Irish Government Response to the European Commission Green Paper towards adequate, sustainable and safe European pension systems

15 November 2010

Irish Government response
to the European Commission Green Paper
towards adequate, sustainable and safe European pension systems[1]

1. Introduction

The Irish Government welcomes the European Commission's publication of its Green Paper towards adequate, sustainable and safe European pension systems (the Green Paper).

The acknowledgement, in the Green Paper, that pension policy is a matter for individual Member States is particularly welcome as this is central to any discussion of pension policy in the EU. While processes such as the Open Method of Co-ordination are a very useful way for Member States to learn from each other and for examples of best practice to be highlighted it is important to continue to recognise that there are very significant differences between the pension systems in each Member State.

In March 2010 the Irish Government published its National Pensions Framework (NPF) which sets out its plans for pension reform[2]. It encompasses all aspects of pensions, including social welfare pensions, private occupational pensions and public sector occupational pensions. The aim of the NPF is to deliver security, equity, choice and clarity for the individual, the employer and the State. It also aims to increase pension coverage, particularly among low to middle income groups and to ensure that State support for pensions is equitable and sustainable. The Irish Government's objectives in this area are very much in line with the overarching objectives set out in section 3.1 of the Green Paper.

The Green Paper reflects the issues and challenges which the NPF seeks to address and there are many elements common to both documents. These include issues such as encouraging older people to remain in employment, the importance of people having good information in relation to their pensions and being able to track pension benefits accrued in previous employments. However, there are some aspects of the Green Paper about which the Irish Government has concerns, for example the suggestion that perhaps a common solvency approach, based on the "Solvency II" Directive, should be applied across the EU. These issues are discussed in more detail in the following sections. Section 2 sets out our response to some of the themes which are raised in the Green Paper. Responses to each of the 14 questions posed by the Green Paper are set out in Section 3.

In developing this response to the Green Paper the Irish Government consulted with a number of organisations. Contributors included representatives of employers, trades unions, older people and the pensions industry. A list of the organisations which contributed to this process is set out at Appendix I. An outline of the issues raised during the process is included at Appendix II.

The Irish Government looks forward to continuing to working with other Member States and the Commission with regard to these very important issues.

[1] SEC(2010)830; Brussels, 7.7.2010; COM(2010)365 final
[2] A copy of the NPF is submitted in association with this document.

2. Response to some of the themes addressed in the Green Paper

2.1 Time in work and in retirement

The Irish Government agrees that it is of vital importance to strike an appropriate balance between time spent in work and in retirement. In that regard, the NPF provides for State pension age to be increased in Ireland. This will begin in 2014 with the removal of the State pension (transition), thereby increasing State pension age from 65 to 66 for all. State pension age will then be increased to 67 in 2021 and to 68 in 2028.

In addition, measures are being considered which would allow people to postpone receiving the State pension at State pension age so that they could receive a higher State pension or lump sum later. Consideration is also been given to allowing people who continue in work beyond State pension age to continue making social insurance contributions to build up their entitlement to a higher rate or full pension.

2.2 Possible employer insolvency

In relation to the possible insolvency of an employer (Green Paper, section 3.4.3) the Irish Government has introduced the Pensions Insolvency Payment Scheme (PIPS) for defined benefit pension schemes in deficit where the sponsoring employer is also insolvent. The purpose of PIPS is to give a better return to those defined benefit pension schemes which are in deficit where the employer has also become insolvent. This will help to safeguard the entitlements of existing pensioners and lessen the blow for those yet to retire.

The PIPS scheme works by the Government, through the National Treasury Management Agency (NTMA), making an investment facility available that links the return on the pension fund's investment to the 10 year rate on fully secured Government bonds. This provides a better return than might otherwise be the case for the pension fund in question. The scheme is being operated by the Department of Finance and involves a two stage application procedure involving certification by the Pensions Board and then the Minister for Finance. The scheme became operational on 1 February 2010 and it will operate on a pilot basis for three years, following which it will be reviewed.

2.3 Transparency, Information and Education

The Green Paper (section 3.4.4) discusses the importance of facilitating informed decisions in relation to pension matters. The importance of people having good information in order to make informed decisions in relation to pensions is highlighted in the NPF as is the need for simplification of the pensions system. The NPF includes a commitment to keep the information provided to pension scheme members under review and enhanced as necessary.

The Irish Government is also committed to reviewing the range of pension vehicles available with a view to rationalising provision in this area and to introducing regulations to increase the transparency of pension charges. There is a commitment to streamline existing arrangements for the drawdown of retirement benefits. The importance of financial education is also recognised in the NPF.

