

# **GREEN PAPER ON PENSIONS**

## **SUBMISSION BY AGE ACTION IRELAND**

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### **INTRODUCTION**

1. Age Action Ireland welcomed the Green Paper and the consultative process on it. We look forward to further detailed discussions within the social partnership process and elsewhere with Government during its preparation of Government policies and plans for implementation. We urge the Government to seize this opportunity to bring forward a comprehensive and equitable policy on pensions that will eliminate poverty among pensioners and abolish the considerable inequities and anomalies in the current pension system. In shaping a framework for addressing the pensions challenge over the longer term, it is critical that the Government brings forward as a matter of urgency plans to reform the current system for the benefit of current pensioners.
2. This response is based on a wide range of views reflecting the diversity of the needs and circumstances of pensioners and those preparing for retirement. It follows the structure and contents of the Green Paper. We should be glad to provide further information and views to supplement this outline submission.

### **CHAPTER 1: CURRENT SYSTEM AND PHILOSOPHY**

3. The overall objective of our pensions system is to provide an adequate basic standard of living through direct State supports and to encourage people to make supplementary pension provision so that they may have an adequate income in retirement. The overall philosophy and objective should be reviewed in order to try to achieve consensus on the purpose of any major reform. We would argue that the social welfare system covering the whole population should be given top priority in terms of policy and funding and that the other two systems catering for smaller sections of the population should be treated as supplementary. The current system comprises three main parts, social welfare pensions, voluntary supplementary pensions and public service pensions. In developing future pension policies, it will be necessary to compare and contrast these three systems in relation to their effectiveness, efficiency and equity. The Government should examine its total investment on all three types of pensions and consider whether its overall objectives could be better realised by a reallocation of funding among the three systems. The social welfare system is inadequate by international standards and has not eliminated poverty let alone provided an adequate income that enables all pensioners to live independently in dignity. The voluntary supplementary system, despite massive tax reliefs, has failed to attract more than 50% of the work force and largely favours higher income groups. The public service pensions provide a level of income and security, of which the rest of the population has no experience. The argument, therefore, for a comprehensive and radical overhaul of our whole pensions system seems irrefutable.

### **CHAPTER 2: THE DEMOGRAPHIC CHALLENGE**

4. It is extremely difficult to make firm population projections for the next 50 years or so given the uncertainties about future rates of net migration, mortality and fertility. Long term projections about the overall implication of these trends for older people and policies on pensions and other services are likely to be even more hazardous. The Green Paper tends to overstate the negative challenges of an ageing population with little mention of the cause for celebration of our greater life expectancy. The reliance on age dependency ratios is crude

and misleading with its ageist bias. More accurate and useful measures will be required for future planning addressing not only possible financial pressures but also the possibility that older people may be healthier, more active and better educated thereby reducing the costs of age related services and increasing their participation in employment, caring and volunteering. The number and percentage of people working up to and beyond retirement age will depend on many factors such as the general level of employment and the introduction of measures to combat ageism and to promote positive attitudes towards the employment, training and promotion of older workers and other measures such as flexible retirement. The number and percentage of older people in the general population will certainly increase but at a slower rate than in any other developed country. This gives Ireland opportunities to develop pension and other policies to minimise the risks and maximise the benefits by continually monitoring actual trends and making full use of the longer experience of other countries.

### **CHAPTER 3: A MODERN AND SUSTAINABLE PENSION SYSTEM**

5. A modern pension system is not only sustainable but more importantly it provides a secure and adequate income for all citizens in retirement. There is no firm evidence that the projected ageing of the population will give rise to a substantial increase in age-related expenditure including pension provision. There is also no sound basis for estimating the total cost of this age-related aggregate as a percentage of GDP or in monetary terms by 2050. Much more research is required over time to underpin such assertions.

