Green Paper Consultation Responses

Annuities and Approved Retirement Funds

Submission 6

19th October 2007 Thank you for addressing the issue of pensions. It is badly in need of attention. I propose that: a) the distinction between a contributory and a non-contributory state pension is unfair to people such as homemakers or people who have lived and worked for a time outside Ireland or the European Union. That eligibility should be based on the total number of social welfare contributions the individual may have had over their working life rather than a notional average, and that special arrangements be made for widows based on their husbands' or partners' contribution record. b) retirement funds be split between annuities and approved retirement funds, according to the wishes of the citizen, so that they cater both for their own needs for a pension and to make provision for their heirs, in the proportion chosen by the individual citizen. c) insofar as is possible, the individual citizen be permitted to choose extending their own retirement age beyond age 65 in return for a higher pension later on.

Submission 9

The issue I would like to raise is the discrimination that is suffered by PAYE taxpayers compared with the self-employed or Company Directors holding at least 5% equity in their company:-

It concerns the restriction on the ability of retirees to decide whether to purchase an annuity or to invest in an ARF or similar. At present you will be aware that this option only exists for proprietary directors and the self employed. These latter can access the better options offered by PRSAs and ARFs.

PAYE taxpayers who have defined contribution pensions (as opposed to civil servants who enjoy direct benefit pensions) are forced on retirement to have to purchase annuities at low yielding returns without the flexibility of making their own rational decisions with their own money. While DC pensions holders are allowed to make investment choices pre-retirement this choice is removed once they retire. Does this mean that the Government consider they become senile at age 65?

Annuities bear a credit risk for the beneficiary pensioner. In the Republic there are few companies providing these policies and the holder bears the risk from retirement for possibly 30 or more years that these companies do not fold! Will the Government bail out the affected pensioners – using Equitable Life as an example I fear not!

At least in the UK such taxpayers have the option until the age of 75 to invest in an ARF - type investment. Annuities by their nature will also err on the side of caution and provide investments that offer poor value for the annuitant who is locked into a low yielding fixed investment. Judging by the article below recently carried in the Financial Times many pensioners have calculated that annuities are poor value:-.

Pensioners turn their backs on annuities
By Ellen Kelleher Published: October 5 2007 14:26 | Last updated: October 5 2007

"The way pensioners approach retirement is undergoing a tectonic shift as they look to take more control over their investments - to improve returns and stretch their savings. As a result, standard fixed-rate annuities, which guarantee an income stream for life, are losing the popularity contest to income drawdown plans, which permit investors to draw an income directly from their self- invested personal pension (Sipp) while maintaining full control over the investment."

Unlike ARFs, following the death of the retiree (or in some cases that of a spouse) the remaining value of the annuity is lost to the estate of the deceased (and potentially to the Revenue) and reverts to the annuity provider.

I would therefore request that these anomalies for PAYE DC pension investors be removed and they be given parity and equality with the self employed and company directors. It is after all a Republic and we should have equal rights or did I miss something these last 58 years?

Submission 12

General Comments

The State pension system is the only system that guarantees a rock-solid payout for those moving towards retirement. The private or occupational system in contrast does not have the advantage of political intervention if things go wrong.

The performance and security of Private or occupational pensions can sometimes depend on index-linking which can be tied to various markers such as equity markets or futures. There are many instances and law suits where private pension have gone bankrupt due to fraud or mismanagement, leaving investors with nothing.

The Irish government have perhaps spent too much money propping up state pensions especially in the light of elections and improving the outlook on the government with the voters. They are now in a situation where commitments to these pensions may not be easy to keep up with and have begun strongly encouraging people to take out private products. This of course is the result of not seeing the road ahead and taking the easy way out.

Legislative safeguards must be in place to statutory guarantee minimum performance with the financial regulator with private pensions. Many accounts have come from across the world documenting shortfalls and allied issues which cause concern.

The Government should make a distinction strong between savings and pensions for the following reasons: All too often people are hopping in and out of pensions because of their options, to get involved in high risk shares and come out of sound pension schemes because of hearsay talk of a wind fall rumours they heard down the local pub.

The State should ensure that a strong level of competition exists within the private pension market, by assessing premiums and performance against public pensions, and better performing average payouts across the global market for comparison and alignment.

The State should also note that because of the complexity of pension in general, many are discouraged from thinking about it. And like to stay away from things they can't possibly understand. The government are quick to point out the poor levels of literacy when promoting education.

QUESTIONS AS IN EXECUTIVE SUMMARY

Chapters 1 to 6 : Various issues.

Q1. Answer: Modern day challenges will include migrant EU nationals who will add considerably to the load on the Exchequer. This is a problem created by our government who did not insert reservations on immigration when EU were signed. There will be implications for the state, as opposed to the individual.

Q2. Answer: The use of the word "universal" means 'one' or solitary. There's no reason why this word is used to describe what is essentially a "dynamic" pension designed to fit.

Q3. Answer: No Answer

Q4. Answer: "Living alone" should not be a policy recipe for extra payments and national policy should be reviewed in due of this serious haemorrhage on the basis of living alone. Nobody should be compensated for living alone per se. This is a complicated area, but it may in fact encourage people to set themselves up in certain situations so they will get more.

Q5. Answer: No Answer

Q6. Answer: Yes, a formal indexing system is desirable, but should be set below the headline of inflation so was not the cause more inflation or economic pressure. Or delayed prudently in case of rapid or a transient peaks that don't last, and any increases are therefore not merited as such.

Q7. Answer: The government should not engage in massive increases in pensions to win elections, and hope to get a bigger vote thereby. This puts a great deal of pressure on the Exchequer and there are more deserving increases needed elsewhere. Pensions and affordability are coming under strain because of massive inflation in every the goods and services in the economy. Pensions are not immune from the rip-off of culture that is now endemic in this country, making the government's job a race to keep up with a no-competition, cartel-driven economy. The government will do themselves a lot of favours if they push for more competition to force down prices and break up the cartels with severe penalties. This will take a lot of pressure off the welfare system in general.

Chapter 7

Q1 Answer: The government should make tax incentives the cornerstone of the private pension system if it wishes to promote private or supplement type pensions schemes.

Q2 Answer: No Answer

Q3 Answer: The government should do its best to ensure a level playing field as much as possible, to avoid a two-tier spilt developing overall. Much of the pensions problems encountered today involve radically different treatment and payout awarded to different schemes, to the detriment of many who don't qualify or can't afford a better scheme.

Chapter 8

Q1. Higher social insurance contributions would mean reform of the PRSI system, so the exact percentage of contribution would be known to the employee, but in all cases some level of contribution should be made to the State welfare system in case of problems with high risk occupational and private pensions.

Q2. No Answer

Q3. No Answer

Q4. No Answer

Q5. These approaches are convoluted and add greatly to customer dissatisfaction and frustration, given the myriad of issues involved and the problems with understanding them. The government should ensure a level of flexibility within reason.

Chapters 9 and 10. Defined Benefit, and Funding Standard.

Q1. Answer: Every effort should be made to rationalize pensions and entitlements as much as possible, to remove the convolution of the current system that leaves many wondering what's going on.

Q2. Answer: Primary legislation should force all pension or financial product providers to provide all information and up date clients and the Financial regulator of any changes well in advance.

Q3. Answer: Appropriate security for pensions would mean placing deposits with the financial regulator, or the central bank to meet there liabilities. It could also mean forcing the product provider to reinsure with his own insurance to cover any crash in the market, where pension fund are tied to equities. The state must take very a serious view of the security of private and public pensions and insist on strict legislative safeguard, especially in the area of occupation pensions that can go disastrously wrong when the company folds.

Q4. Answer: Most people view the word 'investment' as a profitable thing. They do not view the word 'investment' as has been prone to risk, and suffer from all over zealousness which produces disillusionment and anger when things go wrong. There is an aversion towards reading the small print, because the advertisements of such products are seen as beneficial to their interests.

Q5. Answer: The government should do everything it can to legislate for the pension industry in ensuring that policy holders are given all and every piece of information regarding their pension benefits, and all risks attached thereto. There are obviously more safeguards with public pensions than with private pensions, which carry far more risk. Guarantees must be guarantees; this is not the case in occupational pensions, where if the pension fund goes bust because of insolvency in the company, the policy holder gets nothing. Any guarantee given with an occupational pension or private pension should be registered and approved with the Financial Regulator.

Q6. Answer: A national reserve fund should be established by the State in the case of shortfalls in the standard welfare pension. The government should legislate to force occupational pension providers and private pension providers to establish their own reserve funds in line with the financial regulators strict conditions for solid security. And change the legislation so occupation pensions are not touched by the company in a windup or liquidation.

Chapter 11 Annuities and related matters.

Q1: No answer.

Q2: No answer

Q3 Answer: The state could be involved in all long-term investment products relating to retirement, whether it's late and it or not.

Q4 Answer: All information should be disclosed on the terms and conditions of the product the moment of purchase or entry into the scheme.

Q5 Answer: The Irish government should insure new players into the market, and we doubt those trying to corner the market or been involved in price fixing.

Q6 Answer: Trade unions are not suitable for encouraging the take-up of the annuities. But, maybe able to assess products on offer for their members. Employers usually occurs employees to invest in shares and some cases have annuities of their own.

Chapter 12: The Role of Regulation.

Q1 Answer: No, more regulation is needed especially in occupational pensions in the private sector, that are prone to a exploitation from delinquent or corrupt fund managers and company performance. And pension holders get nothing if the company goes bust.

Q2 Answer: No, there seems to be little emphasis in ensuring that prosecutions are taken in the event of a reckless or corrupt practice that causes pension funds to collapse. This is a matter of notable omission.

Q3 Answer: No, it must be clearly felt that pension providers will be subject to severe prosecutions for legislative breaches. Some companies may see these as guidelines are not legal rules.

Q4 Answer: All pension charges and fees or other pecuniary levies should be notified and justified to the regulator. Some people take the view that charges should not apply as a separate issue; remain part of the premium, which would cut down on paper work and bureaucracy. All charges relating to any pension should be known in advance and not subject to sudden and unexpected disclosure.

Chapter 13 Public Service Pensions.

Question 1: Answer The public service have excellent job security and can contribute to their own pension funds like the civil science. The public sector also receive a huge public sector pay increases, and should have little difficulty in paying premiums.

Question 2: No Answer.

Chapter 14: Work Flexibility in Order Age: A new Approach Retirement.

Q1. Answer: The government should encourage earlier retirement, not later retirement. This country seems to be obsessed with the older generation, much to the great disadvantage of the young. There seems to be no effort whatsoever made in favour of an up and coming generation who need job opportunities. However, nobody wants to stop anybody doing what they want with their lives. The British have encouraged earlier retirement and thus made more opportunities for the young and consequently a pension system full of investment.

Q2. Answer: Voluntary deferral of pension entitlements is a good idea, but should have a safeguard of letting later workers apply for job-seekers allowance if work runs out before the deferral date becomes active.

Q3. Answer: No, earlier retirement should be preferred. There are undoubtedly health considerations for those in labour occupations, who may could the state more in the long run with health issues. Working beyond retirement may also prevent family life from reaching a higher level due a life long work culture or stress and strain.

Q4. Answer: The theory that hard work won't do anyone any harm is a nonsense, and certainly if it's prolonged well past the normal retirement can cause stroke and a myriad of health problem which may cost the state billions in health funding. The overriding principle should be to allow greater opportunity to flourish in the younger generation by forcing retirement. Nobody should be working in a hard labour occupation beyond 65 if reason and common is to be applied. Allowances could be made in some clerical posts provided no satisfactory potential employee can be found of a lower age.