2.4 Women and pensions

The Green Paper raises some concerns in relation to people, mostly women, who have breaks in their careers due to taking time out of the workforce to care for children or people with an illness or disability and the implications this can have on their eligibility for pension. There is already provision within the Irish State pension system to provide for credited contributions when people are in receipt of a carer's or disability type payment. The NPF provides for this provision to be extended to homemakers for the purpose of calculating eligibility for State pension (contributory). There are already provisions in place to provide for up to 20 years spent homemaking to be "disregarded" in determining eligibility for State pension (contributory) but the new credits based system will be more transparent and beneficial.

Women are one of the priority groups targeted by the National Pensions Awareness Campaigns (NPAC) in Ireland in recent years. Supplementary pension coverage remains relatively low for a number of groups in particular – women, younger workers, and those employed in the hospitality industry. In order to improve coverage for these groups and those on low to middle incomes in particular, the Irish Government has provided for the introduction of a new auto-enrolment pension scheme which will see certain employees automatically enrolled into a pension scheme which will include contributions from the employee, employer and the State. Contributions will be paid on a band of earnings which will be designed to target low to middle income earners. Employees will be allowed to opt out but they will automatically be re-enrolled every two years. It is intended that this scheme will be introduced in 2014, depending on the prevailing economic conditions.

2.5 Tracing pension entitlements

As discussed in the Green Paper, is it very important that people can track down pension benefits accrued in different employments. For that reason, the NPF commits the Irish Government to putting a tracing service in place to facilitate the tracing of pension rights by former employees and scheme trustees. Consideration will also be given to the establishment of a State-managed fund into which untraceable accounts would be deposited.

3. Responses to the questions posed in the Green Paper

(1) How can the EU support Member States' efforts to strengthen the adequacy of pension systems? Should the EU seek to define better what an adequate retirement income might entail?

Adequacy is a key issue for pensioners. There is evidence that in Ireland, many pension scheme contributors are under-saving for retirement. As a result, one of the principles underlying the NPF is that "supplementary pension coverage and contributions must be increased to improve adequacy of incomes in retirement." As outlined in Section 2.4 above, in order to improve coverage for those on low to middle incomes in particular, the Irish Government has provided for the introduction of a new auto-enrolment pension scheme which will see certain employees automatically enrolled into a pension scheme which will include contributions from the employee, employer and the State. Contributions will be paid on a band of earnings which will be designed to target low to middle income earners. Employees will be allowed to opt out but they will automatically be re-enrolled every two years. It is intended that this scheme will be introduced in 2014, depending on the prevailing economic conditions.

In Ireland, as in other Member States, the State pension is the bedrock of the pension system. In that regard the Irish Government is committed to seeking to ensure that the level of the State pension is maintained at 35% of average weekly earnings.

In considering the issue of adequacy, the Green Paper (section 3.1) states: "*Broadening the sources of retirement income beyond pensions may need to be considered*." Depending on what this is intended to cover there could be policy implications associated with such an approach which would need to be considered in detail.

It is not clear what role the EU could play in relation to strengthening the adequacy of pension systems. However, it can play a role in highlighting examples of best practice in this regard through continued application of the Open Method of Co-ordination.

It is considered that it would be inappropriate for the EU to seek to define an adequate retirement income for all Member States. Certainly there are a number of options which could be applied such as setting a target linked to previous earnings, or average industrial earnings. However, given the significant differences that exist across the EU, not just in pension schemes and retirement ages, but also in tax systems, benefit systems, cost of living etc. it would not be possible to define an adequate retirement income which would be equally applicable in all Member States.

(2) Is the existing pension framework at the EU level sufficient to ensure sustainable public finances?

The Stability and Growth Pact provides the framework for monitoring the sustainability of public finances. As set out in the Green Paper, reforms that enhance the EU's growth potential are particularly important. Pensions are just one element of the public finances which are under pressure at present. However, the sustainability of pension systems, both public and private, is one of the key drivers of reform and this is recognised in the Green Paper.

In Ireland, expenditure on public pensions (both the State pension and public sector occupational pensions) is set to increase significantly over the next number of years so the Government is acutely aware of the sustainability challenge. Many of the reforms set out in the NPF are designed to address these sustainability issues. For example, the NPF presents a new pension scheme for new entrants to the public service. One of the main elements of this new scheme is that it will be based on a "career average" rather than the current final salary approach. The NPF also provides for the tax relief on pension contributions to be standardised at 33% and includes a number of changes to the qualifying conditions for State pension (including increasing State pension age) to make that more sustainable[3].

[3] Currently, tax relief is applied at the standard and higher rates of 20 and 41 percent.

(3) How can higher effective retirement ages best be achieved and how could increases in pensionable ages contribute? Should automatic adjustment mechanisms related to demographic changes be introduced in pension systems in order to balance the time spent in work and in retirement? What role could the EU level play in this regard?

