by the 'non-financial' pension saver and it could also be an equitable credit across the board (regardless of the saver's tax band).

It would seem appropriate that there should be neither a gain nor a loss to the exchequer in terms of "total tax foregone" by moving from one system to the other, so a ball-park credit might be 50% of the amount invested in the Approved Pension.

#### **Access to Retirement Funds**

I feel that, in tandem with the introduction of an 'SSIA-Type Credit', a greater freedom of access would increase interest (particularly among standard-tax-band earners) in Supplementary Provision.

Such access could be on the basis that access before a minimum age (55, for example) would result in the loss of the 'SSIA-Type Credit'.

I understand that access is restricted to "protect people from themselves" and the assumption that people will all too easily cash in their fund – however, the reality is that many workers will never take-out a pension in the first place because of this restriction, so are we really "protecting people from themselves" where we are forcing them into a non-saving position?

## **Submission 230**

The following are some issues where I feel that some improvements can be made to the current regime, in the interest of fairness and equality. They are my own personal views as a Financial Advisor, who transacts pension business.

Under existing legislation governing PRSAs, Employers have to offer their employees the facility to put in place, at least one Standard PRSA in situations where:

- There is no pension scheme currently in place

- Some employees are excluded from the existing pension scheme
- The waiting period for membership of the existing scheme is more than 6 months
- The current pension scheme rules do not allow employees to make AVCs

There is no obligation on the employer to contribute to the PRSA.

However, if an employee decides to contribute to a PRSA, and their contributions are deducted at source through payroll, the employer saves 10.75% of that contribution through a PRSI saving.

It is my opinion that this saving should be automatically made by the employer to the employees PRSA.

I am not convinced that a SSIA type contribution to a Pension/PRSA will encourage more people to save for their retirement. The only way that this would be popular is where the consumer would have access to some of the money at an earlier date than normal retirement age. This defeats the purpose of retirement planning and I feel that personal savings and retirement funding should be kept separate. The population is confused enough as it is with all the different types of products on offer, why make it worse.

I do believe that the tax-relief system that is currently employed should be maintained but that the relief should not be dependent on highest marginal rate. It is my opinion that all pension contributors should get a standard relief in the region of 35%.

Those that are not in the tax-net could either qualify for a rebate of the relief or be offered a greater percentage of their fund as tax-free cash at retirement age.

All defined contribution pension schemes should have a facility, whereby the fund should be made available, for legitimate medical expenses, at the behest of the pension holder, before normal retirement age.

Pension Product Providers should not be allowed to offer reduced allocation rates to those that are making minimum contributions to pensions. This is more prevalent in the Personal Pension market and involves giving those that make larger contributions more favourable product terms.

### **Submission 289**

In view of the issues and challenges facing the Social Welfare pensions system and the approaches to reform discussed in this chapter, the key questions include:

*1. In the light of the reforms to the Social Welfare system undertaken in the 1970s, 80s and 90s which will, in future, see most people qualifying for contributory pensions, are there*

*implications for people who are at present not receiving support through the Social Welfare pension system?*

There are many considerations that would need to be addressed individually. One of the most critical would be how to deal with worker mobility within the EU both in respect of Irish-born citizens who spend some of their careers overseas and also workers who come to Ireland for part or all of their career. Presumably coordination and integration of national pension arrangements is something that should be dealt with at EU level.

*2. Is the introduction of a universal pension arrangement a desirable and feasible option?*

Pension arrangements need to be simple to understand. However, there will inevitably be some level of complexity for exceptional cases. But for the majority of workers in the mainstream there should be a universal pension arrangement.

*3. If universal provisions are not considered appropriate then what groups, if any, currently outside the Social Welfare pensions system should be targeted for action?*

There should be a needs-based approach whereby those with most need, i.e. those in economic hardship, should be targeted.

*4. Policy in relation to pensions has, for many years, concentrated on improving the position of all pensioners. Is this the most appropriate way of improving pensioner incomes or should there be a more targeted approach using measures such as the Living Alone Increase?*

Basic State pensions, as stated above, should be universal and simple to understand and meet basic financial needs. Other enhancements should be means tested and funded through mainstream Social Welfare funds. The basic State pension should be related to minimum wage rates on a 35 hour-week basis.

*5. If the basis of qualification for contributory pensions was changed from average contributions made, to one based on total contributions, what would be an appropriate level of contribution a person should be required to have to receive a full pension?*

The present arrangement of average contributions is the most equitable. It could be improved by increasing the number of variations to, maybe, 10 year multiples. e.g. 10 years contributions =  $\frac{1}{4}$  pension, 20 years contributions =  $\frac{1}{2}$  pension etc. The calculation should also give credit for contributions paid elsewhere in EU.