Q5. Answer: These questions in this chapter are loaded and preclude where this consultation process is going, which is a no-limit on retirement for the purpose of letting the State off the hook on pension payments that are currently elevated on account of need to win elections. It could be suggested because some people work so long and effectively for life in their greed, that the issue of a pension doesn't even arise. The scenario is— 'work for life and die on the job without a pension or invest in a risky occupational pension, or, retire at a sensible age before health problems arise and get a state or cheaper private pension'.

Footnote: *The Executive Briefing Paper for this consultation is a mess in terms of the way its laid out and will probably lead to confusion on readability and questioning moving from one chapter to another for all who read it unless great care is taken.*

Submission 19

If there is a pensions crisis, it will get worse if people are expected to hand over their fund for a few years annuity.

Every contributor to a pension fund should have equal benefit from tax relief regardless of their income. The present system favours richer people. The maximum pensionable earnings should be €100,000 rising at the C.P.I., not the present €250,000 which is 6 or 7 times the average wage in the country.

It is not reasonable to expect people to contribute to a pension for years only to hand it over to an insurance company for an annuity, presently costing about €20,000 per €1,000 of income for the rest of your life at 65.This means you will have to live 20 years to get your own money back, not counting income from the fund which is often more than the payout in early years. Administration costs less than 0.25% of the monies in these funds; declared income is usually linked to the bond rate but the insurance co. usually invests it in a balanced fund that averages higher income over time.

A better solution, or at least a fairer one, would be to allow the owner of the fund to invest it him or herself and be restricted to withdrawing 6% of the original sum, rising by the CPI or 4% (whichever is the lowest). A financial institution of the person's choice could administer this fund or An Post backed by the National Treasury Management Agency with a charge of 0.25% of the fund or €250 max.

The usual charges of 1% (plus up to 5% of each contribution) of a fund (€1,000/ €100,000 in a fund) seem extraordinarily generous especially when one is losing up to 20% per annum, but are to some extent acceptable while a person is contributing.

The fund should last about 15 to 16 years by which time the owner would be 81 yrs of age. The money left when a person dies before it runs out should be divided equally between the estate of the person and the NTMA to pay support for people who live longer than the money lasts.

It is very galling to look at what is going on in the so-called fund management industry. Massive bonuses paid out to people for nothing produced, they all average about the same as an exchange traded fund. It is no wonder people are reluctant to give them more money.

I act as a trustee for a pension fund at work and a few of the members are contributing to an AVC but they would rather be able to choose between a fund run by an insurance company or a Post Office or deposit type fund where you are paid an interest rate rather than paying people to take your money!

For the past 20 years, anyone would have been better off to forego the tax relief and invest their half of the money directly in good quality shares or property for the simple reason that they RETAIN CONTROL OF THEIR OWN MONEY. Blue chips in Ireland have also done much better than any fund manager, as has property.

The reason the SSIA scheme did so well was not just the short term, but the most important reason is that the owner of the money retains ownership of it.

A post office pension savings account, POPSA, should be set up with people restricted from withdrawing money in the same way as a PRSA, but the taxpayer should contribute at a rate that is an average between high and low rates of tax, at present that would be €30 for every €70 paid in by the saver.

Submission 22

Public Sector Pensions:

Public Sector pensions need to change from DB to DC in order to have a sustainable pension arrangement. This needs to be applicable for all new public sector appointments. For existing public sector pension liabilities government needs to consider available funds for public sectors funds and project cash inflow and outflow for the same over next 50 years. They need to provide budgetary allocation for any gaps during each year's budget to make sure that these gaps are addressed.

Private Sector Pension:

This pension should be a mix of Universal Pension and Discretionary Pension.

Universal Pension:

Universal Pension is a minimum mandatory pension for anyone over the retirement age. This pension funding should be part of current PRSI arrangement as well as mandatory employer and employee contribution which should be introduced in the future.

This pension should allow anyone above retirement age to provide for their day to day living expenses.

Discretionary Pension:

This is an additional facility given to self employed and employees to save for their pension. This pension should have following features:

Tax Benefits

This pension contribution should get 50% tax rebate irrespective of level of tax rate applicable. It should be allowed to grow tax free during accumulation period and should be taxed only when received by employee during their retirement year. Govt should consider following EEE model (exempt, exempt, exempt) for this pension arrangement in place of current EET model (exempt, exempt, taxed).

Lock in Period

This pension fund is having a lock in period of 10 years initially. After 10 years a subscriber should be allowed to use this fund for specific purposes e.g. repaying mortgage which are an additional avenue for them to plan for their retirement.

Investments/Choice/Admistration

This fund should be completely portable from one pension fund service provider to another.

It should be managed like a central account by govt agency with subscriber having choice to select his investment funds and switch between investments funds at specific intervals say once or twice every year.

This pension fund should not be any way tied to employer and should remain in force irrespective of change in employment.

Immigrants:

Any non Irish citizen working in Ireland should be allowed to withdraw his pension fund at end of his stay in Ireland. If the same person comes back to work in Ireland then he will need to re transfer his pension funds back into Ireland to ensure his pension liabilities are met by the state.

In case withdrawal is not permitted immediately on his departure, he should be allowed to withdraw at end of specified period e.g. 2 years from his departure from the state.

Pension Age:

Employee should be allowed to retire at current pension age of 65.

However he or she can continue to work in different places after that age without losing his pension benefits.

Annuities:

Annuities should be allowed, however employee or beneficiary should have complete control over his funds post retirement. It is best to assume that a person knows best options available to him to get good returns on his investment.

Regulation:

- Current pension regulation is inadequate and it favours pension service providers as compared to person funding his own pension.
- Fund management charges are still higher compared to many other investment funds
- There are limited fund choices available
- Pension fund providers do not find it lucrative enough to educate about pension and get business due to various reasons.
- All pension funds should be regulated using same regulations. We have some model regulators like SEBI in India which regulates Mutual Fund and IRDA which regulates Insurance schemes including pension schemes. They have a defined cap on annual expenses, entry and exit loads and these charges needs to be defined upfront. There is a scope to increase transparency in this area to a large extent.

Submission 30

Chapter 7.53 – Flexible Options, ARF & AMRF

My problem is the retirement options available for a person aged 65, self-employed who had a retirement annuity contract (RAC) with a life assurance company maturing in October 2006.

Options:

The options would appear to be as follows:

1. 25% Tax Free
2. Annuity
3. ARF/AMRF
4. Taxable Payment

Guaranteed Income:

At least a sum of €12,700 (IR£10,000) must be placed either as a state pension or annuity otherwise an amount of €63,500 must be placed in AMRF until the age of 75. My problem is that this figure of €63,500 is frozen for the next five years in a badly managed and underperforming fund, with hidden annual charges, doubt about capital appreciation and no hope of annual income*.

I find this most restrictive taking into account that a person has a state pension in the sum of €10,653 plus sizeable dividend income and should have an option out of the above restriction

Surely this amount could purchase a bank share showing a dividend yield of at least 4% (including annual increases 10% - 15%) and capital appreciation over a period of at least 20% per annum.

* 25/10/2006 - €63,500 invested. Present valuation €62,960. Loss after one year of €540, no income!

Tax Relief:

Question of tax relief on contributions to pensions and other financial products has been over emphasized and over stated by financial advisors, institutions etc. Surely the investment/contributions should be able to stand on their own 'commercial' feet.

Submission 31

I wish to make a submission in relation to the Green Paper on Pensions.

I am 60 years of age and took out my first pension in 1978.

When I eventually activate my retirement I will be faced with the enormous decision of having to decide where I buy my annuity.

One of my pension funds in managed by [company name] and accordingly I rang them today to enquire as to their annuity rate, I was quoted 6.128%.

I am not supposing that I am forced to buy from [company name] but I am really concerned about the lack of value that annuities give to the pensioner.

I submit that the compulsory nature of the annuity should be abolished. No where else in the financial world are you forced to take such a decision.

Most annuities have a short life span after the holders death so this turns the transaction into a lottery but why should people who are facing a life altering decision be involved in a lottery.

The first step is to abolish the compulsory nature of the transaction; there are plenty of alternative investments none of which die with the holder or shortly thereafter.

If the Government is worried about persons spending all their pension money and having nothing left to live on, then they should offer some sort of bond to persons who do not want to put their pension pot into an annuity. They could have a fixed rate income with some sort of inflation protection built into it.

I ask you to take urgent action over this aspect of pensions as there are people out there every day being forced into this situation.

Submission 39

The big problem about pensions is nobody understands fully the rewards of pensions. The only ones to get a guarantee are the sales person, banks and managers of pensions. The last person is the payee. He has no input to the way his money is invested; he cannot easily change the type of investment he wants. He is controlled by Government when he stops and draws his pension. He can't look at the stock market when he is (say) 62-63 years old and stocks are high and withdraw or close at that time. At this time when stocks are down one quarter and you reach 65 you are really losing heavily, you have no control over your returns. So the banks, sales people, managers don't lose, it is the pensioner that always loses.

We are never informed of the fees (which are too high) the managers get, Governments take etc. We should get a choice of managing our pensions ourselves like buying stock, houses, land, government stock to be kept for a certain timeframe and we appoint a manager ourselves who we can change easily.

PRSA pensions are very badly explained, again somebody putting €10 or €20 per week has no idea what he is getting. We are being conned. We pay PRSI while working. Somebody who never worked will get almost the same pension at 66 years as somebody who worked for 50 years. If you pay into a pension for 40 years, when you die your pension dies with you not like self-employed whose surplus goes to their estate (very unfair).

Pensions should have a figure to be drawn at 65-66 years in any form decided by the pensioner and should apply to company as well as private pensions.

Again we are at the mercy of banks, Governments as to the percentage charges that are levied. Something like an SSIA should be available, tax free investments, post office tax free and others and Governments could not change the product.

Gordon Brown destroyed pensions in England by taking huge sums levied out of pensions. When the Minister for Finance cannot be trusted it is not very encouraging to invest in pensions. It could happen in Ireland in the next 40 years. Pensioners are at the mercy of too many. I would not join a pension if I was starting again as I will be taxed. No medical card, I will lose too many entitlements when I retire - Doctor €50 plus chemist €75 plus hospital. The pension will put me in the wrong bracket so I will be no better off.

My wife is paying to a pension. She has no idea what she will get. I would say [company name] salesman or manager will take the lot of what she has paid in. She is out of work next year at 57 and she won't be able to contribute and get tax relief so by 65 managers will have it all gone. She should be able to close it off when she is out of work as it is a private pension. Again she has no control.

We have a Pensions Board set up by Government, they are only there for companies and the big boys.
Why is this Green Paper not sent to every home or house? It is not advertised on TV/Radio like elections or referendums. Why is it kept to one ad in papers? I asked my union and they have no knowledge of this Green Paper. Some joke.

Employers could issue the Green Paper. It seems to me as if this is again controlled by banks, insurers and Government and let as little of workers know as possible (sure the less we know the better).

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 47

January 2008

Extracts from Oireachtas pensions debates 2002 - 2007

This submission is very large. It may be downloaded below in pdf format.

Download Extracts from Oireachtas pensions debates 2002-2007

Submission 48

I would have grave concerns regarding the possible limiting of the rights of people with Personal Retirement Savings Accounts (PRSA) in regard to access to an Approved Retirement Funds (ARF). It is hard to fully comprehend whether this Green Paper is trying to stop this access to ARF but this is something that would be grossly unfair to a lot of people who took out PRSAs on the basis that they would have that access.

I was one of those people who took out a PRSA because of this option and its flexibility as a product. I feel if this option is taken away from it, then the PRSA as a concept is a lot less appealing. You should be trying to make PRSA as flexible as possible in order to get as many people to start and contribute to a pension for their retirement.