The continued participation of older people in the labour market should be facilitated and encouraged in order to meet the needs of an ageing society. Indeed, many workers want to continue working beyond “normal” retirement age.

Higher effective retirement ages can be achieved through increased training opportunities for older people as well as more flexible work practices such as the option to switch to part-time work at a certain age. A key objective of the Irish Government (as stated in the NPF) is to maximise the opportunities for older people to participate in education, employment and other aspects of economic and social life. Linkages between pension policy, employment policy, equality, education and training are important in this regard.

The State pension age also has a role to play as do the qualifying conditions associated with such pensions. A number of Member States, including Ireland, are already introducing measures to increase State pension age.

As set out in the NPF, in Ireland the State pension (transition) will be abolished in 2014 and this will standardise State pension age at 66 for all. This measure will also remove the retirement condition which had been widely criticized as a barrier to older people remaining in employment. Thereafter, State pension age will increase to 67 in 2021 and to 68 in 2028. In addition, arrangements to enable people to postpone receipt of State pension and receive an actuarially increased pension at a later date are being examined. In addition, measures are being considered which would allow people with (social insurance) contribution shortfalls at pension age to continue to make contributions beyond State pension age if they continue in employment or self-employment.

It is appropriate for the EU to set employment targets for older workers, as in the Lisbon Agenda. However, given that each Member State has a different effective retirement age it is not considered that the EU can be prescriptive in this regard. Indeed, Ireland already has a higher effective retirement age than many other Member States. In 2006 the average age of exit from the labour force in the EU25 was 61.2 while in Ireland it was 64.1.

Over the past 10 years, employment rates for older workers in Ireland increased by approximately 10%. It is acknowledged however, that in the current downturn, it may be difficult for employment rates for older workers to increase in the short term.

Automatic adjustment mechanisms which would see pension age vary with demographic changes are not considered to be the most effective way in which to increase retirement age. This is due to the time lag in the availability of the necessary data and the unwelcome uncertainty such a measure would cause for pension scheme measures.

See also response to Q4 below.

(4) How can the implementation of the Europe 2020 strategy be used to promote longer employment, its benefits to business and to address age discrimination in the labour market?

The Europe 2020 strategy recognises the impact of demographic ageing on welfare systems. It also draws attention to the fact that employment rates amongst older workers (those age 55-64) in the EU are lower (at 46%) than in the USA and Japan (at 62%). In addition it explicitly states that achieving the headline target of 75% of those aged 20-64 being employed should include greater involvement of older workers.

The strategy recognises that each Member State is different and that a "one-size-fits-all" approach is not appropriate but stresses that Member States need to promote active ageing policies. Anti-discrimination legislation (which covers discrimination on the grounds of age) is already in place but the development of such active aging policies can be used to reinforce the positive aspects of employing older workers (such as the retention of experience and knowledge) and the unacceptability of age discrimination. Recognition of the social and economic contribution of older people will help to combat discrimination. Avoiding terminology which presents increased life expectancy and associated population ageing in negative terms is also important in this regard.

There is scope within the flagship initiative "An agenda for new skills and jobs" to promote increased labour force participation of older people as it refers to empowering people "*by developing their skills throughout the lifecycle*." Such continued development of skills is a key way of encouraging older workers to remain in employment.

(5) In which way should the IORP Directive be amended to improve the conditions for cross-border activity?

The Irish Government supports the intention to enhance cross-border activity in the pensions arena.

In order to support the development of cross-border pension funds, the Irish Government established a Pension Funds Working Group under the auspices of the IFSC Clearing House Group to take up the work of the Pan European Pensions Task Force which had been in operation since 2003. The Working Group is examining trends in European pensions with a view to making cross-border pensions activity a reality, and to ensure that Ireland is ready to play its part in the developing cross-border pensions market.

To support and encourage the development of cross-border pensions, the working group carried out a research project over 2009 that examined the tax, social and labour law requirements in the main EU countries as they apply to the establishment and maintenance of an Irish domiciled cross-border pension plan with members in these countries. This research provided an insight into the practical difficulties associated with current cross-border pension activity which centred on difficulties satisfying and accessing social and labour laws.

Further research and analysis of the barriers or potential barriers to such activity and how they might be overcome will also be helpful. The Irish Government looks forward to the opportunity to contribute to the review of the IORPS Directive in the coming year.

(6) What should be the scope of schemes covered by EU level action on removing obstacles for mobility? & (7) Should the EU look again at the issue of transfers or would minimum standards on acquisition and preservation plus a tracking service for all types of pension rights be a better solution?