*6. Should a formal indexing arrangement linking pensions to some level of prices, earnings or risk of poverty threshold be introduced? How would a formal indexation mechanism be operated having regard to the overall budgetary and economic position?*

Absolutely, pensions should be indexed to CPI, or average hourly pay-rates, or minimum hourly pay-rates or some other appropriate benchmark

*7. Given the issues raised in this chapter, in Chapter 3, and in the Green Paper in general in relation to the long-term affordability of existing arrangements, how can the challenge of the growing cost of Social Welfare pensions be addressed?*

It is not a question of “can it” but how it should be done. All citizens of the state are entitled to a basic pension that meets basic needs. The debate should be around how much is “basic” and how funding from the Exchequer should be raised and allocated.

## **Submission 292**

### **Developing a Better Pension System**

#### **1. INTRODUCTION**

In responding to the Green Paper, I am seeking to avoid repetition of, or unnecessary reference to, the wealth of data already provided; focussing instead on the broad policy principles on which I hope to see agreement and action in the near future.

In my view, early action of the kind suggested below is now urgent and should be seen as a national priority. I strongly believe – and the data confirms – that Ireland’s ‘demographic dividend’ is rapidly waning in value; we no longer have the luxury of endless debate; and no further delays are acceptable if we are to develop a better pensions system - one that is truly inclusive and protective of all the ‘children of the nation’ irrespective of age. Thus I would argue that the various proposals put forward below, for changes in the tax, social insurance and occupational/other supplementary pension systems, be made in tandem - concurrently rather than consecutively - as we have no time to waste.

#### **2. BACKGROUND AND OBJECTIVES**

Trade unions such as SIPTU have striven for decades to negotiate the introduction and/or improvement of many hundreds of Occupational Pension Schemes (and, more recently, some PRSAs) in the private sector. They have also secured improvements in public sector pension arrangements, particularly for lower-paid public servants. They have lobbied consistently, with some successes, for improvements in the social welfare pension system; and have been the main advocates for the maintenance and further development of the social insurance system.

However, some of these gains are now being eroded. Many workers for whom good pension arrangements have been secured (and paid for) are now finding their benefits are being reduced; and, almost as worrying, that they are becoming objects of anger, aggression and envy, or victims of attempted ‘levelling-down’ to the poor position of those without adequate pension arrangements.

The agreed objective, in a civilised, wealthy and socially responsible society, must surely be the opposite: **to ‘level-up’ everyone to good standards of pension provision.** The fact of



increasing longevity makes this increasingly important, albeit increasingly costly. But the longer the cost issue is avoided, the greater the bill becomes, as the period over which it must be paid also decreases. So it stands to reason that the sooner we start investing more in pensions, the better.

A further concern is that even people who believe themselves to be in 'good' or even 'adequate' pension arrangements may find this belief to be mistaken when they reach pension age. And at that stage, they may find themselves unable to do much about it. The **adequacy** of many existing arrangements is therefore a serious concern.

The other major concern is that nearly half the workforce has no supplementary pensions cover at all – whether good, bad or indifferent. Nothing whatsoever to supplement the social welfare pension, which does at least cover most workers, nowadays.

If this situation is allowed to continue, and half of today's workforce of about two million people retire on an income equivalent to about one-third of AIE, this will mean a lot of people retiring on far less than half their pre-retirement income. Anyone earning more than two-thirds of AIE will be in this unenviable situation.

Therefore, in my view, our '**priority objectives**' in relation to pensions, should address three main issues: **Protection, Adequacy and Coverage**. Protection of good existing pension arrangements, in both the public and private sectors. Adequacy of pension provision in both the public and private sectors, especially for lower-paid workers in both. And resolution of the coverage issue in a manner compatible with achieving the other two, equally important, objectives. This latter point raises a further important point of principle, because of course any one of the above objectives could be realised at the expense of one, or both, of the others. As could other desirable objectives, like equality and equity – both achievable by extending coverage of a very poor standard to the entire population!

I believe that Ireland can and should build on what I would see as 'the bones' of a good pension system in order to achieve adequate pensions for the high proportion of the population who will not otherwise have post-retirement incomes sufficient to maintain a standard of living that is both minimally adequate and also bears a reasonable relationship to their former earnings.

This can be done if we first accept the absolute necessity of doing so; if we then face up to the real financial cost of adequate pension provision of this kind (and indeed the social and human cost of **not** doing so); if we assess, fairly and squarely, the most efficient way of meeting this substantial financial cost; and then agree to a 'fair sharing' of the costs involved.