I feel that a lot of people with PRSAs are going out of their ways to ensure they do have an income on retirement. This could be because they are self-employed, in low-income jobs or do not have access to a company pension scheme. They should be rewarded with choice and options for taking this step and not punished by having their options restricted.

People who have the luxury of a permanent and pensionable position in their employment have their retirement taken care of and managed by their employer (they bear a lot of the risk). A lot of these people will have a guaranteed percentage of their final salary for the rest of their life (increasing with wage agreements and inflation). If they would like to raise their income levels further, then in most cases can buy Additional Voluntary Contributions (AVC) to supplement their income. These people enjoy guarantees and flexibility which is far superior to anything on offer for PRSAs so to even contemplate restricting PRSAs is unfathomable.

If the pensions industry or Government are worried that people with PRSAs are not able to manage their retirement in relation to using ARFs then they need only to look at themselves. Anybody opening a PRSA or looking to make a change has to do so through a financial advisor or going to their pension provider. These parties are members of the pension's industry so if people with PRSAs do make a wrong decision, then they would have been pre-warned of the consequences or badly advised by a member of the industry.

Submission 50

In my opinion, one of the greatest barriers to the success to occupational defined contribution schemes is the "outdated" restriction forcing retirees to purchase annuities.

The view that occupational members do not have the ability to manage their own affairs post-retirement runs contrary to the fact that they have provided for their retirement by becoming a member of a voluntary scheme and making contributions to it.

Annuities represent poor value for money to the retiree and they are at the mercy of a small number of annuity providers who are uncompetitive. There are many alternatives which could be explored to provide a compromise solution, without risking the future benefits of employees. An example would be a restricted bank account (strict terms of withdrawal) where interest was paid monthly to the member, the member could choose a fixed or floating rate of interest (a market would then develop in this very competitive area). The funds could then eventually pass on to the individual estate upon death.

The current restriction discriminates between people providing for their retirement where one group can "manage or maximise" their fund return and ensure their fund passes to the next generation while the other group are forced to purchase a one off annuity at the then market rate and live with the consequences thereafter eventually leave their funds to an insurance company rather than their estate.

A more equitable solution has to be found.

Submission 52

I submit that anybody who has a pension fund (whether sourced from an employer's pension scheme or from a personal pension plan etc) should be allowed to transfer the fund to an approved retirement fund (ARF) and should not have to fulfil the criteria of being a director (with 5% shareholding) of the company from which the pension fund accrued. I think that this is a throwback to the thinking that only directors and suchlike were capable of managing their fund or understood investments and pension provision.

A person who has decided to take the fund from an employer's pension plan, and invest it in a retirement bond cannot subsequently invest it in an ARF (and/or an AMRF as appropriate). This is an unequal and unfair situation and should be reformed.

I submit that the criteria for assessing the level of the contributory social welfare pension paid should be based on total RSI contributions rather than average per annum. In the past, there was a rule that no contributions were necessary from an employer or the employee, if the level of income was above a certain amount. This was later discarded as the poor thinking behind the regulation was realised.

What could then occur was that, as no contributions were made for say 4 years, the average number of contributions were impacted on dramatically, despite the fact that full annual contributions were made for a long number of years.

Submission 67

I welcome this debate as reform is overdue.

The specific issue that I wish to focus on is the manner in which citizens who are not self-employed or 5% directors are disadvantaged under the current regulations. My understanding is that a pension fund cannot be drawn down by, for example a PAYE Income Tax payer, other than through the purchase of an annuity, whereas a self employed or 5% director is not so constrained. This is, at best, an anomaly, though it seems to me that it is quite clearly a case of unfair treatment of citizens who have been PAYE taxpayers.

Under the current regulations, the only winners are the insurance companies. I would suggest that the new Act should contain provisions enabling all citizens to access their pension funds without recourse to annuities.

Submission 102

Chaper 9 Issues Regarding Defined Benefit and Defined Contribution Pension Schemes

The Growth of DC
For the same funding rates, there is no difference between Defined Contribution and Defined Benefit schemes. Employers are opting out of DB schemes simply because they can save 6% in salary costs less any tax benefits. A typical DB scheme with a combined contribution of 20% of salary will produce 8 units of final salary with a 0% real rate of return assumption. A DC scheme will produce the same. This equates to 16 years of inflation proofed pension at half pay.

The employer does not take the risk in DB schemes anymore and has not done so for some considerable time. All the advantages of DB schemes have been with the employer – the employer controls the trustees, the actuary usually assumes that he is employed by the employer, assumptions regarding real rates of return and the treatment of surplus and deficit are determined by the employer,, the scheme can be used to fund redundancies. An employer can easily create a deficit (change e.g. real rate of return assumptions, longevity assumptions) in a DB scheme and coerce the employees into increased contributions and therefore, de facto, create a hybrid scheme, but has still maintained the right to control the scheme, to appoint the trustee chairperson. Pressures will continue to mount on employers in the future to reduce pension costs, to eliminate DB pension schemes and to outsource pension provision. Perhaps the ultimate outsource location is the State.

Even within the same organisation there may now be a number of pension provision arrangements to confuse and perhaps demotivate employees.

1. A DB scheme
2. A DC scheme
3. A coordinated DB scheme.
4. A hybrid coordinated scheme

This is not good.

Retirement benefits in DC schemes are relatively low because of lower contribution rates. This particularly affects PAYE employees. Self employed can afford to invest more, get better advice, take advantage of tax concessions and make additional provisions for retirement.

DC schemes are particularly demotivating for young employees when they see that e.g. the first few years contributions are eroded by the cost of managing funds. Typically, at the end of the first few years contributions they have less money saved than they started with. This is unacceptable. One would have to say to young PAYE people starting out that they should under no circumstances consider making DC pension provision, that any surplus money would be far better used in providing for housing and educational requirements of their families and for improving their present standard of living. I think that young people have got the message that DC pension providers are to be avoided and are acting accordingly.

Guarantees
The fact that there are no guarantees with DC schemes has not prevented the most august of pensions bodies producing glossy literature indicating that there are guarantees.

Even with DB schemes the pension promise is often more honoured in the breach than the observance.

Questions for Consideration

1. I can see an integrated scheme working but I think that it needs to be different to the present integration schemes, if I understand them correctly, and needs to be fully thought out. State involvement in old age is of consolation to a lot of people and it takes the lottery element out of surviving into old age. The state is always there and can be relied on. One reaches the age of 66 – one gets a bus pass, irrespective, use it or not as you like. The same should apply to SW pensions – reach a certain age, to be determined, and automatically become entitled to an SW pension – irrespective. I am in favour of an integrated scheme though with checks and balances and contribution rates and affects on DB schemes to be fully thought out. The strategy should be to ensure that people see a benefit for all their taxes e.g. PRSI.

2. It is a waste of time trying to convince young people that there is something good in DC pension schemes when in fact there is nothing good in them as presently constituted. And we have not even mentioned that, having saved for 40 years, an annuity has to be bought, the value of which is a lottery and depends on the relationship between equity prices and gilt yields. Not to mention income withdrawal plans. Better to have SSIA type schemes. At least these were understandable.

3. This is a huge question – there are so many common mode sources of potential catastrophe and insecurity surrounding pensions and funds. Members of pension funds have to be encouraged, and given the wherewithal, to take a hands on approach to their funds. Members of pension schemes should hold annual conferences to compare performance of funds, to compare strategies, to discuss

pension promises, surplus/deficits, rate of return assumptions, valuation methods. I could go on. Basically, get the employer, actuaries, trustees, fund managers, pension scheme manager, out of their ivory towers and get them to communicate with the members of the fund. The present funding certificate is more or less useless as a security instrument. As a first step, the actuary and trustees and fund managers should be changed at regular intervals.

4. Risk is not a word that should be used in this context. On examination of the history of a number of funds it is shown that where returns have been achieved that have led to a surplus, this surplus has been deemed to belong to the employer or has been used by the employer for his own purposes. For numerous reasons it is not to the members advantage that risks be taken. On the contrary, I would reward fund managers for steady repeatable returns and query high once off returns. It must be remembered that the investment purpose is to provide the same standard of living for pensioners as the enjoyed in employment, it is not a beauty contest for fund managers.

5. As I stated above, ensure more information is made available to members, regular intercourse between various funds, including the open interchange of actuarial valuations between the various pension scheme members. There appears to be a policy, I do not know who it is determined by, of limiting access to actuarial valuations. If information on every pension scheme fund was made available to every other fund this would stimulate a huge increase in interest and provide better performance. The question is wrong in assuming that there is cost and risk involved in guarantees. The level of benefits will affect the cost, but not the risk. The pension provider should not make pension promises that cannot be fulfilled nor should he make assumptions that have in the past been proved to be unachievable. Nor, having decided on a funding rate for the pension promises and an investment strategy, based on a 40 year period, the pension provider should not then go on an e.g. capital appreciation investment strategy in equities when the fund is mature. So, if risk is mentioned in the context of pension plans, it is not a pension plan- maybe it is a recovery strategy.

6. No, I wouldn’t. Not in the present circumstances. There are so many easy things that can be done now, at little cost and much potential benefit, that it is a bit premature to start going down this path.

Chapter 10 - The Funding Standard

Past Service Deficits

It is not correct to say that before 2000 very few schemes failed the funding standard. In fact a number of the largest funded schemes had very significant deficits and had insufficient funds to meet liabilities. This fact was masked by the accounting and actuarial practice of assuming that returns in the future will exceed those of the past. For instance, a fund that has accumulated a past service deficit based on a real rate of return of say 3.5% (extraordinarily high in itself) would simply assume an even higher real rate of return of 4.5% for the future and hey presto the books are balanced.

Equity Markets
The progress of equity markets is a canard hauled out at convenient times to excuse poor performance in managing funds. One only has to look at the pie charts in glossy annual reports, that otherwise contain very little information, to see that pension funds that are mature (that have been in existence for over forty years and that have a pensioner/workforce ratio of > 50%) have extraordinary large amounts of money invested in equity markets. Trustees must ensure that funds are managed and invested in bonds and equities as is consistent with their maturity. If mature funds are in deficit then the question must be asked why is this so and action should be taken to remedy the deficit.

Funding of Past Service Deficits and Hybrid Schemes
The green paper makes no reference to a new type of pension scheme that has arisen over the past 20 years or so – the **hybrid** pension scheme. This type of pension scheme has arisen due to the fact that employers have refused to take responsibility for past service deficits (even though the employer traditionally controlled all aspects of the scheme and by definition the responsibility for funding a defined benefit scheme falls on the employer in return for certain rights) and have insisted on increased contributions from employees to offset the deficit. I suggest that the implications of hybrid schemes – schemes that are not defined benefit and not defined contribution but fall somewhere in between and are not subject to any particular body of law or tradition - be included in the pensions debate.

Views on the Standard
In order to assess the merit of the standard one would have to look first at

- The rules governing a particular pension scheme
- The benefits promised by the pension scheme
- Contribution rates to the pension scheme
- The tradition of the pension scheme
- The actuarial history of the pension scheme
- The body of law governing the pension scheme

There are conflicts here. For instance, the promised benefits may not include a link to inflation or pay rises – the promised benefit may only be a proportion (e.g. two thirds) of final salary. But contribution rates may be based on rises after retirement and tradition may be that pensions are linked to wage increases in the workplace or inflation. This gets further complicate by the actuarial history of the scheme – have real rates of return been achieved in practice, how have surpluses and deficits been dealt with. Finally, and very importantly, an archaic set of Victorian Trust law, that is full of contradictions, governs defined benefit pension schemes. This more or less stated that the employer owns the scheme and that he can do more or less what he likes with it so long as the promised benefits of the members are not jeopardized. But there might be a large gap between promised benefits and traditional benefits that could be subject to exploitation.

