Green Paper Consultation Responses

Employer's contribution

Submission 172

Aware of the Government's concern to encourage employees to take out pension, I think that employers should be obliged to make a minimum pension contribution in the same way as employer's PRSI is an inbuilt cost of employing staff. Likewise, a minimum employee contribution should be standard. Where the state provides funding to organisations beyond the public service realm, the cost of the employers contribution to pension should be an inbuilt part of the grant.

I look forward to seeing the green paper when published.

Submission 186

Just looking at your website about pensions. I think the first thing you should do about pensions is to make employers contribute to employees' pensions. I am working 32 years in my job and my employer will not contribute to my pension. I am just paying money in every week myself. It should be made compulsory that employers contribute to employees' pensions

Submission 230

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

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

- There is no pension scheme currently in place
- Some employees are excluded from the existing pension scheme
- The waiting period for membership of the existing scheme is more than 6 months
- The current pension scheme rules do not allow employees to make AVCs

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

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

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

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

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

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

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

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

Submission 232

Recommendations to the Green Paper on Pensions

Cllr. Jimmy Mc Garry

1) Registered Employment agreement (construction Industry Pensions assurance and sick pay) 1946. Forces all employees to contribute €21.49 per week and their employer to contribute €29.78 total payable €51.27 (2007 rates) fixed rate no matter how much earned.

- **Pensions board comment on this point** : Employers who provide an occupational pension scheme do so on a ***voluntary basis***. There is no legal requirement under the pensions act 1990 as amended "The Act" for employers to provide an occupational pension scheme for employees. Since September 2003 employers do have an obligation to provide employees with access to some form of pension arrangement (either an occupational scheme or a PRSA). But they do so, on a ***Voluntary basis.***

- **Pensions Ombudsman Mr. Paul Kenny's comment on this point:** Several industry wide agreements are in force which are "***voluntary***" to the extent that they represent an agreed and negotiated arrangement between employers & employees and unions in the particular industry.
- **Recommendation:** Amend agreement so that contributions are voluntary, like most private pensions or remove fixed rate and apply on a pro rata basis that is a percentage of wage earned.

2) Temporary part- time unskilled workers, working one morning a week, earning for example €100 per week, are forced to pay the same fixed rate (€21.49 from employee and €29.78 from employer, total due per week €51.27), as a fully skilled permanent worker earning for example €2000 per week.

- **Pensions Ombudsman Mr. Paul Kenny's comment on this point:** This is definitely a flaw in the system. The REA provides only for the agreed national average pay for operatives which is 7% of a nationally agreed figure something like €767 per week.
- **Recommendation:** Amend agreement so that contributions are voluntary, like most private pensions or remove the fixed rate and apply rate on a pro rata basis that is a percentage of wage earned.

3) Promulgation of the act. (i.e. notifying persons concerned of their obligation). Most small self employed persons are not aware of the act. When you register with revenue you are immediately informed of your tax obligations. Unfortunately most small self employed persons only find out about their obligation to the REA when a CIMA (Construction Industry Monitoring Agency) agent approaches them on site. At this stage they have probably been operating for a couple of years without any knowledge of their obligation. Therefore they would not have implemented the charge in their invoices. They are then subject to pay all arrears, which have put some small self employed persons out of business as the money for the pension was never implemented into their invoices.

- **Pensions Ombudsman Mr. Paul Kenny's comment on this point:** The legal principle here is that ignorance of the law does not justify failure to comply.
- **Recommendation:** Put some system in place that when you register with revenue for the construction industry, that a leaflet is given with REA obligation.

4) Some employers are making contributions others are not. This is mainly due to point number three, they are unaware of their obligation.

- **Pensions Ombudsman Mr. Paul Kenny's comment on this point:** I agree that some employers are making contributions and others are not and that there is uneven policing of the agreement, with some employers paying from the date they are approached by a CIMA monitor while others have to pay arrears. (His own office deals with arrears going back as far as 1996.)

- **Recommendation:** Put some system in place that when you register with revenue for the construction industry, that a leaflet is given with REA obligation.

5) Pricing competition in the North West. Employers in the North West can be undercut greatly when pricing a job by people in the north as they are not obliged to contribute to the REA (Registered employment agreement). Therefore local people end up not getting the job. Which is contributing to unemployment.

- **Pensions Ombudsman Mr. Paul Kenny's comment on this point:** The scheme does impact differently upon different employers It is more of a burden on smaller employers and it is a particular burden to employers in the area of the Northern Ireland border counties, as there is considerable competition from across the border in terms of construction work. Smaller employers are also more likely to employ lower skilled workers and part-timers, who are certainly more than proportionally impacted by the Registered Employment Agreement and the scheme. The only thing I can say to this is that smaller employers greatly outnumber larger employers in this industry, in terms of the numbers of employers, if not in terms of the numbers of people employed. ***Only when smaller employers can get together and make their voices heard is any change likely***.
- **Recommendation:** Set up a system for small employers to come together and have their voices heard. Contact Cllr. Jimmy Mc Garry in confidence.

6) Causing unemployment as small employers and employees cannot afford the fixed Rate.

- **Recommendation:** Amend agreement so that contributions are voluntary, like most private pensions or remove the fixed rate and apply rate on a pro rata basis that is a percentage of wage earned.

7) Avoid discrimination against low income earners.