### **3. OVERVIEW OF SUBMISSION**

These three key objectives – extending **coverage**, ensuring **adequacy** and **protecting** good existing arrangements – could be achieved by a combination of reforms carefully designed to build upon and develop the positive features of the present system and remove the negative features.

Specifically, I would argue that

1. The **social welfare pension system** requires reforms to further extend its coverage and make it more **fully inclusive** – see **section 4** below.
2. The **level of the social welfare pension** should be raised to at least 40% of AIE1 over the next 6 years; and then to 50% over the subsequent 6 years – see **section 4** below.
3. The **tax incentive** for people to save for retirement should be ‘equalised upwards’, i.e. those on lower-incomes, paying tax at the standard rate (or less) should receive the equivalent level of relief or subsidy as those paying at the higher rate. This particular reform should be seen as part of a more comprehensive approach, for the reasons explained in **section 5** below; because as a ‘stand-alone’ reform, it may not be sufficiently effective in relation to the main ‘target population’, i.e. people on low and low-to-middle incomes.
4. Planning should commence immediately for the introduction, in 2009, of a system of **mandatory pension contributions** in respect of incomes which fall within a specified band and which are not already adequately ‘pensioned’ – see **section 6** below.
5. The commencement of ‘**Child Pension Accounts**’, first suggested by SIPTU in 2003, should be the subject of an early Feasibility Study tasked with examining the possibility of introducing such Accounts in 2010 – see **section 7** below.
6. **Other reforms** designed to safeguard occupational pensions in both the public and private sector, are suggested in **section 8** below.
7. The issue of **costs**, and how these might be met and shared, is discussed in **section 9**.

#### **4. THE SOCIAL WELFARE PENSION SYSTEM**

The further development of the social welfare pension system is vitally important for both current and future pensioners; and in my view, both parts of the system (i.e. the social assistance and the social insurance pensions) should be improved so as to deliver better pensions to a higher proportion of the population.

##### **(i) Inclusion**

At this stage, after several decades of improvements and reforms, the social insurance system is fairly inclusive, but not fully so. This process must be completed by including, on a

fair and equal basis, those groups who have traditionally been excluded because their 'employment status' or work patterns did not conform to the perceived 'norms' of the time.

Over the years, the system has adjusted to social realities and the exclusion of particular groups has been addressed. Thus categories such as non-manual workers, married women, public servants, self-employed people, part-time workers, and certain carers and homemakers, have been brought into the social insurance system for some or all of its benefits.

However, difficulties and anomalies remain, e.g. for 'assisting relatives', carers with spouses earning over specified amounts, homemakers who had children and left their employment before 1994, people who entered social insurance before a certain time, women who were victims of the 'marriage bar' and so on.

Surely the time has come to tackle the remaining anomalies, promptly and fairly; and for the Exchequer to pay the requisite amounts into the Social Insurance Fund so as to ensure that at the very least, people of pension age are not excluded from basic entitlements?

I see considerable merit in a system of **social insurance**, as distinct from a universal system paying basic pensions to all citizens or residents. However, the social insurance system **must be fully inclusive**; it must cater for the vast majority of the working population, so that only a small minority need depend on the non-contributory, social assistance pension financed wholly by the taxpayer.

This social welfare pension system should also allow for **greater flexibility** than at present e.g. in relation to retirement ages. Greater **transparency** would also be helpful, because despite the Department's range of booklets and fairly user-friendly website, it can be difficult for people (irrespective of their age!) to access information about their entitlements, their insurance record and so on. The system for checking people's PRSI records and likely entitlements, in advance of retirement, should also be improved.

## **(ii) Level of Social Welfare Pensions**

At €223.20 per week, the current Contributory State Pension is barely 30% of estimated current AIE, which is about €750 per week. (I do not accept the Department's convention of expressing the **current** pension as a percentage of the **previous** year's AIE – even though the latter is generally the most recent figure to be published by the CSO. If the latest published figure is updated by reference to the known increase in average earnings in the interim, this gives a more realistic picture and usually proves quite accurate.)

Trade unions such as SIPTU have consistently argued for the contributory social welfare pension to be raised first to the target level agreed in 1998, which was 34% of AIE; and for progress to then be made towards 40% and ultimately, 50% of AIE. It is disappointing that so little progress towards this target has been made to date and I now believe that strenuous efforts should be made to achieve a national consensus in favour of (a) reaching 34% over

the next 2 years, i.e. by 2010; (b) reaching 40% over the following 4 years; and (c) reaching 50% over the following 6 years, i.e. by 2020.