### **CHAPTER 4: MAINTAINING INCOME ADEQUACY IN RETIREMENT**

6. There are serious inadequacies and inequities in the current pension provision that should be tackled
- Nearly 4% of people over 65 live in consistent poverty and about 20% face the risk of poverty
  - Social Welfare pensions are the main source of income for nearly all pensioners.
  - Only 32% of pensioners have supplementary pensions but these include very few of the bottom 40% and the value of these pensions declines with age.
  - About 50% of workers do not belong to supplementary pension schemes including part-time workers, low income workers, women, and groups outside the labour market e.g. people with disabilities and family carers.
  - By international standards,
    - risk of income poverty for older people is high
    - replacement income from social welfare pensions for some groups is low.

### **CHAPTERS 5 & 6: THE SOCIAL WELFARE SYSTEM AND REFORM OPTIONS**

7. The social welfare system is not only the first pillar but also the foundation of the Irish pension system and should be given first priority in any reform programme. The issues listed in Chapter 5 and the corresponding reforms listed in Chapter 6 are considered together.

#### **Reform A: Maintain the Current Arrangements**

Simply maintaining the current arrangements is not an option. The anomalies that have occurred due to piecemeal reforms must be eliminated by a comprehensive reform of the whole system starting with the inclusion of those groups who have been completely or partially excluded. The inferred approach of maintaining current anomalies until the groups worst affected or excluded die is unacceptable.

### **Reform B: Universal Pensions**

This reform is strongly recommended as the main plank of any future pension policy. The provision of an individualised standard payment to all long-term residents reaching the state pension age is the most effective method to

- eliminate poverty among pensioners
- deal with the anomalies and inequities in the current system
- simplify the administration and ensure consistency of treatment
- eliminate means testing
- eliminate the need for extra schemes e.g. Homemaker's Scheme

### **Reform C: Reforming and Backdating the Homemaker's Scheme**

The Homemaker's Scheme should be backdated to 1953 to benefit the small and declining percentage of older women, particularly those who were obliged to leave the labour force on marriage, to allow as many as possible to qualify for pension entitlements in their own right. The present system of disregards should be replaced by credits.

### **Reform D: Replacing the Average Contribution Test with a Total Contributions**

#### **Approach**

The present system of averaging contributions should be replaced by a system based on the total number of contributions. The current system is arbitrary and excludes people with broken records of unemployment regardless of the reason and as such is neither transparent nor equitable.

### **Reform E: Miscellaneous Issues Relating to Social Welfare Pensions**

#### **Indexing of Social Welfare Pensions**

We strongly recommend that pensions should be indexed linked to 60% of household median income in line with the EU poverty monitoring process and ensure, on an ongoing basis, that retirement incomes were above EU poverty thresholds and linked to changes in general living standards including wage increases and tax changes. Such an indexation would provide pensioners with a right to a pension on a clear and understandable basis.

#### **Two Contributory Pension Schemes**

The State Pension (Transition), formerly the Retirement Pension, should be abolished in favour of one contributory scheme starting at 66 years of age mainly because its requirement to leave paid employment is a barrier and disincentive to older people wishing to continue in employment.

#### **Living Alone Allowance**

This should be continued and restored to its value in 1996 as a measure to combat the increased risk of poverty facing pensioners living alone.

### **Reform F: Approaches to Address Sustainability**

Sustainability is a key issue for the overall pension system rather than just for social welfare pensions and it must take into account the development of policies in other areas. For example, any increase in the retirement age should be accompanied with changes in employment policies to encourage and support older workers to continue in employment through improved opportunities for recruitment, training and promotion and a sustained programme to tackle ageism.

## **CHAPTER 7: SUPPLEMENTARY PENSIONS: INCENTIVES FOR SAVING**

The voluntary supplementary pension system has to be reviewed and radically revised because it is failing to achieve the objective of encouraging people to make supplementary pension provision so that they may have an adequate income in retirement.

- Despite the range of tax reliefs and new measures, it has failed to attract more than 50% of the labour force

- The total estimated cost of tax reliefs in 2006 was 2.9 billion slightly more than the total cost of all social welfare pensions covering about 90% of people over 66 years of age
- About 66% of tax relief on private pension contributions by employees goes to the top 20% and only 1% to the bottom 20%
- Over 75% of tax relief on private pension contributions by the self employed goes to the top 20 % and only 0.5% goes to the bottom 20%
- In 2006 the use of tax relief for pension provision by high-earners was curbed by a cap of €5 million on the maximum value of a pension fund through tax-relieved contributions.
- In 1999 significant changes that gave a considerable degree of control, flexibility and personal choice to certain individuals in drawing down benefits from their pension excluded employees.