Ireland provides well defined preservation protections for employees. Pension rights vest relatively quickly and can be preserved after two years and employees leaving a scheme have a right to receive a transfer value.

It will become increasingly common for prospective retirees to have to trace their accrued pension entitlements from multiple employers. This can be a difficult task when all of the person's employment was in one country and even more difficult where a number of Member States are involved. It is not clear to what extent this is a barrier to mobility in practice but it is a potential barrier which it is possible to address.

Therefore, an EU wide pension tracing service would be a welcome development. However, in advance of such a system being introduced it would probably be necessary for tracking systems to be in place within all Member States. To that end, in Ireland the NPF commits the Government to the development of mechanisms to put a tracing service in place for both scheme trustees and individuals. Work on the development of such a system is ongoing.

(8) Does current EU legislation need reviewing to ensure a consistent regulation and supervision of funded (i.e. backed by a fund of assets) pension schemes and products? If so, which elements?

From the Irish Government's perspective consistency of regulation and supervision across the EU is not a major concern and we would not call for the current EU legislation to be reviewed. However, if such a review were to be undertaken, it is likely to be of interest, particularly from the perspective of cross-border activity (see response to question 5 above). Also while the question relates to consistency, the text and discussion in the Green Paper is more concerned with adequacy.

The possible implications of section 3.4.1 of the Green Paper which suggests that the definition of "pension" might be restricted raise concerns in the Irish context. Specifically the fourth bullet point states: "*It is not always clear what differentiates general saving from pensions. This raises the question whether the label 'pension' should not be restricted to a product that has certain features such as security and rules restricting access including a payout design which incorporates a regular stream of payments in retirement*."

There are a number of key differences between pensions and other savings products. These are set out in the response to Q.10 below.

The Irish pension system is currently being reformed. This includes reforms in relation to defined contribution schemes and the options available to people retiring from such schemes. We are currently working to standardise the access to Approved Retirement Funds (these are funds into which people, subject to certain conditions, can invest the proceeds of their pension fund when they retire) and it is conceivable that, when these reforms have been introduced, defined contribution schemes in Ireland would not satisfy the proposed new definition of pension. This would have significant implications for the Irish pension system and so further consideration of this issue is required.

(9) How could European regulation or a code of good practice help Member States achieve a better balance for pension savers and pension providers between risks, security and affordability?

Achieving an appropriate balance between risks, security and affordability is an extremely difficult task. Many pension schemes in Ireland have suffered greatly during the current crisis and the difficulties in the equity market have had a particular impact. This has further highlighted the need for de-risking, appropriate life-styling arrangements and good default options.

Given the diversity of systems across Member States a one-size-fits all approach to risk, security and affordability may not be possible. It is considered that a set of guiding principles in relation to, for example, life-styling would be more appropriate than additional regulation in this area. (See also response to Q.13 below). In addition, it may be possible to ensure that a common language or terminology is used as between various financial products to ensure that pension savers do not encounter language that is only specifically used by pension providers.

Good information is central to ensuring people understand the risks to which they may be exposed so that they can make appropriate choices.

(10) What should an equivalent solvency regime for pension funds look like?

The question implies that there should be an equivalent solvency regime for pensions. Given the nature of pension provision in Member States the Irish Government is not convinced that that a "one-size-fits-all" approach to solvency is appropriate. The application of any solvency regime would need to take account of the different approaches to pension provision across countries.

The Green Paper questions whether the provisions of the "Solvency II" Directive should be applied to pensions and suggests that it would be a good starting point for the reform solvency requirements.

The Green Paper seems to view occupational pension schemes as no different to any other financial product. This is not the case – there are a number of significant differences between the two:

- Unlike financial products, pensions are not for profit ventures. (The "Solvency II" model is predicated on a for profit operation, where the marginal cost of excess capital can be justified by the expected profit on the operation.)
- The social context in which pension schemes operate is important – they are part of the employee's salary package.
- There are governance structures in place (such as trustees) which mark pension products out from regular financial or investment products.

In the event of a reform of solvency requirements a "Solvency II" approach would be too high a starting point. Such a change would have significant implications for Ireland where pension schemes operate on a voluntary basis. This is central in the consideration of solvency requirements. While it is essential that solvency requirements are realistic it is likely that scheme sponsors will avoid situations where the solvency requirements are too onerous.

A very cautious approach would be required if applying a "Solvency II" type regime to Irish pensions in order to avoid closure of defined pension schemes. "Solvency II" is designed to ensure that there is a very low likelihood that customers of financial institutions (which are commercial operations) will suffer losses as a result of institutional failure. There is a concern that, if a similar regime were introduced for pensions, Irish schemes would be obliged to maintain considerably higher reserves (30% to 60%) than they do under the current funding standard arrangements. Where a scheme failed to meet the solvency standard, immediate action would be taken, unlike the current approach which allows recovery periods of up to 10 years. The cost of calculating "Solvency II" capital would be considerably higher than current arrangements, unless a simplified regime was introduced.