As for the non-contributory pension, I would favour the retention of a small differential (no more than 10%) between it and the contributory pension, so as to underline the principle of social insurance and deliver some financial reward to PRSI contributors. I welcome the present government's commitment to raise the non-contributory pension to €300 per week by 2012 and would like to see a parallel commitment to ensuring that the contributory pension rises to €330 per week by the same date. However, instead of these numerical targets, it would be preferable to **index both pensions to AIE** and to avoid adjustments in the percentage differential between them, as present practice enables unacceptable anomalies to arise (e.g. in one recent Budget, a smaller increase was given to contributory pensioners than to non-contributory pensioners, presumably so that the lower rate could be seen to be reaching the government's promised target, without incurring the cost of proportionate increases in the higher rate).

## **5. THE TAX INCENTIVE**

There has been near-unanimity in recent years, among the 'key players' on the pensions pitch, that improving and equalising the value of the tax incentive (which encourages people to make or increase pension contributions) would be helpful in increasing pension coverage. Whether it would be sufficient, on its own, to bring enough of the 'target population' into good pension arrangements, is another matter. But there was general agreement that it was worth trying. The trade union representatives added a rider to the effect that it would be worth trying, **for a limited period** (as with the SSIA offer, for example), as long as it did not preclude or slow down planning for more radical measures if it proved insufficient on its own.

Unfortunately, however, successive governments have baulked at this idea – or, more likely, the cost of implementing it and the absence of any tangible short-term or even medium-term political gain from doing so. The immediate fiscal cost of extending to lower-paid workers a tax incentive which has proved highly effective for middle and upper-income earners, would obviously be high if the measure proved successful in increasing pensions take-up; but so would the long-term social benefit (and indeed, the returns to the Exchequer, arising from more people having higher taxable incomes in retirement).

If the power and potential of the tax incentive in relation to pensions is to be fully explored and exploited, the government should introduce a radical new scheme in Budget 2009, giving all taxpayers an opportunity to have their pension contributions tax-relieved at the same rate as higher-rate taxpayers. As this rate comes close to 50% (when the PRSI and Health Levy are added to 41% tax), this relief should be given in the form of **'one for one' matching contributions** – not only for simplicity and transparency, but because this 'SSIA-

style' mechanism has so recently proved popular, comprehensible and effective in encouraging savings.

However, as with the SSiAs, any such measure should be strictly time-limited (e.g. people should be given no longer than 12-15 months to enrol in new pension or PRSA arrangements); and take-up should be carefully monitored so as to assess its effectiveness in relation to the main target population (i.e. women, young people and lower-paid workers in the 'least-pensioned' sectors). And, at the same time, work should also be intensified on the issue of whether and how a system of mandatory pension contributions can be introduced if the improved tax incentive proves insufficient.

Unfortunately, it is quite possible that even a greatly improved SSIA-style tax incentive will prove inadequate to the task of persuading low-paid workers, with heavy day-to-day demands on their disposable incomes, to make provision for their retirement. Nor would such a scheme act as any additional incentive to employers who currently will not, or maintain that they cannot, make a worthwhile contribution to their employees' pension fund, even though such contributions are fully tax-relieved. For this reason, it is important to stress that work on an appropriate system of mandatory pensions must be immediately resumed and intensified – see next section.

## 6. MANDATORY PENSIONS

In my view, serious planning must begin for the introduction of a system of mandatory pension contributions which is appropriate for Ireland's particular stage of pensions development, so that no more time is wasted if the improved tax incentive fails to deliver the required results within the agreed timeframe. The purpose of this new tier of pensions provision should be **to close the gaps** in pensions coverage which currently exist - and may still exist, even after the tax and other improvements described above have been implemented - and **not to replace or weaken existing good provision**. Indeed, it is crucially important that extending good pensions **coverage**, to those currently without it, is not done at the expense of the other two main objectives – ensuring **adequacy** and **protecting** good existing pension arrangements. The experience of other countries is instructive in this regard.

The 2006 Report on Mandatory Pensions, prepared by a sub-committee of the Pensions Board within a very short time-frame, at the request of the then Minister for Social and Family Affairs, Seamus Brennan, made an excellent start in devising a system that would be appropriate to Ireland's needs. After studying the experience of other countries, commissioning some relevant research and deciding on various parameters and sets of assumptions, the sub-committee concluded that the type of system which would best suit our needs would be one that built on the present system by (a) further improving the social welfare pension and (b) introducing a supplementary scheme that would be mandatory for those without cover that was at least equivalent.