As it stands at the moment, the funding standard is a useless piece of paper that is of no relevance to contributors to defined benefit pension funds. It is of benefit to those who

withdraw from the fund and whose contributions, together with those of the employer, are retained until pensionable age. In the past employees who e.g. were made redundant suffered losses in getting only their own contributions back at a low rate of interest.
A deficit funding proposal had been prepared, and implemented based on a 29 year funding period, for one scheme that was in deficit for many years. Three years later it was decided that the deficit had been cleared and the employer need not continue with the 29 year contributions. Five years later it was decided that the fund was in deficit again. What is the point of a funding certificate if long term proposals are to be overridden in such a short space of time?

Questions for consideration

1. See above for difficulties. The funding certificate is a piece of paper signed by an actuary. It offers no guarantees to contributing members of the fund nor pensioners. **Each member, at each 3 yearly valuation, should be supplied with the actuarial valuation document and an invitation to a day long seminar to examine the state of the fund and the performance of the trustees and actuary and investment advisors.** The funding certificate **must** be based on meeting the total expectations (which are different to pensions as promised under the rules e.g. wage linkage, inflation linkage, increases in pension after retirement).

2. Long term expected returns differ from fund to fund – 1% over inflation to 4.5% over inflation. Why this should be so is not clear, particularly as the actuary does not appear to differ very much from fund to fund. As pension schemes mature the long term should become more and more insignificant and as it is all defined benefit pension funds in Ireland are mature. In fact, as explained above, the long term consideration has been used to the detriment of schemes in hiding current deficits. So the answer is a resounding **No**.

3. We have seen in the past, particularly in the UK, where companies have been taken over for the value of their defined benefit pension fund. (Gold under the floorboards the particular stratagem was referred to as). The present funding standard reduces members and pensioners entitlements and will contribute to such actions in the future.There are huge sums of money floating around in pension funds without sufficient regulation or control. There should be an extremely strong funding standard (unlike the existing one) that guarantees entitlements to deferred pensioners, present contributors, and pensioners.

4. The present funding standard is useless.

5. The current standard does not guarantee entitlements as stated above. One of the problems with defined benefit pension schemes is that the literature surrounding them is very rosy with terms such as “guarantees standards of living throughout retirement”; “ a wage linked pension which is far better than an inflation linked pension”. Such statements have been produced in formal reports on pension schemes by pension scheme trustees and actuaries. But they are not incorporated in funding certificates. Where such formal reports are issued by trustees and actuary they should be incorporated in the pension promise and accounted for in the funding certificate and actuarial valuations.

6. A proper meaningful funding certificate should be established for every scheme.

Submission 107

I started work when I was 19 years of age and I joined a contributory pension scheme when I was 25. I am now approaching retirement and the inadequacies of my pension scheme are becoming apparent. I wish to make two suggestions that I believe would greatly improve the situation for pension holders.

1. **Ownership of the fund.**
   I recommend that the pension holder should be the legal owner of their individual pension fund for its entire existence. The pension fund should be structured like a bank account where the funds deposited are held in the name of the pension holder and cannot be withdrawn by any other entity.
   In my case, if the fund is in surplus, my employer can take money from the fund without my permission. The determination of a "surplus" is a matter of opinion and this effectively means that my employer controls my pension fund.

   Secondly, should I die, even one day after retiring, the pension bond will become the property of the bond holder (insurance or pension company). Therefore after paying into a pension for a lifetime, my estate will not receive anything from my pension fund. I want legal ownership of the money in my pension fund and for this money to become a part of my estate, after my death, similar to a bank account.

   I recommend that individual pensions be held in an account, similar to the recent SSIA accounts, thus giving people confidence that the funds will always be owned by them or their heirs.

2. **Pension fund fees and charges.**

   I still have the original AVC (additional voluntary contributions) documentation that I received when I started my pension. The paper has turned yellow and the format appears so dull, in comparison to the glossy brochures produced today, but the content is revealing.

   The projections for the growth in the value of the AVC fund were approximately ten times what the actual growth turned out to be. I realise that pension companies do not have control over the global economy, but the pension company charges very high fees for managing these funds. I am charged a large fee when I make a contribution, I am charged a fee if I change funds and I am charged an exorbitant annual fee as a percentage of my entire fund. I have calculated that I would have more in my AVC fund now, had I deposited the AVC funds in a interest bearing deposit account and I did not have to pay any fees.
   There is an obvious conflict of interest here, the pension company is trying to maximise their profits by maximising the fees paid by the pension holders. The interests of the pension holders are not their primary concern.
   I believe that pension fund holders should be allowed to invest their pension in any

type of investment e.g. shares, property, deposit etc. but the pension fund account should be held in an account guaranteed by the government and free of charges.

I recommend that individual pension accounts are fully guaranteed, or even held by the government and that fees cannot be charged on pension accounts. This guarantee along with the existing tax relief will make pensions a much more attractive proposition.

Submission 117

I am a member of a defined contribution scheme in my current employment, while having some deferred pension benefits from two previous employments.
My first point is that the rules and regulations surrounding pensions are unnecessarily complicated. It is clear how much I can contribute to my DC in terms of salary foregone plus there is an overall cap on how big anyone's 'pension pot' can be (including a value for earlier DB pensions). That's all very straightforward.
But there is also a further test regarding the amount of pension you are entitled to take on retirement which is dependant on final salary, or a related average. I really don't see the point of this for a DC scheme member. I have no idea what my final salary will be at retirement age. It could certainly be less than I earn currently. In this day and age I'm sure there are plenty like me. So I could conceivably end up overfunded despite having satisfied all the restrictions on contributions. This makes no sense. For a DC scheme member, if you're allowed to put the money in you should be allowed to take it out, and that should be the end of it.

My second point concerns the requirement for a DC member to buy an annuity at retirement. A simple back of an envelope calculation will show you that someone who buys an annuity at age 65 and lives as long as one would expect to on average, won't even get their money back under the annuity despite the fact that an investment return should also be earned over the period. This is institutionalised theft in my view and worse it is facilitated by government regulation. As far as I am concerned the money I have put into my pension scheme is my money and I should be allowed to deal with it as I wish. I have saved this money over the years and when I die I would like my children to benefit from anything that remains rather than some insurance company. I have no doubt that this government forced purchase of an uneconomic investment will find itself challenged in the courts in due course.

Submission 125

ARF

The new rule of 3% of the ARF being deemed taxable each year regardless of the fund amount has serious consequences for the small investor.

For example, a small time Proprietory Director retires after a lifetime of service and after receiving his 25% tax free bonus he invests the balance €1m in an ARF one year ago.

Year 1	Investment 1 year ago	€1m

	Year end value after changes	€700k
	and equity market reductions	21k
	- say average reduction 30%	€679k
	- new value year end	
	3% withdrawl	
	Year 1 year end value	
Year 2	Year end value after say	
	20% reduction	
	3% withdrawl	€543k
	Year 2 year end value	15k
		527k

The 3% rule was introduced to prevent large individual amounts being stored in pensions and never meant to penalise small investors in this way.

The small investors hope was that the 25% tax free element of his pension would give him living expenses for some years thus giving his pension fund time to grow.

Now he finds that his pension is halved in the first 2 years and tax deductions are contributing to this.

There is no doubt that all similar individuals will be a burden on the state in the future unless some threshold is introduced for the 3% rule.

It is recommended that a base of say €3m or €4 fund be applied and marginal relief up to say €5m or €6m.

Submission 130

A major problem in the provision of pensions at present lies in the poor value derived when purchasing an annuity. This is because of the guaranteed nature of the product which requires annuity suppliers to purchase gilts to back the product and, because of very low yields on these products, the guaranteed annuity rate is low.

I believe this could be improved if pension monies were invested in approved products similar to current mixed asset funds. To ensure that the benefit is guaranteed, the supplier could be required to purchase a guarantee from say the NTMA.

I believe this could result in improved annuity returns, a premium for the NTMA and encouragement for people to invest in pensions. I believe this could improve rates by up to 25%. I acknowledge of course that it only addresses one part of the current problems but I believe it could help.

Submission 132

Simply that those in company schemes should not be forced into buying annuities on retirement – this will level the situation with those in non-company schemes which is currently very unfair.

In turn it will encourage greater funding as we would not be forced into using the majority of our savings and estate into an annuity product that is some inflexible and typically bad value.

Submission 134

In my opinion, the necessity to purchase an annuity with the proceeds of a defined contribution pension fund is wrong and unjust.

Firstly and most importantly, having contributed over a long time to the fund, the annuity "dies " with you, thus theoretically one could derive little benefit of a lifetime's savings if one dies soon after retirement. The fact that the fund does not reside in your estate is unjust and illogical in my view.

Second, why should one specific product be mandated? Annuities provide very poor amounts of income in periods of low interest rates. In Ireland, we have been locked into the lower euro interest rate environment for the last decade or so and as such annuities represent very poor value.

Submission 136

Regarding the Green Paper on Pensions, I feel that the requirement that Defined Contribution members in private pension schemes are forced to buy an annuity with their pension lump sum fails to take account of the very low interest rates that are currently pertaining in Ireland. Such a requirement is potentially very costly when interest rates are low.

Under the terms of the Defined Contribution arrangement, the employee is clearly shouldering the investment risk and, as a corollary, must ensure that his/her funding rate is correct over his/her working life. However even if he/she does strike the right funding rate, when it comes to buying an annuity the employee can lose out by having to buy an annuity when interest rates are historically low. This seems unfair to me and something that the Green Paper has an opportunity to correct.

Submission 159

I have funds in a pension bond. I was advised to put it there when my occupational scheme wound up.

I now have to make decisions on the investment of that. Since I put it in, the bond value has fallen 12% in value - €60,000 approx. I cannot move this into a PRSA. I can only buy an annuity on retirement. Effectively, I am taking the risk but the rules state I am not capable of taking any risk on retirement and am only capable of taking an annuity. After plotting an investment course this is a gross insult.

My colleagues on PRSA can take AMRF and pass it to their next of kin. My annuity goes to the annuity provider on my death.

Submission 191

I wish to bring to your attention legislation change required for defined contribution pension scheme members. Currently, about 300,000 people in defined contribution pension schemes are forced to use their pension at retirement age to purchase an annuity from a life assurance company. These have been low since interest rates have been lower and higher life expectancy resulting in the amount of guaranteed pension is much lower.

But since Approved Retirement Funds (ARF) were introduced in 1999, the self employed holders of pensions, company directors and, more recently, Personal Retirement Saving Account holders can avoid annuities. Instead, they can retain control over almost all the pot of money that they have prudently saved.

Members of defined contribution schemes have no such options. This is a discrimination which is galling to many people and is inequitable. The same facilities should be available to defined contribution pension scheme members. We need to have a level playing field with the same options for defined benefit pension schemes. Defined contribution members take all the risk regarding their fund as the value of their fund determines their future pension. There is no guarantee of income unlike the public sector which is guaranteed a pension (defined benefit). The defined contribution has all the risk of market downturns in the period up to retirement and is then forced to purchase an annuity. They are denied the opportunity to get far higher returns through Approved Retirement Funds, under which they could invest in equities, bonds, property and other assets while keeping the original capital intact and can then choose to draw down the money when he wishes subject to income tax. They are also able to pass on this capital as an inheritance to their wife and family while currently a defined contribution retiree is forced to handover their capital to a life assurance company to purchase a pension with no option to pass on this fund as an inheritance.

There is a good article on the subject in the Irish Times March 2nd. I would be grateful if you lobby to have legislation changed to give defined contribution pension schemes the exact same options as Approved retirement funds that the self employed have.