It is important to note too that the solvency regime is a good deal wider than the specification of technical reserves and includes aspects such as scheme governance and funding.

(11) Should the protection provided by EU legislation in the case of the insolvency of pension sponsoring employers be enhanced and if so how?

It is important to remember that Irish occupational pension schemes are voluntary arrangements. While it is essential that scheme members are protected as far as possible, requirements on sponsoring employers which are deemed, by them, to be too onerous would likely lead to scheme closures and this is a situation which should be avoided. Given the variety of pension structures across the EU it is considered that this is a matter best dealt with at Member State level.

As outlined in Section 2.2 above, in relation to the possible insolvency of an employer the Irish Government has introduced PIPS for defined benefit schemes in deficit where the sponsoring employer is also insolvent. The purpose of PIPS is to give a better return to those defined benefit pension funds which are in deficit where the employer has also become insolvent. This will help to safeguard the entitlements of existing pensioners and lessen the blow for those yet to retire.

The PIPS scheme works by the Government, through the NTMA, making an investment facility available that links the return on the pension fund's investment to the 10 year rate on fully secured Government bonds. This provides a better return than might otherwise be the case for the pension fund in question. The scheme is being operated by the Department of Finance and involves a two stage application procedure involving certification by the Pensions Board and then the Minister for Finance. The scheme became operational on 1 February 2010 and it will operate on a pilot basis for three years, following which it will be reviewed.

(12) Is there a case for modernising the current minimum information disclosure requirements for pension products (e.g. in terms of comparability, standardisation and clarity)?

Yes. There is a case for modernising current minimum information disclosure requirements. Having good information is essential in order for people to understand their pensions, to make appropriate choices, and to understand their expected benefits. Current arrangements mean that people are provided with a lot of information but often this information is very technical and so it can be difficult for people to understand and may therefore be of little value. Modernising information disclosure must have regard, not just to the amount of information provided, but also the type of information and the way it is presented. Better, rather than more, information is what is required.

In 2009 the Irish Government amended the disclosure requirements to enhance the level of information in annual benefit statements. As a result, since July 2009 such statements must include, for example, a statement of reasonable projection, and a statement as to whether the State pension (contributory) is integrated with the occupational pension scheme in question.

Furthermore, the NPF includes a commitment to review and enhance these requirements to take account of the changes to future pension provision in Ireland which are provided for in that document, such as the introduction of an auto-enrolment scheme.

Given the variety of pension schemes that exist across the EU it is not considered that a standard approach to disclosure would be appropriate, or possible. However, the Irish Government looks forward to the opportunity to contribute to the review of the IORP Directive in the coming year in relation to this issue.

There is also an important role for financial education here in order to assist people in understanding the information provided to them as well as the implications of the choices they make in relation to pension provision.

(13) Should the EU develop a common approach for default options about participation and investment choice?

The design of the default option is a key issue for defined contribution schemes – particularly as so many people avail of this option. The level of risk must be appropriate and charges and fees must be transparent. The provision of good information in relation to the default option is also essential.

It is considered that this is an issue best left to Member States. However, a set of EU principles on which default options should be based could be helpful in the design of such options. This could be monitored through the OMC.

(14) Should the policy coordination framework at EU level be strengthened? If so, which elements need strengthening in order to improve the design and implementation of pension policy through an integrated approach? Would the creation of a platform for monitoring all aspects of pension policy in an integrated manner be part of the way forward?

The economic significance of pension savings in many EU states and the growing policy attention to financial stability issues at EU level (reflected in the establishment of the new EU level supervisory authorities and the European Systemic Risk Board) will inevitably lead to demands for more and better information on pensions. Such additional information will be of great benefit in monitoring pension systems across the EU. However, it is important to be aware that proposals of this type could place a significant administrative burden as well as extra costs on pension schemes.

The OMC works well. It has proved to be a useful way to highlight best practice and for Member States to learn from each other. There is already a platform for integrated monitoring of pensions policy through the SPC and the EPC. It is not considered that any additional platforms are required but Member States and the Commission should continue to work together to strengthen the existing platforms.