Specifically, what this Report recommended was

1. An increase in the **social welfare pension to 40% of AIE**, over a 10-year period; in 2006, in round figures, this would have meant increasing it from €10,000 per annum to €12,000 per annum. This would benefit both present and future pensioners.
2. Introduce **Mandatory Supplementary Pensions** – which it called '*Special Savings for Retirement*', or SSRs – for all those at work who did not already have adequate provision and whose incomes were within specified bands. Thus all workers, both employed and self-employed, would be covered, if they earned between 50% and 200% of AIE (the suggested 'eligible income' band). In 2006 terms, using a round figure of about €30,000 per annum for AIE at that time, this would have implied compulsory contributions for anyone earning between €15,000 and €60,000 per annum who was not already in an adequate pension arrangement.

The Pensions Board based its costings for such a system on a required total contribution rate of 15% of 'eligible income' – so for someone on exactly AIE, for example, the total annual contribution would be €2,250 and for someone on twice AIE they would be €6,740. The Board accepted that contributions totalling 15% of 'eligible income' were the least that would be needed in order to produce an eventual pension of about 50% of that income.

How exactly this 15% contribution should be shared was, in the view of the Pensions Board, a matter for the government of the day to decide. (In Chile, for example, employees pay the entire contribution; in Australia, employers pay it all and it's up to workers to decide whether to add anything. Neither approach has yet resulted in what could be seen as 'adequacy' because the total has not been high enough; although in Australia, the employer contribution has now reached 9% and some workers choose to add to this.)

It seems to me that the fair and obvious way of sharing the cost would be an equal, 3-way split between employers, employees and government, i.e. 5% each. And even if, in some cases, this had to be phased in (e.g. over 5 years), the important issue is the necessity to achieve, as soon as possible, a total contribution rate which will produce adequate pensions. There is no reason to believe that the 15% figure, accepted by the Pensions Board in 2006 as minimally adequate, is too high; if anything, unfortunately, it may now be too low.

Other features of the scheme devised by the Pensions Board were: **collection** of the contributions via the existing PRSI system (which would clearly be the most cost-effective, since the mechanism already exists) and **investment** of the contributions by the state – either directly (e.g. through the NTMA) or by letting individuals decide between various state-approved investment vehicles (as in New Zealand, for example).

The **investment issue** was one of the potential problem-areas identified by the Pensions Board as requiring much further attention than it was able to give it in the early part of 2006. If the state collects the contributions, and arranges their investment (directly or indirectly) must it also provide a state guarantee of the outcome? The experience of other

countries appears to have been mixed: in Australia, they started with a single investment option only, but recently introduced a 'choice of funds'; in Chile, the state has no involvement in investment, but nevertheless guarantees the outcome.

Other potential problems identified by the Pensions Board were the **compliance issue** (who to exempt, how to decide who already had 'adequate' cover, how exactly to define 'adequacy' and what resources would be needed to ensure compliance) and, of course, the **danger of downward pressures** on existing standards.

These are crucially important issues to resolve before introducing any system of mandatory pensions in Ireland, but I believe that they can and should be resolved, through careful planning and consultation with all the key interests involved. There is no virtue in doing further damage to system already under pressure from a combination of forces, some of them almost entirely outside of our collective national control. Conversely, we cannot, as a society, tolerate further inaction which leaves both the current and future generations of pensioners at the mercy of these forces.

## **7. CHILD PENSION ACCOUNTS**

At this stage, our national pension policy should aim to be fully comprehensive in the short, medium and **long term**. Thus, early improvements in the **social welfare** pensions are needed, in order to benefit today's pensioners and those workers who are coming up to retirement age shortly. For those who still have time to plan and save for better incomes in retirement, the social welfare changes plus improvements in the tax incentive, combined with the introduction of a new system of mandatory pension contributions for those who still do not have adequate cover, should between them deliver better pensions. And for those at an even earlier stage of life, we need measures which then could perhaps defuse the so-called 'pensions time-bomb' entirely for future generations.

The commencement of **Child Pension Accounts** (CPAs), suggested by SIPTU a number of years ago and elaborated on in some detail in 2003 and subsequent years should, in my view, be the subject of a Feasibility Study to be started in mid-2008 and completed by Easter 2009. If the scheme is considered to be both feasible and desirable, it should be introduced in respect of everyone born after January 1st, **2010**.

As part of SIPTU's pension proposals for Budget **2005**, the following measures were suggested as a possible way of addressing the long-term pensions challenges, with proposals to phase-in the measures over 16-18 years so as to minimise the start-up costs:-

"Set up a Pension Account for everyone born after 1st January 2005;

"Raise the Child Benefit rates to €150 / €185 per month and add 10% for pensions. For every child born after January 1st, 2005, add 10% of the basic Child Benefit rate (i.e. an additional €15 per month in 2005) and put this into their Child Pension Account (CPA).