Public sector workers have no risk of job loss and guaranteed pensions. I am in a high risk industry, need to plot an investment course for my fund, but receive far less options on retirement.

Please bring fairness into the system. Lots of people are trapped in annuity only bonds. Allowing them access to PRSAs by transfer would be a huge help.

Submission 195

Public Servants' Pensions:

Last week in the Dáil, the figure for these has now risen to **75 Billion Euro**. This has come about because of the increase in the number of public sector staff, the first round of benchmarking, the national pay agreements and improved life expectancy. At one time the security of job, and a good index linked pension scheme made up for the salaries that were generally lower than the private sector but this is no longer the case as salaries, in some cases, exceed that of the private sector.

Such schemes that were also in the private sector, e.g., Banks, are now being discontinued due to the very heavy expense of funding them.

There is the need for public employees:
Fund higher contributions on their pensions.
New recruited employees not to have index linking of their pensions.
Discontinue the final salary based pension and use an average of the last five years.

Contributory Pensions.

With the increased life expectancy and the pensioner numbers increasing, there is an urgent need for changes to the present system. The National Pensions Reserve Fund was a first step in trying to fund future pension liabilities; the yearly amount put into it needs to be increased.

There is a disincentive for PAYE workers to fund pension schemes. After the tax free payment from their funds, they then must hand over 20 to 40 years of saving to an insurance company to obtain an Annuity.

Depending of interest rates at the time of obtaining an Annuity, the amount of yearly income can vary and is only guaranteed to be paid for five years or until the person dies. If the pensioner wishes to safe guard his wife or partner and cover both lives, the return is even poorer.

The PAYE worker should have the same option as the self employed person and put his fund into an ARF (Approved Retirement Fund) instead of an annuity, if he so wishes. Legislation can be made so that such a fund can only pay out a maximum amount each year so as to safeguard exhausting the fund too early.
An ARF has the added attraction that any remaining funds left in it can be left to dependents.

Submission 197

Comments in relation to Chapter 11 of the Green Paper: Annuities and Related Issues

The Annuity Market

The annuity market is regularly vilified in the press and by financial advisors – however the reality is that the rates underlying annuity markets reflect trends in Irish mortality (improving all the time) and the current low interest rate environment. To blame the couple of Irish Insurance Companies that operate in the "Annuity Space" for these trends which are entirely outside of their control is, to me, spurious.

However, I do believe that the Irish Annuity Market is not a competitive one. In addition, Solvency Requirements of Life Insurance Companies, their inherent conservatism and their requirement to earn a return for their Shareholders generally mean that the Annuity Market is not likely to see rates moving in favour of the Pension Policyholder in any material way in the near future.

My observation would be that it is a place that the State could get involved in, through any one of a number of ways, such as one of:

- A State Annuity Fund – on a Public-Private Partnership basis (with one of the major Pension Consultancies for example, to be available as an Annuity Provider in all circumstances

- A State Annuity Find – Non-Partnership basis, strictly to be available in DB Wind-Up situations only

- State-Aid/Encouragement for a "Central Annuity Fund" to be established and maintained by one or a combination of the major Pension Consultancies, this could become an Annuity Provider without some of the constraints that Life Insurance Company Annuity Providers face – namely shareholders and solvency requirements

With the continuing trend in the Irish Pensions System towards the Defined Contribution Model, I believe that the general principles underlying the suggestions above may form a basis for a solution that provides greater clarity and certainly in relation to retirement income expectation for Pension Savers without State/Company guarantees.

Submission 216

To be precise my views concern the inequity of forcing PAYE and non-proprietary Directors to purchase an annuity with the proceeds of their DC pensions plans upon retirement:-

Reasons:

1. Why should proprietary Directors holding a minimum of 5% of shares in a company be allowed the ARF alternative to the exclusion of others - we are a Republic and should enjoy equal rights. All we enjoy is a discriminatory regime where the PAYE/ non-proprietary Directors are left with a lumpen British style scheme from 60 years ago - at least the British have moved forward on their pensions legislation on a non-discriminatory basis.
   Lets wake up and move on!

2. We have to make investment decisions where our DC funds provided by our employers are invested during our working life. Do you assume we become instantly senile upon retirement and are unable to continue such investment decisions through an ARF. If our employers trust us with this ability why not the Government

   Provided retirees can show that they have a minimum sum invested in a fixed return this should be sufficient to persuade Govt that retirees will not become an overdue burden on the State in retirement.

3. The number of annuity providers in Ireland is too small; annuity rates are poor and I consider this as the result of a small market/cosy competitive environment for these providers. It is not an efficient market that we are being forced to buy into!

4. The draft Green Paper page 132 section 11.20 suggests - erroneously - that an annuity offers a "guaranteed stream of income". These guarantees only come from

limited liability companies and such companies are subject to the vagaries of the financial world. If they fail financially so does the guarantee. Or does the Govt propose to become provide a"lender of last resort" for insurance companies providing annuities as in ICI? I fear not?

I would appreciate if you would include these views in an assessment of the overhaul of these outdated regulations.

Submission 226

Two things in particular concern me re pension proposals.

Given that it is very foolish for all not to make pension provisions, pension providers have a captive consumer. This consumer needs protection from the following which is quite common.

For mathematical simplicity say I have a pension fund of €100,000.
The provider managing this fund imposes an annual charge of say 1.5% **of the total fund.**

Consider a year in which the fund has grown by 3%. Total Value €103,000.
Management charge @ 1.5% €1545 which is **over 50% of the growth!**

Consider a year in which the fund falls by 3%. Total value € 97,000.
Management charge @ 1.5% €1455 **which is only €90 less than before**.

1. Why should the provider be rewarded for losing money?
2. With only €90 of a difference there is little incentive for the provider to manage more efficiently.
3. The link between management charge and total fund should be broken.
4. If the charge on Standard PRSAs can be prescribed why not the same here?

AVCs
These are broadly a good idea and were made even better when Charlie McGreevy removed the obligation to convert to annuities.
I converted to an ARF and intended to leave it there as a fund for my wife whose income would drop considerably in the event of my death. Unfortunately, in what was a retrograde step, Brian Cowen chooses to attack the fund by taxing me as if I had withdrawn 3% of the fund annually even if I had not thus forcing me to do so.

Finally, Trade Unions should of course be proactive in encouraging members to make pension provisions but with due regard to the fact that, AVCs for example, may be a very good idea in general but not necessarily for their own members! See following letter which I wrote in 2007 and to which I got no adequate response.

A Chara,

I note that all three teachers unions continue to plug the idea of AVCs for teachers but without ever giving *all* the details. Correct me if I am wrong but I believe the following is the situation *in full*.

Under Irish Tax Law the maximum tax free lump sum available on retirement, *irrespective of source* is 1.5 times final salary. This could make AVCs quite attractive for others *but not for teachers!* To illustrate this point consider the following case.

A person enters teaching at the age of 22 and retires at 62 after 40 years. He/she has been a member of the Superannuation Scheme which is now compulsory. (Even if it were optional it would be most unwise not to be a member). For the sake of mathematical simplicity assume a final salary of € 60,000. Under the terms of the teachers Superannuation scheme there would be an entitlement to a tax free lump sum calculated as 3/80 of final salary for each year of service which, for 40 years, would amount to 120/80 or 1.5 times final salary *which is the maximum tax free lump sum allowable under tax law!*

Had this teacher been contributing to AVCs yes they would have received tax relief at their marginal rate on these contributions but if on retirement they converted to an ARF (Approved Retirement Fund) which is the norm the maximum amount of money they could withdraw, tax free from this fund would be *zero! This because they would already have availed of the maximum 1.5 times final salary under the Superannuation scheme.*

Of course they could withdraw money from the ARF but *they would be hit for tax at their marginal rate thus wiping out the tax benefit they got when they contributed to the AVCs in the first place.*

Of course the above teacher might decide to retire after 35 years. In that case their tax free lump sum under the Superannuation scheme would be 3/80 multiplied by 35 which amounts to 105/80 of final salary. This would mean that they could take the additional 15/80 of final salary, tax free from their ARF. Assuming a final salary of €60,000 (which is being rather generous after 35 as opposed to 40 years) they could take € 11,250 tax free from the ARF a saving of € 4612.50 at 41%. Not a lot after 35 years.

So should teachers contribute to AVCs? Not my point. My point is that teacher unions, as a matter of duty, should tell their members the full facts, as illustrated in this letter, *at the outset* so as to enable them to make a fully informed decision as to whether to contribute to AVCs or not!

Submission 233

I believe PAYE workers should have the same flexibility as self-employed and directors do for investing their pension funds. I don't understand why PAYE workers only have this flexibility with the AVC part of their fund. This seems to be discriminatory. Why should I, as a PAYE worker, have my fund revert to the insurance company if I die after a couple of years where a self-employed person's fund reverts to his estate. Or why should I have to buy an annuity when I retire and lock myself into a pension when interest rates could be unfavourable? You can put the same minimum annuity stipulation across all workers but in fairness it reads to me that the PAYE worker is treated as if s(he) hasn't the ability to invest or look after his/her own money but the self-employed worker who has had 'lots' of 'financial' experience looking after money (avoiding tax) and therefore can be trusted with his/her fund. Basically, treat everyone the same.

Stipulate a minimum pension provision for everyone but allow people the freedom to invest the rest in an ARF. You might be surprised that PAYE workers do understand the markets and investment vehicles.

Submission 238

I wish to complain about the introduction of taxation of "imputed distributions" of ARFs.

1. When ARFs were introduced, pensioners were given the opportunity to choose between an annuity pension subject to tax, or an investment in an ARF which would be taxed on distribution. One very significant qualification for an ARF was that, unless the pensioner had independent income of IR. 10,000 the pension funds had to be invested in an AMRF until age 75. Clearly the thinking behind this qualification was to ensure that some funds would still be available as the pensioner became older and would most likely be in greater need of funds.

2. The introduction of the "imputed distributions" is forcing pensioners to take distributions of 3% of the ARF whether they need this amount or not and thus reducing the amount remaining in old age. If we take the example of a person aged 60 who is required to draw down 3% per annum for 15 years, he will be left with approx 50% of his ARF investment by age 75. This is contrary to the original thinking of having an AMRF until age 75.

3. In addition to the reduction of the ARF, as outlined above, there are two further inequalities involved. Because of the compulsory "imputed distributions" amounts, a pensioner is not allowed to leave his ARF without a distribution, should it be necessary to recover its value when such funds fall as they are doing at present. Because of the way the taxation is operated, should the pensioner pay the tax on the "imputed distribution" but not take the distribution, no credit is given for the tax paid and when the funds are eventually distributed, tax is again payable on the same money thus leading to double taxation.

4. Apart from when funds transfer to a spouse, the funds remaining in an ARF at death are subject to an inheritance for minors or an income tax for adult inheritors. Therefore there seems to be no justification for the tax on "imputed distributions" as is now being applied.

Submission 257

It is government policy to encourage savings and private pension provision. I have an ARF, which allows me to spend my money at will.

However, the Minister for Finance has now taxed this at a presumed distribution of 3% even when there is no such distribution. I do not in principle object to paying tax but I resent being told when to spend my money.

As this tax is calculated on the present value of the fund, it includes an element of capital gains tax. We were assured that ARFs would be exempt from CGT.

This imposition is unjust and wrong and should be rescinded retrospectively.

Submission 260

I feel it is wrong to continue to make the purchase of annuities compulsory as they do not benefit the retiree with a small pension fund. Take, for example, a man age 65 with a total fund of say €100,000, annuity price of 6 %, pension for life €6,000 p.a. less fees & charges.