ENDS

Appendix 1

Organisations that participated in the consultation process

Age Action Ireland

Association of Pension Lawyers in Ireland

Irish Association of Investment Managers

Irish Association of Older People

Irish Association of Pension Funds

Irish Business & Employers Confederation

Irish Congress of Trades Unions

Irish Congress of Trades Unions Retired Workers Committee

IFSC Clearing House Group - Pension Funds Working Group

Irish Institute of Pensions Management

Irish Insurance Federation

Irish Senior Citizens Parliament

Professional Insurance Brokers Association

Society of Actuaries in Ireland

TASC – Think Tank for Action on Social Change

Appendix II

Outline of the issues raised during the Irish Government consultation process

1. Introduction

In formulating its response to the European Commission *Green Paper towards adequate, sustainable and safe European pension systems* (the Green Paper) the Irish Government conducted a consultation process which involved a number of meetings, with some organisations making written submissions. In total 15 organisations contributed to the process and these included representatives of older people; trades unions; employers; and the pensions industry (a list of the contributors is included at Appendix I).

The purpose of this consultation process was to provide these stakeholders with an opportunity to submit their views to the Irish Government in relation to the Green Paper in general and the 14 questions posed therein in particular.

Many of the organisations who participated in the consultation process are affiliated to European level umbrella groups and have been involved in formulating the submissions made by those organisations.

The Irish Government response was informed by the views expressed during the consultation process. An outline of the issues raised during the consultation process is set out in the following sections.

2. General Comments in relation to the Green Paper

In addition to the specific responses to the questions posed in the Green Paper, which are detailed in the following sections, some general comments were also raised during the consultation process. Some of these are as follows:

- The Green Paper is a welcome addition to the pensions debate.
- Pension policy should remain a matter for Member States to determine although there is a role for the EU, e.g., in terms of monitoring.
- There is as much concern with the internal market as with social policy throughout the Green Paper.
- More detailed discussion of care and labour market issues would be helpful in the pensions debate.
- Some of the discussion in the Green Paper fails to acknowledge the differences between pensions and other financial products.
- The emphasis on increasing retirement age could mean that the Green Paper should be seen as an EU-wide retrenchment measure.
- The Green Paper seems to favour a defined contribution approach where the risk is borne by the individual rather than the employer.
- The basis for some of the conclusions in the Green Paper is not always clear and projections should be accompanied by “health warnings”.
- Issues in relation to pensions mobility seemed to be over emphasised in the Green Paper.

3. Pension Adequacy (Q1)

There was general agreement that there would be enormous difficulties in attempting to define "adequate retirement income" across the EU given the range of pension and welfare systems that exist as well as the different tax and health systems and different standards and costs of living. It was therefore felt that a one-size-fits-all approach would be unlikely to work in relation to the issue of pension adequacy. Some contributors suggested that a target such as 50% of post retirement income might be appropriate.

One of the core problems highlighted is that people are not contributing enough to their pension fund or beginning to make their pension contributions early enough. Therefore, there is a need to educate young people in relation to the idea of deferred income. It was suggested that the EU could support actions which would incentivise people to take greater responsibility for their own pension provision and increase adequacy. Examples of such actions cited included automatically enrolling people into pension schemes; mandatory (tax relieved) contributions; simplification of pension communications; education & information campaigns about the importance of saving for retirement, enhancing risk management and consumer protection.

Some contributors stressed that pensions are not just about keeping people out of poverty. They considered that the State pension should be adequate for retirement with people being able to top this up with additional private pension provision if that is their wish.

Some contributors stated that funding problems need to be addressed in order for adequacy to be achieved. In that regard some considered that there is a need for increased regulation in relation to investment strategy and risk management. Some contributors mentioned that adequacy is only possible if the pension system is sustainable.

One or two contributors suggested that the EU could help to develop a better definition of adequacy by linking income with housing, education/training; and social participation. One contributor suggested that "income to live with dignity" would be a better term than "adequacy" as it encompasses more than just the economic facets of life. With regard to income, one contributor suggested that a more refined approach should be adopted by looking at different groups of pensioners such as those with a full employment record and vulnerable pensioners such as those with atypical employment records. There was also a suggestion that Member States could look to the EU for examples of best practice in this regard.

There was some discussion in relation to how pensions fit into the provision of supports (including long term care) in the context of people having longer retirements. The need for appropriate housing and supports was raised and it was suggested that perhaps the EU could provide markers and standards in relation to these issues.

Some issues specifically related to the Irish pension scheme were also raised. There were some calls for the State pension to be increased and paid as a universal payment. Given the recent underperformance of Irish private pension schemes, some contributors expressed a preference for an alternative system whereby people would contribute to a system managed by the State. Some contributors mentioned that in some instances people have to purchase annuities at bad times, i.e., when they are particularly expensive – this is a problem which reduces their retirement income.

4. Sustainability (Q2)

It was not clear to what extent the current pension framework could ensure sustainable public finances or whether it could be expected to do so given the range of factors which impact on the sustainability of the public finances. So, the contributions here focussed on the sustainability of pensions systems and the associated impacts on the public finances. It was considered that differences between Member States would have to be a factor in any discussion of sustainability.