"Facilitate additional contributions to CPAs – encourage parents, grandparents and other

'sponsors' to add (limited) amounts, tax free, to these CPAs (e.g. a maximum of 3-4 times the state contribution).

"For pre-2005 children, set up the Pension Accounts as they come off Child Benefit (usually between the ages of 16 and 18) – the state to put in a lump sum 'start-up bonus' (e.g. 6 months CB). This would mean a €900 'pension start-up bonus' for 16-18-year-olds in 2005, again with a facility for extra amounts to be added.

"This would mean that after 16-18 years, every young person below the age of 32-36 would have an established pension fund to supplement their Old Age Pension and to which further contributions can be made, by employers and by themselves.

"

(SIPTU, September 2004)

Clearly, these 2004 figures would need to be updated: Child Benefit is now €166 per month for each of the first two children and €203 for the third and subsequent child(ren). An extra 10% for CPAs would therefore mean an additional €16.60 or €20.30 per month, in 2008 terms. (These amounts would have to be standardised to ensure that all children born in the same year started with the same amount, e.g. €20 per month per child.) The amounts which parents, grandparents, etc. could contribute, tax-free, to these 'piggy-bank pensions' would also require careful consideration; as would the phasing-in arrangements and the mechanism for subsequently transforming these funds into occupational or personal pension schemes, or PRSAs, to which employers would also contribute at a later stage.

However, the virtues of starting 'the savings habit' at such an early stage should not be under-estimated; and there are also a number of other possible attractions associated with the idea of CPAs. For example: **partial encashment** of the fund could be allowed (say 25% at age 25 and a further 25% at age 50) without doing major damage to the eventual pension; and **greater flexibility around retirement ages** would also be possible, in the future, if a pension fund had been accumulating for 55 or 65 years - or more - rather than 40, 35 or even fewer years as at present.

As regards the issue raised in Ch. 14 of the Green Paper, of **raising retirement ages** and/or enabling people to postpone retirement and remain in employment, I would see the introduction of CPAs as an important mechanism for easing the pressure on future generations of older workers to continue working for longer than they actually wish or are capable of doing. People should not be pressurised into postponing retirement for purely financial reasons, i.e. because their pensions are inadequate or it will 'cost too much' to provide pensions for them when needed. Such a system is likely to increase inequality in retirement and to impact most adversely on those who are already disadvantaged.

However, I am fully in favour of providing **real choices**: of encouraging employers to retain older workers – if the workers wish to be retained; of encouraging workers to work beyond Normal Retirement Age – if they wish to do so; and perhaps redefining NRA and 'retirement' itself. But these must be provided as real choices, **real ways of improving peoples' quality**



**of life**, rather than as ways of cutting pension costs at the expense of older peoples' dignity and liberty.

## **8. OTHER ISSUES**

A few other issues require brief mention:

### **(i) Later Retirement**

This has been referred to at the end of section 7 above. If seen as a way of providing workers with free and real choices, I would favour greater flexibility and the ability to remain in employment, as long as this is **on a voluntary basis**. If seen merely as a way of reducing pension costs – by increasing pressure on older workers to remain in employment – then I have major reservations. In my view, a better way of reducing pension costs later in life, is to start making pension contributions at a much earlier stage in life (i.e. through CPAs) and to ensure that the contributions are adequate throughout one's life, especially one's working life (e.g. through supplementary pensions, whether voluntary or mandatory). This cannot be done for the current generation of pensioners, or for people due to retire soon, but it can and should be done for future generations.

### **(ii) Annuities**

The main reforms needed in relation to annuities would seem to be as follows:

1. DC holders should have **greater flexibility** in relation to the timing of their annuity purchases. They should not be compelled to buy at their exact moment of retirement.
2. Individuals approaching retirement (and, indeed, before that time) should receive **better information** about their entitlements, the comparative costs of annuities, the choices they have (and haven't), etc.
3. The **state should become a provider** of annuities, in certain circumstances. E.g. where a company with a pension fund collapses, or transfers its engagements, the state should take over the assets of the fund and ensure that the appropriate pension payments, or annuities, are made thereafter.

### **(iii) The Funding Standard**

I would urge considerable caution in relation to further amendments or relaxation of the Minimum Funding Standard, despite current market volatility and the consequent pressures on DB schemes. To date, there has been heavy reliance on the Pensions Board to assess serious under-funding situations and to read warning signs correctly, on a case-by-case basis. This approach has been successful to date, but if it is to continue, it may be necessary to increase the resources of the Board, in order to minimise the danger of delays with such

assessments (e.g. to appoint temporary staff, and/or create a panel of experts to be drawn upon at short notice).