Taking the average male might live to 74 years, the total payout by the pension company would be €54,000. The balance of €46,000 plus the interest of the initial €100,000, say €4,500. This gives the annuity company a very generous profit of over €60,000 with very little risk. This is unfair.

My recommendation would be to allow the retiree to invest the €100,000 in a high interest bank or building society and allow the interest free of DIRT. The benefit to the retiree would be to be able to gain interest on the €100,000 and draw down, say, €10,000 p.a. plus his state pension leaving enough to live on and save a little and enough for a funeral. This would cover the retiree outliving the average age as he would continue to have the state pension.

In the first instance, if the retiree dies at any time, the remainder of his pension is taken by the annuity company. In my recommendation, if the retiree dies before, say, 75, the remainder of his goes to his estate. It would also mean he would have control over his fund (drawing less some years more than others) and there are no charges and no big profits going to annuity companies.

Submission 266

I wish to make a submission on an individual basis, which is replicated by many thousands of other individuals.

The one area I would like addressed is the requirement that in certain long term pension schemes that one is forced to buy an annuity with the funds at retirement date. It is both unfair and inequitable and needs to be addressed, so that the beneficiary can have control over the funds and not be forced into what may be a disadvantaged position.

Submission 268

1. I retired age 68 in 2004 on an annuity with a 10 year inclusion of my wife. After 2014, if I die before her, she is reduced to widows state pension only. That was all we could afford. It was a lousy choice to have to make. Invested/managed at 2.5% p.a., I would have to survive to 88 to exhaust the fund. This is a most unlikely prospect for most people. So, subject to a regulated management charge, I advocate that on death, the balance of one's fund should become part of one's estate. The odds are

far too much in the annuity providers' favour and there is no real competition among them.

2. Unless there is guarantee that one's fund contributions are protected from mismanagement or market vagaries, the people in small private sector employment will never make adequate contributions to their retirement fund. The more one becomes aware of the lack of certainty in the eventual outcome, the less attractive the prospect and the more like buying Lottery tickets.
3. On retirement day, one is at the mercy of variable annuity rates, so a fund contributor cannot be told, as he approaches retirement, how much of an annuity his fund will actually purchase.
4. People working outside the public sector, the banks, quangos etc., look with envy on those fortunate occupiers of secure employment whose pension amounts are guaranteed and index-linked, and whose wife or husband will continue to benefit after the pensioner's death. If such a scheme can be provided for one section of the workforce, what good reason can there be not to have it available to all. I hope and trust that you will endeavour to create a level of equality for the many like me who are neither in the public service, are not self-employed, nor members of large unions.

Submission 270

Because of my different 'careers' I have had exposure to a great many pension environments in Ireland, Public Sector, Director, Self-Employed and as a member of the [company name] defined benefit scheme and have also had considerable interaction with AVCs in relation to the those various private sector pension environments.

My wife has also contributed to staff schemes, as a Director and into a personal pension plan.

Our combined exposure has involved interaction with [various financial companies] and some private wealth advisers.

With my background, including a very heavy involvement with legislation and with the income tax systems I would regard myself as more competent than the average person in understanding the rules, legislation and practises. I also have the advantage of public sector training on the maintenance of records of discussions, correspondence etc.

Additionally, my financial position means that when any problem arises I do not feel constrained to take what is on the table but can be prepared to accept lengthy delays while disputes are resolved.

My experience, including assisting my wife, suggests that the present schemes are unduly complex both for the public and for the expert advisers. The reasons for this conclusion are:

1. I have prevented more than 6 serious losses, one about €20,000, others less significant with the smallest about €1,500 that would have arisen if I did not have the competences summarised above.

2. In one case, two sets of experts insisted that I could not ARF a reasonably considerable sum. I forced them to agree with my reading of the legislation only after identifying for them a tax official who was willing to confirm what I had told them. The tax official readily agreed with my interpretation and appeared surprised that firms with apparently excellent credentials would misunderstand the rules. Their incorrect interpretation in addition to disadvantaging me would have operated, statistically, in favour of the pensions industry players.
3. In other cases, amounts agreed in eMails or in letters, or in telephone conversations to be transferred into pensions to another fund were later reduced without notification and there were attempts to brazen the position out until I demonstrated that I had evidence and the knowledge to force an investigation. Full restorations were made
4. In another case, an adviser broker attempted to claim that it was impossible to add to an existing plan and misled my wife into paying into a new scheme. When properly tackled, the contribution was refunded in full.
5. Other problems encountered included the pension provider having no record of what proportion of contributions were AVC as opposed to standards contributions, no records of the underpinning earnings etc - issues that affected ARF options, tax free lump sum entitlements etc. Simply because, I had maintained records and also had an accountant over the years in question, I was able to satisfy requirements that I anticipate a great many self-employed sole-traders would not be able to resolve.
6. Yet other cases, again where I was able to extract compensation incurred when funds transferred between insurance companies where held as 'cash' for several months missing a significant increase (about 10%) in the valuation of the units because of the delay and delays in releasing a large lump sum (€70,000) for over 2 months after an ARF was liquidated (and taxed) until legal action was threatened.
7. Efforts to combine various small separate plans are very difficult and unless managed with great care and diligence, abatements of up to 20% of fund values can occur in ways that would not be immediately transparent to the uninitiated.
8. The bias seems to be for each player to attempt to set up miniscule pensions with all the overheads of monthly payslips etc rather than facilitate consolidation into one fund. The consequences include unnecessary administrative overheads that dilute the value of pensions savings and considerable additional paperwork for the income tax/PAYE system - and this is imposed by the industry (and tolerated by the State) despite the vast amount of tax expenditures that go each year into the pensions industry, an industry that consistently underperforms as an investment vehicle in addition to imposing layers of charges and other overheads. It is a grave scandal and is preventing the necessary degree of take-up of private pensions that is vital if 15-30 years from now the State is not to face many social problems in face of growing life expectations, more mobile/active retirees with more demands for purchasing power and an escalating public health bill that will accompany the demographic changes.

In summary, our experiences over almost 10 years has been fraught with potentially costly episodes involving a variety of the big names, all of which were eventually resolved fairly but only because I had the knowledge, the records and financial independence to challenge the errors etc. I have not calculated the total amount that we could have lost but it is definitely in excess of €30,000. Based on these experiences, I am convinced that vast sums of retirement provision are being lost by middle income contributors, especially those least able to detect or challenge errors and perhaps worse.

Some suggestions:

1. Assuming that my wife and I are not very atypical in that we have had to enter into a disparate collection of schemes as our status changed over the last 14 years, there is likely to be an increasing incidence of people with similar issues, i.e. multiple small pension pots, there needs to be some form of central clearing agency to ensure that funds are merged in the fairest way, consistent with the underlying policies of stimulating private pension provision and adequate incomes in retirement.
2. Alternatively, small funds, e.g. under for example €15,000 should be eligible for ARF, or something similar since pensions paid on such small amounts are inefficient in every sense, except as a generator of profitable transactions for insurance companies.
3. Some relaxation of the Revenue Rules about having a guaranteed income may also be appropriate. To take the most absurd position the present system could induce: my wife could have ARFed her small pension funds if we had asked a solicitor to draw up a phoney separation agreement and asked the PMG to pay her half of my CS pension. Put another way the present rules militate against people whose marriages remain intact. There is a potential Constitutional Case in this in that it could be argued that the rules may be incompatible with Article 41, 3, 1 insofar as they may represent an inducement to separate at a time when many marriages come under special pressures due to the radical changes in lifestyle implicit in retiring.
4. Some codification or simplification of rules seem to be essential because the experts, in the typical institutions I have had experience with, are frequently either unclear, or exploit the position in ways that typical members of the public, especially those most in need of private pension provision cannot realistically be expected to detect or challenge - the State has defined the rules and the environment and cannot morally, and probably cannot legally, say caveat emptor, or "you should have shopped around more craftily 20 years ago or made sure your deceased husband did so".
5. Arrangements to integrate self-employed, Director, personal (employee) and public sector schemes need to be developed – that will be the growing position of many contributors to pension provision and the system should anticipate not belatedly react to the problems.
6. As regards maintenance of records - given the fees charged, there should be a clear and unambiguous requirement on the recipients of pension contributions that would allow them clearly identify the nature of the contributions when eventually the contributor dies or retires - it is unrealistic to suppose that an elderly widow could reconstruct her husbands income statements etc, 20 or more years afterwards.
7. The rules about tax free lump sums need to be more easily understood by contributors, not everybody can receive 25% tax free but this is not always evident from the standard literature. Some simpler easier to understand system is essential

if there is not to be a growing amount of growling as increasing numbers begin to take their pensions and other benefits from defined contribution schemes.

Submission 272

Introduction

Formulating an ideal pensions system is commonly viewed as next to impossible by the various bodies, interest groups and representative organisations because of the fundamental differences in opinions between them as to what constitutes such a system. As a result our pensions legislative environment and by extension the resulting pension systems are inordinately complicated and complex as different elements of different arguments have attempted to be accommodated – but with one eye firmly on ensuring that the existing regime is not in any way impacted by each change as it is being made. Added to this is the fundamentally changed macro regulatory environment that exists globally and impacts directly (and in a costly manner) on employers coupled with the sea change in access to information which means that members and potential members want and demand significantly better outcomes from any pension arrangement.

We have an opportunity to look at what makes an ideal pension system today and what will the Irish people need from their pension system in the future. I hope that the policy makers have enough confidence to adopt the best approach rather than commit the sins of history by once again tinkering at the edges of the system.

What would be the ideal system?

As mentioned, there are differing views on this but I would suggest the following would be accepted by most parties:

1. Equal and open access for all
2. A guaranteed level of income for all
3. Full transferability between jobs and employment status
4. Some encouragement for those that wish to provide higher benefits
5. A spreading of the costs and risks between employer/employee/government
6. A Simple System for everyone

In order to achieve this I would suggest the following be implemented

Revised and simplified State Backed Contributory Pension scheme

A significant reform of the Social welfare pensions system separating Contributory Pensions completely from the rest of the Social Insurance system. A mandatory Contributory Pension contribution to be made by employers and employees (and the self employed) to this state system (this would replace the existing contributory pension). Contributions will be set (as present) on a % of gross income basis. This new state contributory pension system will operate on a funded DB basis. There would be no ability to “cash out” or transfer out benefits from it. It will provide every contributing member with a defined benefit pension plan from age 70 (with no early retirement option). The benefit will be fixed equivalent to 2/3rd of the GAIE (or some similar measure). Benefits to accrue on a simple 30ths basis – i.e. if you have contributed for 30 years then you get 30/30 X 2/3rd of GAIE when you reach age 70. Consideration should be given to providing some simple way of providing a relevant benefit on death. This could be phased in over a period of time in the interest of fairness.

Why this is important in the ideal model

The above system provides a **universal guaranteed minimum pension in retirement for all** based on a very simple calculation. The benefit is at a level that most benefits the lower paid and the contribution basis means that the higher paid contribute more to the scheme than those lower paid. The system is **fully portable between jobs and employment status** as it is provided by the state. It is effectively a **State guaranteed** mandatory Defined Benefit scheme – historically the Unions have always pushed for a DB environment whilst the Employers have resisted this due to the burden it places on them. **This approach provides every Employee with a defined benefit scheme without placing an excessive burden on Employers.** Also as it is **using the existing PRSI infrastructure** and broad model, it can be implemented without an excessive burden on the state.

Finally it meets the need for **simplicity** – everyone should know how many years or partial years' contributions they have made and therefore will know exactly what benefit that they will get at age 70. I haven't formulated the exact contributions to be made by each party but I would expect a splitting of the cost across employers/employees and the state.