A number of contributors expressed disagreement with the Green Paper thesis that adequacy and sustainability are two sides of the same coin. Some contributions referenced the difficulty of finding a balance between adequacy and affordability and considered that there is a need for people to save more and to build on what is already in place.

The issue of public pensions (both State pensions and public sector occupational pensions) was raised by many of the contributors. In particular, there was criticism of the fact that, in Ireland and some other Member States, such pensions are not pre-funded but rather paid on a pay-as-you go basis. The existence of the National Pensions Reserve Fund and the Social Insurance Fund was acknowledged in this regard but some contributors considered that these did not go far enough. Several contributors criticised the design and cost of public sector pensions as being unsustainable.

Reducing unemployment levels was cited by some as a key factor not just in relation to improving the public finances but also with regard to increasing the sustainability of pension systems.

The role of the taxation system was raised in a number of submissions on this issue although there were conflicting views. Some considered that a reduction in the tax relief available on pension contributions in an effort to enhance the sustainability of public finances would be detrimental to the sustainability of the pension system as it would reduce the level of pension savings. Others criticised the level of tax forgone in this regard and suggested that those funds might be more effective if allocated to a universal State pension.

5. Retirement Age (Q3 and Q4)

There was a general consensus that pension/retirement age should continue to be a matter for Member States to determine.

It was noted that the retirement ages issue is less challenging in Ireland that in many other Member States at present.

Most contributors acknowledged the need for a better balance between time spent in work while noting that the Irish Government (through the National Pensions Framework) is already making significant reforms in this regard which will see State pension age in Ireland increase to 67 in 2021 and to 68 in 2028. However, some contributors were concerned about older people being forced to remain in employment longer then they wished, particularly people engaged in manual work. Concerns in relation to the impact on the job opportunities available to younger workers were raised by one contributor.

Several contributors emphasised the need to have supports such as vocational guidance and training supports in place for older people if they are to remain in employment longer. Issues in relation to flexibility in the workplace (such as in relation to working hours); taxation and eligibility for other benefits were also raised in this context. It was also suggested that greater linkages are needed between employment policy, equality, education and training. Constant technological developments were also referenced by some as certain of these developments can facilitate people to remain in employment for longer. Legislative prohibition of age discrimination was also cited as an important issue in several of the contributions.

Some contributors referred specifically to the idea of adjustment mechanisms related to demographic changes and considered that while possible in theory they would be likely to cause problems in practice. In particular, it was felt that such a measure would create unwelcome uncertainty for pension scheme members.

It was recognised that age is mentioned in the preamble to the Europe 2020 Strategy but some considered that it was presented in a negative way. There were calls for moving away from using language which presents ageing in a negative light –as a burden and recognising ageing as an opportunity. One contributor suggested that recognising the skills people have when they retire and welcoming these back in to the economy is one way in which the Europe 2020 Strategy could be used to promote longer employment and its benefits to business. Another suggested that the initiative "*An agenda for new skills and jobs*" could suggest the use of tax incentives to encourage people to remain in work longer.

6. Cross border pensions (Q5)

Several contributors noted the low take up of pan-European pension arrangements. Barriers cited included the variety of tax, social and labour laws across the EU although it was acknowledged that these are matters within the competency of Member States. There can also be difficulties in accessing the required information which can cause delays. Changes suggested in this regard included standardising the format of the information provided; and making details of the applicable laws available to the potential scheme earlier in the notification process. The costs associated with pan-European schemes can also be prohibitive for employers. The Minimum Funding Standard in Ireland (and its equivalent in other Member States) was also cited as a barrier as some contributors stated that it would not be possible for such schemes to be fully funded at all times.

Some contributors expressed a concern that amendment of the IORP Directive at this point in time would create uncertainty which would hinder the development of cross-border activity. One suggested alternative was for the Commission to provide additional guidance in relation to implementation of the Directive. However, one of the contributors would welcome amendments to the Directive which would codify the extent to which IORP should be required to ring-fence assets under cross border schemes; require the governing provisions to be modified to take account of local social and labour law requirements following authorisation by the competent authority; and require greater interaction between the regulator in the home Member State and the tax authorities with respect to authorisation and compliance.

The idea of a "28th regime" as presented in the Monti report was referenced by some contributors who suggested that it was worthy of further consideration and analysis[4]. It seems that were such a regime to be introduced, one based on EU regulations for cross-border schemes which left domestic schemes to operate within existing arrangements would probably be preferable to one based on a compromise or harmonisation of existing systems.

Some contributors expressed a desire for Ireland to be developed as a base for European/cross border schemes.