#### **(iv) Growth of DC**

Trade unions have been working for many years to try to ensure that the growth of DC schemes has not been accompanied by the growth of insecurity, inequity and inadequacy of pensions provision. The worst fears of pensions practitioners have been confirmed by recent surveys indicating serious 'under-pensioning' of members of DC schemes and PRSAs. More effective publicisation of this problem and more widespread emphasis on the need for higher contribution levels (e.g. the 15% taken as being minimally adequate in the 2006 Pensions Board Report on Mandatory Pensions) would be helpful; but probably, the only fully effective solution is to **require** a minimum contribution level (15%, updated to take account of 2008 realities?) so as to **ensure** better outcomes.

#### **(v) Integration**

While consistently seeking increases in the social welfare pension, trade unions have long been faced with the dilemma that many lower-paid workers who are in DB schemes, both in the public and private sector, view this as counter-productive. This is because it can have the effect of decreasing their 'pensionable pay' and thus the portion of their total pension which derives from their occupational scheme, as distinct from their social welfare pension. (And the consequent savings in contributions, by both employers and employees, are not always seen as being available to improve the benefits deriving from the scheme.)

One possible approach to resolving this problem, at least in the private sector, may be via better trustee training and greater clarity when preparing and explaining pension fund accounts. Better explanation of the 'savings' accruing to the contributors to integrated schemes whenever the social welfare pension increases; better identification of the beneficiaries of such savings; and better-informed discussion (between actuaries, trustees, pension fund advisors and administrators, employers and employees) of possible alternative uses of such 'savings', could all contribute to progress in this area.

However, in the public sector, where unfunded schemes predominate, and governance and accounting procedures are very different, alternative mechanisms for discussion and progression of the integration dilemma would have to be devised; and in my view, work on this issue should commence as soon as possible.

#### **(vi) Discrimination against same-sex/unmarried couples**

Trade unions such as SIPTU have for many years sought the removal of all forms of discrimination against unmarried couples (whether same-sex or opposite sex) based on their marital status and/or sexual orientation. This includes discrimination in several areas of tax, social welfare, inheritance and pensions law and practice.

Many private and occupational pensions schemes have already remedied such

discrimination in their rules and it is time for the state to do likewise, both in relation to the social welfare pension system and the civil and public service pension schemes. If civil partnership legislation is introduced, this may improve the position for some unmarried couples (i.e. those same-sex couples who then choose to enter formal contracts) but it will not ensure equal treatment for the remainder of unmarried couples, whether same-sex or opposite sex.

## 9. COSTS

There is no point in avoiding 'the elephant in the room' – the issue of greatly-increased costs, if adequate pensions are to be provided for all who need them now and in the future. However, it is difficult for the lay person to calculate these precisely. Nor, for that matter, is it easy to calculate the precise social and human costs of **not** ensuring that older people have adequate incomes in retirement - and can also, with encouragement and support from the state, maintain their pre-retirement living standards, at least to a certain, socially-acceptable level. But, clearly, these costs are also very high, due to such factors as higher health and social services expenditure; lower output by older workers and hence lower GNP; less voluntary and social work by older people; lower purchasing power by older people, resulting in less tax revenue from a growing portion of the population. (The 'silver economy' will be of increasing significance, to the economy as a whole, in future years.) If it were possible to compute all these 'future costs' and weigh them against the more measurable current costs, the picture would look very different and more complex than simplistic snapshots of current-year tax and welfare expenditures would indicate. Each of the reforms proposed will involve additional expenditure in the immediate short-term and the primary question now is whether this can be faced, fairly and squarely, and accepted as being **both socially and economically necessary**. If it can, then the second issue of exactly what the costs are, and how these should be shared, must be confronted.

I can only give a broad view on the likely costs arising from each of the above proposals and how they could/should be met:

### (i) Social Welfare Pensions

1. The cost of removing all the various '**coverage**' anomalies and making the system fully inclusive, should, in my view, be calculated and met from the **Social Insurance Fund (SIF)** and, if necessary, in the context of Budget 2009 (i.e. as a once-off Exchequer contribution), bearing in mind that recent Exchequer contributions to the SIF have been very low and that large amounts, regarded as 'surplus', were removed from the SIF some years ago; therefore the question of raising employer or employee PRSI should not arise in this context.
2. The additional cost of ensuring **adequacy**, i.e. raising the level of the social welfare pension to the recommended amounts in the coming years, should be estimated and

then allocated to the Social Insurance Fund (in the case of the contributory pension), to general Exchequer funds (the non-contributory pension) and to the National Pensions Reserve Fund (NPRF - see also section (iii) below).