I would suggest it move from the current PAYG system to a **funded scheme** basis with the funds managed for the State by NTMA. Legislation can be introduced if there is a need to exempt this scheme from some of the rules that apply to private sector DB schemes.

I would suggest that this be implemented for all workers – private and public sector. This would mean that the quite high cost of this new measure would be somewhat ameliorated by the removal of the public sector pension for the impacted employees. A spin off of this approach would be to significantly simplify the current benchmarking process.

Single Simplified DC arrangement for all private pensions

I propose that **all existing DC arrangements** (personal, executive, AVC, Retirement Bond) should be **converted into PRSAs** and all new arrangements be set up from outset as PRSAs. There should be a **reduction** in the maximum **charges** allowed under a **Standard PRSA** to make them more attractive and cost effective for members.

There is no reason to suggest that any existing DC arrangement could not and should not be converted to a PRSA. Protections can be put in place to ensure that the conversion is done on a zero charge basis (legislation already exists covering transfers into and out of PRSAs which has the same effect). It should also be a feature of this change that the pension arrangement post conversion should have an ongoing charging structure no higher than that which obtained immediately pre-conversion. This can be verified by the PRSA actuary. This coupled with the zero charge in or out on transfer will mean that there is no risk of mis-selling.

This could be implemented on reasonably short notice – perhaps 12 months to allow providers to adjust their PRSA charging structures. I would suggest that a further 12/18 month period could be allowed to enable existing DC pension providers amend their systems to comply with any additional requirements that would arise on the conversion of this business to PRSA. That said, as this only applies to DC pensions there shouldn't be many particularly onerous issues – in addition the majority of the providers in the market are already PRSA providers and therefore will already have the necessary systems and processes in place.

Some changes might be considered to the PRSA regime – most importantly the facility to access partial benefits – this would allow people move to reduced hours without suffering too significant a loss in earnings by using a combination of reduced salary and part of the pension fund.

Why this is important in the ideal model

In an environment where the above mentioned State operated DB scheme was in place there would (arguably) be only a limited demand for private DB or other similar schemes. As above system provides the lower paid (i.e. those earning up to the GAIE) would have a guaranteed income of 2/3rd of that GAIE they would have little need for further pension income in retirement.

The higher paid, on the other hand would generally require additional income in Retirement. The amount needed increasing for people as their income increases further away from the GAIE. These people should be encouraged to look after that need for themselves – through private pension plans. I would suggest that every study in this area has clearly indicated that a simplified and flexible private pension model will succeed where the current raft of complicated models has hitherto failed.

This simplified model approach again builds on the existing infrastructure – there is already a PRSA model in place in terms of product/provider/regulations/regulator - no reinvention required. By removing the raft of other pension types and multitude of products within these types you are left with a very simple and transparent system which can be easily understood by all.

Although a recent report by the Pensions Board found that the Trust Model was appropriate for pensions I would respectfully suggest that this is only true for DB arrangements (where it is important to separate the Employers own assets from the Employers DB pension scheme assets). In a DC environment, the assets are held in individual member accounts. The contract model in a DC environment provides **ownership**, **security** and **control** to the person that actually needs it – the plan holder

This model meets the requirement from members and Unions for **simplicity**. It meets the industry requirement for there to be a substantial element of **private provision** rather than a move to 100% state provision. It is **voluntary** which should mean there is no reason for existing plans not to be maintained.

Revise the Tax Relief system

I would suggest that a simplified credit system (similar to the SSIA) be implemented whereby a contribution made by a member generates a direct additional contribution from the state. I would suggest that this be **standardised so as to remove the additional tax benefit currently being bestowed on higher rate tax payer**. This approach should go some way to assisting the general public to appreciate more readily the contribution that the State is making to their plans. The level of State additional contribution will depend on the overall costs of the above changes but should be set so as to be sufficient to generate a positive overall after tax position on retirement for members.

As contributions will now come from after tax monies, and given that all benefits will be subject to at least some level of taxation in retirement, and in the context of the existing maximum allowable retirement fund, there would be no requirement for the current maximum contribution. In terms of the post retirement regime I would suggest that the imputed distribution regime from ARFs should only commence at age 70.

From the employer side I would suggest that employer contributions remain fully deductible against company profits. As corporate tax is just 12.5% this is not a major cost and it can be positioned as a compensation for employers having to pay a mandatory contribution to the new State Contributory pension mentioned above. The benefit of this approach being that companies remain incentivised to pay into members pension plans.

What this would mean when implemented

If the above "ideal" was implemented everyone would benefit as follows:

1. Up to 2/3rd GAIE payable from age 70 following completion of 30 years employment
2. This would be paid by the state through the existing SW system and would have been provided on a pre-funded DB basis with contributions from Employers, and Employees collected through the existing tax system
3. It will have been ring-fenced completely from the Social Insurance fund and the Non-contributory pension arrangements
4. Additional pension benefits would come from a very simple PRSA account providing a tax free lump sum of 25% of fund and either a taxable ARF or a taxable annuity. The PRSA could be accessed on a full or partial basis from age 60
5. The maximum PRSA fund would be the current €5M Standard Fund Threshold (as indexed)
6. The PRSA would be completely voluntary but any contributions from members would attract an additional contribution from the State
7. Any Employer contributions to PRSAs would be offsetable against corporate tax

This model meets the oft-stated requirements of Unions, Employers & industry bodies. It also arguably meets a number of the wider societal needs in that the higher paid help subsidise the lower paid and the benefits are structured so as to dis-proportionately benefit lower paid members of society.

The biggest benefit though is that it provides a system which meets the criteria regularly put forward as crucial to the success of a pensions regime :

1. It's simple
2. It's universal
3. It's transparent
4. It's regulated
5. It has guarantees - State backed
6. It's fully portable
7. It's very flexible
8. It can be implemented onto the existing infrastructure
9. It protects existing arrangements without having to retain existing inefficiencies
10. It spreads the costs between all the relevant stakeholders
11. It delivers a reasonable income in retirement for all

Submission 273

I welcome the Green Paper on Pensions and recognise the complexity of choices facing policy makers in this area. I applaud the developments in trying to address the uncertainties of employment tenure in the private sector over the last decade, particularly the introduction of PRSAs and ARFs.

I urge you to consider your deliberations on this review in the light of the following principles:

- Pensions should be easier to understand to encourage coverage,
- Pension rules should be certain and not subject to change over time, so as to encourage confidence in long-term saving,
- Pension options should be widened to allow for more choice and flexibility,
- The cost of guarantees and protections should be recognised,
- Any direct State involvement should be financially sustainable, and
- Any changes should promote the EU competitive agenda in Europe and the competitiveness of the Irish economy

Ireland competes globally for talent and is finding it difficult when the marginal rate of income tax on earnings here in Ireland is 49.5%, including employer's PRSI and the levies. Pension schemes can go some way to mitigate this loss of competitiveness by offering a useful tax deferral on a part of those earnings. The ARF option should be widened in employer-sponsored DC schemes and I fully support the IAPF submission in this regard.

I wish to confine the remaining part of my submission to the questions posed in Chapter 11 of the Paper on annuities and related issues:

1. Do annuities offer value for money?

Annuity pricing is based on bond yields and conservative mortality/longevity risk and must offer a return on capital for life companies, now facing increased capital adequacy requirements under Solvency II. In addition, the annuitant faces a counterparty risk on the Life Company over the 20/30 year term of the annuity.

It is generally recognised that the regulated annuity market is uncompetitive, distorted by Revenue rules and by the small number of annuity providers. Over recent years, lower bond yields, the recognition of longevity risks and the increasing solvency requirements in Life Companies have combined to make annuities bad value for money. This is likely to worsen as Solvency II comes into effect, due by the end of this decade. Less well known but perhaps more important is the concentration of default risks inherent in annuities, which cannot be in the interest of public policy.

As you know, the increased cost of annuities is a problem for companies in the private sector who sponsor DB schemes. The attention of trustees and pension regulators is drawn to their pension liabilities now reported either under FRS17 or IAS19 on their balance sheets. As a result, many DB schemes are reducing benefits or converting into DC schemes, where the employee takes the investment risk rather than the employer. It is worth noting that pension liabilities for DB schemes are valued using an AA-rated corporate discount rate, while the largest annuity provider in Ireland is only A-rated. This means that the increased costs of buying an annuity, arising from the increased counterparty default risk and the profitability requirements of life offices, are only addressed at later points i.e. on takeovers, vesting of pension benefits, etc.

The increased cost of annuities is also a problem for DC schemes where trustees and members are trying to grapple with planned projected benefits. These costs are built into many pension calculators, including that of the Pension's Board and are hidden from view. It is incomprehensible to many who use these calculators to see what it costs to provide pension benefits. This does not help addressing your concern about pension coverage and the apathy you are trying to counter.

ARFs offer other alternatives, which should improve as "value-for-money" propositions as competition increases. They may give rise to mis-selling risks, but this is counter-balanced by the Consumer Credit Code and Minimum Competency Requirements of the Financial Regulator.

2. Should DC holders continue to be compelled to buy an annuity at the precise moment of retirement or should they be allowed some flexibility in timing? Should PRSA and other personal fund holders continue to be allowed to avoid annuitisation and to continue to hold their retirement funds until death?

It is not in the State's interest to funnel all pension savings into annuities, because of concentrated counterparty risks.

The major downside with annuities is that there is a counterparty default risk on the life office underwriting the annuity contract. Life companies are under the prudential regulation of the Financial Regulator, but this does not mean that the Financial Regulator underwrites the credit-worthiness of any entity it supervises. Its stated policy is to the contrary.

Pensioners in receipt of annuities are therefore expected to take this default risk over 20, 30 or 40 years. By contrast, pensioners in receipt of Government pension carry little or no credit risk as they have an AAA-rated annuity.

So what would happen if there was a default by a life company? Would pensioners have any recourse to corporate sponsors or trustees? What political pressure would be brought to bear on the Government of the day to make good the losses?

Let's take a hypothetical example. The largest life company offering Revenue-approved annuities in this market is [life company name]. It is now a listed company with a primary responsibility to its shareholders while juggling its conflict of interests with policy-holders. [Life company] is currently rated "A" by S&P and Moody's, which means that there is an estimated probability of 0.04% that it will default in 1 year, 1.5% probability in 10 years, 4.4% probability in 20 years and so on, using rating agencies' historical default statistics, which are published annually. Note that the ratio is proportionately higher as the term increases. So in reality, annuitants probably face a 10% - 20% default probability in 30+ years, when they are most vulnerable.

If a default occurs, it is unlikely that there would be any recourse to corporate sponsors or trustees. It is worth bearing in mind that annuitants are locked in for the remainder of their lives. There is nothing they can do to reduce this risk. So the Government of the day will be caught between rescuing it, like it did for AIB/ICI collapse in the mid-80s, or doing nothing, like what the UK Government did with Equitable Life more recently.

Since an [Life company name] default in Ireland would have a proportionately greater impact in Ireland than Equitable Life collapse had in the UK, there would be huge political pressure for a rescue, even if the pain of it had to be spread by higher taxation. This would diminish the financial circumstances for all, including pensioners in receipt of Government pensions.

3. Should the State be more involved in the annuity market and, if so, in what way? Is it appropriate that the State takes on the additional risk involved in the form of a State Annuity Fund?

This question arises from a recommendation from The Pensions Board as to how the Funding Standard might address shortfalls particularly where pension schemes were being wound up. A State Annuity Fund (SAF) has the advantages and disadvantages as shown in 11.38 and 11.39.

In addition, it is likely to create more discrimination particularly if the proposals in 11.35 and 11.36 were actioned on their own. It would be difficult to see how it could work for DC schemes.