7. Pension mobility (Q6 and Q7)

There was strong support for increased mobility of pensions within the EU. While increased measures to enhance the transfer of accrued pension rights between countries would be welcome by some, others considered that any additional regulation would be unwelcome at this time. However, there was a general feeling that the issue of pension mobility was over emphasised in the Green Paper. Most contributors stated that in their experience restricted mobility is not a major issue in practice. The introduction of a tracing system was generally considered to be a good idea.

[4] Monti, M (2010) *A New Strategy for the Single Market: At the service of Europe's economy and society*, Report to the President of the European Commission, p.58

8. Transparency, awareness and information (Q8 and Q9)

One contributor considered that there is a need to review what exactly is covered by EU pension arrangements. It was considered that in some countries there is a need to have a clearer division between first and second pillar arrangements and to further differentiate between pensions and general savings products. There were differing views as to whether or not further regulation is required in relation to this issue.

The importance of financial education was stressed with suggestions that it should be incorporated into the formal education system in Ireland.

In relation to the auto-enrolment scheme which is due to be introduced in Ireland (in 2014 depending on the prevailing economic conditions) some contributions advised that there is a need for the scheme to be designed in such a way so as to minimise complexity and keep the operation and enforcement costs to a minimum.

There were some suggestions that the development of a new pension model which would provide an alternative to traditional defined benefit and defined contribution pension schemes would be warranted.

9. Solvency regime for pension funds (Q10)

The general view was that a common solvency standard would not be appropriate, particularly given the differing legal structures in which pension schemes operate across the EU. One contributor suggested that rather than imposing the same requirements on all Member States the Commission should focus on the criteria operating in each of Member States and examine each Member State's performance *viz a vis* its own regulations.

The vast majority of contributions on this issue considered that were a common approach to be adopted the "Solvency II" requirements would be too high a starting point. In the discussion of this issue attention was drawn to the many differences between pensions and other financial or investment products. These features include the voluntary nature of pension arrangements in Ireland; the fact that pension arrangements are part of an employee's remuneration package; the governance arrangements associated with pension schemes (for example trustee arrangements); and the fact that pensions operate on a not-for-profit basis. For these reasons it was considered that a different solvency approach is appropriate for pensions. Several contributors considered that the Green Paper did not reflect these differences in its analysis. In particular, a "Solvency II" approach would cause huge difficulties for defined benefit schemes in Ireland many of which are already experiencing significant funding difficulties and would likely lead to scheme closures.

One contributor suggested that the risk management elements of the "Solvency II" Directive could legitimately be applied to pensions.

10. Risk of employer insolvency (Q11)

Some contributors would welcome enhancements in this regard. Others considered that while such enhancements may be desirable it would not be appropriate for them to be introduced at present. This was due to a concern that additional regulation, particularly in this regard, would put too much pressure on pension schemes and may lead to scheme closures.

11. Facilitating informed decisions & suggestion of default option (Q12 and Q13)

All contributors recognised the need for pension scheme members to have appropriate information available to them. However, this did not mean that they felt the people should receive more information under disclosure requirements but rather that the information they do receive should be more relevant and easier to understand. It was considered that much of the information provided at present is quite technical and therefore possibly of little value of the recipient. Some suggested information items for inclusion in a revised disclosure regime included: fund performance trends; an explanation of the likely estimated income in terms of its purchasing power in today's terms; and the impact of charges on yield.

The importance of having a well designed default option was referenced in several contributions. Concerns were expressed in relation to the idea of a common default option across the EU as it was felt that this was an issue better addressed at Member State level. One suggestion was that the Commission could suggest (to pension regulators) that schemes should be encouraged to adopt default options which include some element of lifestyling.

12. Governance of pension policy at EU level (Q14)

There was general agreement that pensions policy should remain a matter for Member States and that a harmonised system would be inappropriate. However, some contributors suggested that the EU could play role in encouraging Member States to increase retirement age (it was noted that several Member States are already doing this).

The OMC was generally considered to be a useful tool for benchmarking Member States against common objectives and for highlighting best practice. The work of the SPC and EPC in this area was also highlighted. However, there were some suggestions that it could be strengthened and that co-ordination could be improved over time. It was suggested that a framework for greater interaction between policy makers at EU level and pension providers in individual Member States is what is missing from current structures. Other roles that were suggested for the EU in one or two contributions include:

- Evaluating public pension systems, particularly where they are un-funded**;**
- The development of an EU pension design;
- The development of policy initiatives to keep retired workers involved in the workplace so that their knowledge and skills are not lost;

- An annual audit of Member States pension systems;
- Encouraging Member States to engage in active consultation on EU consultation proposals; and
- The development of a new indicator to replace old age dependency ratios.

ENDS