If necessary, the Exchequer contribution to the NPRF should be raised from its current level of 1% of GNP to a more appropriate level; as should the Exchequer contribution to the SIF. Increases in both employers' and employees' PRSI may also be necessary at some stage; and/or further increases in the income ceiling for employees' PRSI. The actuarial assessments of the SIF, started in the 1990s, should be carried out on a more frequent and regular basis than heretofore, so as to ensure that ongoing contributions are adequate and that drawdowns from the NPRF, after 2025, will also be sufficient.

## **(ii) Public Service Pensions**

These are an essential element of public service remuneration. It is vital that the integrity of the public service pension system be maintained and if possible improved, particularly for lower-paid public servants. Actuarial assessments of the cost of public service pensions must be carried out regularly and there must also be regular checks to ensure that the portion of the NPRF allocated to public service pensions is clarified and is likely to be adequate to the task for which it was intended.

## **(iii) The National Pensions Reserve Fund**

This Fund was set up in April 2000 following separate recommendations from two separate bodies - the NPPI and the PSPC. Strictly speaking, there should have been two separate funds as they were intended for quite different purposes, but initially they were rolled into one fund and it was said that roughly one-third of it was for public service pensions and two-thirds for social welfare pensions. Over the years, this distinction has become blurred; many people now believe it's entirely for social welfare pensions, others believe it is all for public service pensions; and this is most unhelpful in relation to costing both social insurance and public service pensions.

Apart from this confusion, which is not of course the fault of the NPRF or its staff, or the Commissioners who oversee its operation, the Fund has performed well in the face of global uncertainty and is the only Irish fund to have signed up to the UN's Principles and Guidelines on Socially Responsible Investment. It would seem to be the best available vehicle for increased state involvement in pensions in the future, e.g. in relation to annuities and the investment of mandatory pension contributions.

## **(iv) Equalising the Tax Incentive**

Giving lower-paid workers (who pay tax at 20% or less) a higher level of tax relief or SSIA-style subsidy towards pension contributions, would of course be 'costly' if take-up were

high. If successful in incentivising a further 20% of the workforce to start or increase pension contributions, this could raise the present cost of tax relief on workers' contributions by up to one-third, i.e. from €540m. to about €720m.

However, if **unsuccessful**, and if only an extra 10% of workers responded to such an incentive, the experiment would only cost an additional one-sixth (€90m. per annum) or €630 per annum in all. There would also, of course, be additional 'costs', i.e. tax foregone, in relation to investment income and any increases in employers' pension contributions. (The Green Paper contains somewhat different figures to these, but the basis of those calculations is not explained and is not clear to me.)

#### **(v) Mandatory Pensions**

The Pensions Board estimated in 2006 that the cost of introducing a mandatory pensions system of the kind it recommended would, as a percentage of GNP, raise the current Exchequer cost of pensions from 2.4% (in 2006) to 7% in 2026 and to 7.8% in 2056.

It found it difficult to model the exact costs because the effect of the new system on existing schemes was hard to predict. (And it would be even harder to predict if existing schemes had first been boosted by an improved tax incentive.) Again, there would be various ways of meeting the cost: it could be through extra injections to the NPRF, additions to PRSI, or existing taxes, or new taxes/levies/charges; or combinations of these; and it could be done on a funded and/or PAYG basis.

#### **(vi) Child Pension Accounts (CPAs)**

The cost of introducing CPAs in the manner suggested – i.e. phasing them in over 16-18 years – would be easier to calculate. The state contribution would be an extra 10% of about 2/17 of the annual cost of Child Benefit (assuming roughly the same number of children in each age-group: 0-1 and 16-18), but these figures could be done more precisely by the relevant government Departments, by reference to the actual, known numbers. There would also be a certain amount of tax foregone if parents, etc. were allowed to add to the CPAs on a tax-free basis, depending on the limits imposed. The question of whether to allow the investment income to build up tax-free (as in existing funded schemes), would also have to be addressed.

### **10. SUMMARY AND CONCLUSIONS**

In putting forward the above proposals for the development of a better pension system for present and future generations in Ireland, I am aware of the substantial costs involved and the potential difficulties of not only meeting those costs and sharing them fairly, but also of ensuring the effectiveness and proper targetting of such high expenditures.

Nevertheless, I believe it is vital to seize the present opportunity for debate, consultation and clarification of ideas, if this vision for the future is to be realised in the not-too-distant future. Early action to ensure greater investment in pensions for all - for existing pensioners,

people who will be retiring soon, and people who are still many years from retirement - must be seen as a major national priority.