Furthermore, a SAF would presumably have embedded inflation and longevity risks, and expose the State to future costs, which may be unsustainable over the longer term. On the one hand, it could incentivize the State to aggressively curb State-induced inflationary pressures and create a disincentive to improve medical care.

I understand the Pensions Board concern about the Funding Standard, but when this is set against the broad picture of a globalised economy, their thinking is flawed. In a competitive economy, there will always be corporate failures leading to wind-ups of pension schemes and shortfalls. Trying to replicate a guaranteed public sector pension promise in the private sector for DB schemes is crazy. State involvement creates a culture of dependency and mediocrity, instead of an innovating, risk-taking, competitive and thriving economy.

4. What measures could be introduced to assist individuals to recognise annuity terms that they may find satisfactory? For example:

- **Are there steps which could be taken to better inform customers in relation to the comparative cost of annuities?**
- **Should providers be obliged to inform a prospective purchaser that their annuity can be bought from a different provider?**
- **Should measures be introduced to encourage people to look at alternatives to fixed single life annuities?**

The newly introduced trustee training obligations should address these questions in part. A www.itsyourmoney.ie equivalent website could show survey results, presumably from the Pension Board website.

However, the fact that the underwriters must protect the Revenue Commissioner's interest severely limits competition for this market.

5. How can the market for annuities be encouraged to diversify and become more competitive? Can measures be taken to encourage new entrants to enter the market?

The development of Variable Annuities (VA) with Guaranteed Minimum X Benefits, which have been a success in the US and Japan, should be encouraged by opening these up to both CD and DB schemes. Life Companies here have offered unit-trust linked annuities without great success, because of the lack of guarantees. VAs with such features can re-dress the balance and give Life Offices a competitive edge against ARFs offered by banks and others.

Ironically, such products have been manufactured in Ireland [company names] and are marketed into the UK, but are not offered here. In addition, [company name], based in Dublin underwrites GMXB features of VAs being underwritten by US Life Companies. So the expertise is already here in Ireland but is untapped because of the existing regulatory environment, which makes no provision for their use in Ireland.

6. In what ways can employers and trade unions be more proactive? Can more information be provided about annuities and the options available when employees are coming up to the point of retirement?

See answer to question 4 above

Submission 277

I believe the current anomaly between the pension options available to self-employed people and those available to employed people (PAYE workers) are unfair, unjust and probably unconstitutional.

Annuities are perceived as bad value for money. Most people would like to retain control over a significant portion of their pension fund. In particular, people wish to preserve access to the scale of funds which would be required to service accommodation in a private nursing home in their latter years.

I can see no reasons why the options available to self-employed people should not be extended to everyone. As happened when the rules for the self-employed changed, I believe investment in pensions would become more attractive for everyone if they knew they had options with their pension fund other than to purchase an annuity.

Submission 284

Briefly, my concern is that the introduction of taxation on ARFs via imputed distributions in the 2006 Finance Act is unfair (and unjust) on persons with my profile, viz:

I have been a PAYE employee (working continuously in Irish based companies) since 1964 and had to retire early in 2005 in order to recover from cancer. My pensionable service at retirement was 18 years!!!!

The short service arises from past inequities in Irish pension structure and Law - I worked for [company name] from 1964 to 1971 but could not transfer my pension to my next employer, [company name] with whom I worked from 1971 to 1977.

On [company name's] liquidation in 1977, I had to either withdraw my contributions or take a deferred pension - I could not transfer my pension to my next employer, [company name], where I worked from 1978 to 1984 when it went into receivership.

Again, I could not transfer my pension to my new employer, [company name] where I worked from 1984 to 1987.

In 1987, I joined [company name] and worked there until 2005 and there I gained my 18 years pensionable service.

I had been very aware of the weakness in my pension status and made AVC contributions whenever I could afford to. At retirement, I had an AVC fund of €182,000.

I was advised to put the AVC funds into ARFs where they would grow free of tax and I split the funds across 4 Fund managers.

I find it most unfair that the rules were changed on ARF taxation and I now pay tax on ''imputed distributions" while the funds are declining in value. It really does seem the Irish pension structure does not 'see' people like me.

I understand the tax is intended to prevent high net worth individuals from using ARF funds as a way of transferring large amounts of money through their estates tax free.

I do not understand why there is not a threshold so that people like me (and I'm sure I am not alone) do not have to face ongoing inequity.

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 = ¼ pension, 20 years contributions = ½ 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 291

I am very close to retirement so my submission is very much related to immediate concerns. I suggest the following:

1. DC Scheme members should not be forced to buy an annuity but should have the flexibility, as those in self employed pensions and PRSA members, to invest in AMRF's and ARF's. Safeguards could be implemented – an AMRF type arrangement for example to stop people cashing in their assets too early. I am against annuities as the benefits payable are only marginally above fixed interest rates and the capital is lost - to the profit of insurance companies. A DC member has had to bear the ups and downs of stock markets for many years so why should he and his estate have to surrender his capital in the latter years of his life. The DC member is not being treated on a par with the self employed and PRSA members – appears to be taken as someone less responsible
2. It should be possible to draw on the cash free lump sum gradually over a number of years – rather than as a once off "take it or leave it".
3. The contributory social welfare pension should be introduced from age 65 as opposed to the current age of 66 – so that if people are working up to 65 they could continue to work full time or part time and not have the disincentive of losing out on the pre retirement pension payable from 65 which is given to those not in paid employment.

4. The mandatory draw down from pension funds (2% / 3%) is a disincentive to continuing employment. Some people may wish to continue in some form of employment while deferring the immediate taking of a pension. By deferring draw downs from their pension fund in the early years they can better provide for possible later years. Some paid employment, combined with the Social Welfare pension and the more favourable tax position for those over 65 would provide adequately for some people in their initial senior years. I think the mandatory drawdown was introduced for the very wealthy with large pension funds – but it has the effect of hurting the person with a very modest / inadequate fund.

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 competed 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 **un**successful, 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.

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Pensions Coverage (PAYE Workers)

Current situation

Some employers provide company pensions, mostly on a defined contribution basis, however group pension coverage is on a voluntary basis. PRSA's (Personal Retirement Saving Account) while initially seen as a possible cure for pension coverage by making the products simple to understand and obliging employers to inform their staff about them in the absence of another group arrangement have done little but stimulate the AVC (Additional Voluntary Contributions) industry.

Why it doesn't work

Many firms do not provide pension arrangements to staff and have set up "shell" PRSA schemes to meet legislative obligations but these schemes sit empty. Many staff particularly in industries which have high staff turnover such as the retail/food/tourism industries are uninformed and not motivated to find out about pension provision. The "soft" approach taken with PRSA's simply didn't work.

Proposal going forward

Compulsory PRSA schemes for all staff not in a pension should be put in place. Employers should not have to contribute but should make available payroll deduction facilities as they are obliged to do at present if required. Employees should have 5% of their salary deducted at source and put in a PRSA, with the option that they can increase the contributions within their revenue maximums dependent on age. Every PAYE individual should have an obligation to help provide for their own retirement.
5% while not a huge amount will take some burden off the state when they come to retire.

Compulsory pensions do not have to be portrayed as a negative solution, more that they are empowering citizens to look after themselves better in retirement and it is more likely to increase awareness of pension provision if individuals see a deduction made from their salary and receive an annual statement of benefits. The very use of the word compulsory is unadvisable as it brings to mind negative emotions on the issue. I prefer the term Citizens pensions, as they would not be State pensions even though State bodies would enforce their collection. The emphasis on bringing the compulsory aspect in would be on citizens preparing for their own retirement. If the right language is used, I feel this could be viewed positively by the public/media as its key message is responsible citizens and responsible government, both planning for the future.

Pensions Coverage (Self Employed)

Current situation

Many self employed people do not take out pension arrangements. Every survey done shows a shortfall in self employed pension coverage.

The Problem

In my opinion part of the reason for low coverage is the nature of being self employed and that is living in uncertainty. Many self employed people do not want to lock away funds long term in case something unexpected happens to their business. Many opt to invest in a second property instead as they know that they can sell the property if needed to gain access to funds in case of an unexpected crisis.

Proposal going forward

Do nothing. Self employed people are by their very nature independent individuals who enjoy being their own boss and do not need to be cajoled into pension arrangements, if it suits their needs they will take one out. Many self employed people work after retirement age or sell their business to provide for their retirement. A shortfall in self employed pension contributors is not necessarily a problem as they have other assets for example their business to help provide for their retirement.

Taxation

Current situation

Tax relief given at marginal rate of tax, 20% and 41% respectively.

Why it doesn't work

In reality the system penalises the less well off in society. Why should someone earning €50,000 a year get 41% tax relief while those earning €20,000 a year only receive 20% tax relief? Those on lower wages should have just as much incentive to provide for their own retirement as those on higher wages.

Proposal going forward

Uniform 41% tax relief on all pension contributions made up to an income cap of €150,000. After €150,000 allow tax relief of 30%. This will make the system fairer to those on lower incomes while still giving those on higher incomes a decent but not excessive amount of tax relief on income over €150,000. Some might argue for a lower rate than 41%, like in the UK, however uniformity means fairness regardless of rate.

Pensions Coverage (Housewives)

Current situation

Very few housewives, even those with part time jobs have any type of pension provision other than possibly a spouse's pension on their husband's policy.

The problem

As housewives have no taxable income, they receive no tax relief and therefore have no incentive to start a pension. A PRSA (Personal Retirement Saving Account) could be taken out by a housewife but without tax relief, it's just a long term investment with no access to funds in the short/medium term.

Proposal going forward

Develop the concept of, "Married People's Pensions", that is. Make 50% spouses pensions compulsory for all married pension contributors and expand the tax relief available to married pension contributors to take into account that they are providing pension coverage for 2 people. This proposal does not have to be retro-active, it could take place on all new pensions taken out from some point in the future.

For example
Husband earns €50,000 a year and receives 41% tax relief on contributions at present. Under the above proposal, he would have to set up his pension with a 50% spouse's pension included. This in effect will lower his main pension but to make up for the shortfall allow 60% tax relief on the contributions encouraging him to put more in his pension within revenue age percentage limits. Where he may have only saved 10% of salary in his pension before, now there is a real incentive to maximise his contributions while at the same time providing pension coverage to his spouse.

Leaving Service Options for Group Pension Members

Current situation

Members of group pension schemes can take an annuity or a tax free lump sum and residual annuity at normal retirement age but do not have access to ARF/AMRF products unless they are a 5% director.

Why it doesn't work

Approved Retirement Funds (ARF) and Approved Minimum Retirement Funds (ARMF) are superior products being offered to the self employed and 5% directors. Most annuities only have a guaranteed period of 5 years after that the insurance company pockets any of the fund not used up in paying a pension. With ARF/AMRF products however, the fund remains the property of the individual at death and can be left to dependents. While there is a danger of the fund running out before death, this is a choice the contributor should be allowed make for themselves like the self employed.
As it stands there are ways to get around this restriction by transferring your fund to a PRSA etc. therefore this restriction should just be removed in the interests of the consumer.

Proposal going forward

Allow group pension members to avail of ARF/AMRF products if they wish.

Conclusion

Taken as a whole I believe these proposals will benefit all the stakeholders in the pensions industry;

- The public will benefit from a fairer tax relief system through uniform relief and in the long run a better retirement due to being compelled to be responsible and provide for some part of their retirement provision.
- While pension providers will have to invest resources to cope with the legislative changes proposed, this should be outweighed by the increased revenue they will generate through all the currently inactive “shell” PRSA schemes becoming active.
- Overall pension coverage will increase and the system will become fairer.