In summary, it is unattractive to many workers, unfairly beneficial to the highest income groups and extremely costly to all tax payers and therefore there must be fundamental doubts about its value for money. For the future, there has to be a more attractive savings/pension scheme that encourages people to save throughout their life time and that allows them to use their savings for key transitional events including retirement as they choose.

## **CHAPTER 8: POSSIBLE APPROACHES TO PENSIONS DEVELOPMENT**

We support the proposal that the four approaches (voluntary, mandatory, soft mandatory and enhanced Social Welfare) should be compared to the current system across a range of criteria i.e. coverage, adequacy, cost, competitiveness, modernisation and redistribution. In advance of this comparison, we would recommend a critical comparison of the three main types of pensions and for this more detailed information would be required in relation to all the criteria. For reasons explained above, we would favour the enhancement of the social welfare system instead of investing in the other three approaches unless evidence is forthcoming that another approach would be more effective.

## **CHAPTER 9: ISSUES REGARDING DEFINED BENEFIT AND DEFINED CONTRIBUTION PENSION SCHEMES**

The range of concerns about the adequacy and security of supplementary pension schemes have been exacerbated by the gradual shift from defined benefit to defined contribution schemes. The growing uncertainty about these schemes is an eloquent argument for transferring much of current and future Government funding to enhance the social welfare system for the benefit of all pensioners.

## **CHAPTER 10: THE FUNDING STANDARD**

The funding standard should be maintained at a level to ensure that defined benefit schemes can protect the rights of workers and pensioners and it may be necessary for Government to provide a protection fund where companies and pension funds are wound up.

## **CHAPTER 11: ANNUITIES AND RELATED ISSUES**

While annuities provide a guaranteed income for life, there are considerable doubts about whether they represent good value particularly in adverse market conditions and whether the charges are too expensive. Another major concern is that employees are required to purchase an annuity regardless of timing, circumstances or their own wishes and do not have the choice of investing in an Approved Retirement Fund (ARF). We would argue as a general principle that pensioners should have the maximum choice in planning for their retirement.

## **CHAPTER 12: THE ROLE OF REGULATION**

In line with the increasing trend towards more effective regulation in a wide range of sectors, the State has a critical role in regulating the pensions industry to ensure quality standards are established and maintained and that proper sanctions are imposed if those standards are not

implemented. The key areas for pensioners include the provision of accurate and clear information about the benefits, conditions and charges and the availability of an independent appeals system if necessary.

### **CHAPTER 13: PUBLIC SERVICE PENSIONS**

The public service pensions system represent the gold standard for pensioners and in an ideal world, all pensioners would have the same pensions as public servants, TD's and Ministers, with the same security, the modest contributions, the generous indexation to future salary increases. There is considerable onus on the public service to ensure that in the future that all pensioners have access to a quality pension system.

### **CHAPTER 14: WORK FLEXIBILITY IN OLDER AGE: A NEW APPROACH TO RETIREMENT**

We welcome this emphasis on developing a new approach to work and retirement in later life and we recommend that this topic is a major component in the National Positive Ageing Strategy promised in the Programme for Government. Such an approach should be able to balance the financial challenges associated with an ageing population and the considerable opportunities and benefits of people living longer, healthier and more active lives. There is a great need to promote more positive attitudes towards ageing and older people and to challenge the widespread ageism especially in the field of employment. Such an approach will balance the concern over the increasing cost of pensions and other services with the benefits of increasing the already substantial contribution to social and economic development made by older people for themselves, their families and their communities. In order to encourage more older people to work longer the Government must reduce the barriers and replace them with incentives by

- Greater flexibility in working and pension arrangements e.g. gradual retirement and part time work postponement of pension with options to enhance pensions
- Greater access to recruitment, education and training and promotion
- More flexible HR practices
- Sustained programmes to combat ageism and promote positive ageing.