- **Recommendation:** Amend agreement so that contributions are voluntary, like most private pensions or remove the fixed rate and apply rate on a pro rata basis that is a percentage of wage earned.

8) Avoid discrimination against part-time, temporary unskilled workers

- **Recommendation:** Amend agreement so that contributions are voluntary, like most private pensions or remove the fixed rate and apply rate on a pro rata basis that is a percentage of wage earned.

9) Avoid discrimination against small self employed, employers

- **Recommendation:** Amend agreement so that contributions are voluntary, like most private pensions or remove the fixed rate and apply rate on a pro rata basis that is a percentage of wage earned.

Conclusion from Pensions Ombudsman Mr. Paul Kenny. The whole problem here is that this is a scheme which was thought up to cater for a whole industry and as such, it is a blunt instrument whose impact varies quite considerably from one employer to another. While it is my custom to feed back to the policy area of the Department of Social & Family Affairs and I will definitely feed back in my own response to the forth coming Green Paper on pensions, the existence of the Registered Employment Agreement is actually an industrial relations matter and outside the remit of this office.

Submission 255

I have worked for nearly 20 years (in a voluntary capacity) in the provision of social housing for the elderly, day care facilities for the elderly and I see the plight of people who have had none or little pension provision (most of the clients I have experienced are returned emigrants who worked in low paying jobs in the UK or US or who wasted any money they saved.) They returned to Ireland as poor and with no home to return to.

In my own life, I have always had a personal pension and lately a PRSA. No employer, despite my loyalty and trust, has ever given or offered an employer contribution to my pension. I have worked in the private sector for nearly 25 years. I am 45 years of age and I take a keen interest in current affairs and the gaps in the social structure in the country.

I believe that the retirement age should not be moved from 65 years of age. Doing this will penalise people in the low paying jobs, or people who never had proper employment. The high earners and public sector will not be affected. We should allow people over 65 years to continue in any job if they wish and let them work tax- and PRSI-free from the age of 65 providing they frontload the tax/PRSI foregone by the State in to their final pension fund which should ultimately benefit the pensioner and reduce dependence on the state.

There should be a minimum state pension for all persons over 65 as is at present , a statutory pension contribution scheme for all employees like construction industry pension scheme where employees and employers contribute to it. Employers and employees would contribute. A minimum amount (%) of gross pay tax-free like the PRSA would operate for any yearly earnings.

A beefed-up Pensions Board to control and administer the scheme and control the employer and employee contributions linked to the Revenue Commissioners.

The Pensions Board to maintain a stricter control on the pension providers on costs, management charges and returns on investment equal to estimated return, i.e. make them more accountable by ensuring the best return to the pension account owner.

Therefore, all working persons would have a pension fund to top up the minimum state pension and ultimately reduce our dependence on the state.

There is a case as well where the PRSI system could be revamped as part of any change to the PRSA / new statutory contribution scheme to encourage voluntary contributions and a new state scheme where all employees and/or employers would pay a (%) of income to a full health coverage covering hospital, GP and medicine costs. The minimum contribution would cover a basic health cover and enhanced cover would require a larger contribution from the employee allowing persons to choose the level of cover. The VHI, Vivas and Quinn could be employed to handle this scheme. If the health service is accountable and transparent, people will be willing to pay more taxes for a proper service. The link to pension is important in that a universal contribution scheme to healthcare would mean people of my age group would be assessed for health problems at a younger age for free, avoid a greater cost at a stage later in life at a greater cost to the taxpayer, and clogging up the health system and live longer to be able to enjoy the fruits of their pension scheme.

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 280

I would be obliged if you would consider the following ideas in your review of the Pension System. This would only apply in situations where there was no existing occupational pension scheme meeting the requirements listed below.

1. Make Occupational Pensions compulsory from age 21 both for the P.A.Y.E sector and also the Self-employed. Set a minimum rate of 5% for the employee.

2. Ensure that the Employer, especially in the case of PRSA schemes, contributes a reasonable minimum, possibly setting the employers a target of a minimum 5% of the employee’s pensionable pay to be reached within 5 years of implementing the scheme. I wonder how many employers currently make any significant contribution to existing compulsory PRSA schemes.

3. Standardise tax relief @ 25% along the lines of the Govt Special Savings Scheme which was a great success and understood by everyone. This tax relief would be given in the form of a 25% addition to the employee (employer?) pension contribution by the Govt at the end of each year. Allow employers the normal annual tax relief on their contributions.

4. Educate the Employers, the Unions and the public in the scheme and point out to the public the similarity of this scheme to the Govt Special Savings Scheme and how beneficial it would be to get an occupational pension to supplement the State pension at retirement age. Point out that a tax-free lump-sum could be available at

retirement age or a pension paid to a partner in the event of death before normal retirement age.

5. Involve the Credit Unions in the implementation and operation of the scheme.

6. Issue annual statements to all individual contributors detailing all contributions by both the employee and the employer and show at the bottom the Govt 25% addition to both the employee and employer contribution for that year.

In any event, it would seem that there is currently a lack of advice being given to pensionable employees on their retirement options at both normal retirement age and also in early retirement situations. Many employees are quite ignorant of the tax benefits currently available (AVC's for example). I think that both the Pension Trustees, the Employers and the Unions could easily give appropriate advice, particularly as an employee approaches retirement age.