# Green Paper Consultation Responses

## Guarantees; Security; Funding Standard

## 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 27

I have read through the summary green paper document on pensions and I am both concerned and astonished that there is no movement away from the defined benefits scheme in the public sector. This point is not made from an envious position that many of the guys in the public sector have benefits that I do not have from a pension perspective. My point really is an expression of concern relating to my children who will most definitely carry the future burden of defined benefit pensions in the public sector. Even worse than this, "Ireland Ltd" is embracing a cost which it cannot afford and will result in making our economy cost ineffective. Almost ten years ago, I made the necessary decision for my company to exit the defined benefit pension commitment to future employees. My company is only one of many who recognised the need for change in this area and it has proved to be the correct decision. This is such a sensitive issue it needs to be supported by all parties. That said, if we shrink
from this decision we leave a most unpleasant legacy for our children and their children to come.

## Submission 47

**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 74

I have met many pension investors, pensioners in receipt of annuities, new starters to Pensions, pension trustees and Pension Product Designers.

I do not profess to know it all, but I would just like to put some personal bullet points, to be considered.

1. All pension funds in the last 20 yrs to retirement should, under pension legislation, automatically have to switch funds staggered to capital secure investments, to avoid potential fund risks near retirement.

2. Property pension investments, must be into a property income providing vehicle.

3. Community investments ... of pension funds, to promote new local community centres, with state/community buyback, could qualify for additional tax relief.

4. Premium holidays be compulsory allowed on pension contributions at times of job loss, ill health, care service, new start up.

5. Tax relief on Pension Premium Insurance Cover be allowed against missed payment cover against redundancy / ill health.

6. Simplified sip trusts be allowed set up, with solicitor legal sign off , self trustees (possibility). Cost is a current deterrent to SIPs. Review current trust costing structures.

7. A+ rating for investment companies for pensions.

## Submission 82

I have been working in the construction industry since the late sixties, working with a large collection of Irish firms very few of whom were members of the C.I.F. or any other pension fund. As a result of my work, I have arthritis and serious back problems. I have tried on a number of occasions to put in place a pension or something similar. The first occasion was with [company] and just recently with [bank]. I lost all my savings on both occasions.

You talk of raising the limit of retirement - I have being told by my doctor to retire before I suffer more damage. I am 58 years old.

## Submission 84

It is the general belief of the normal average RSI worker in this country that contributing to a pension is really only for the very rich who stand to make an absolute fortune on retirement because they have been at senior levels within organisations for years and the company they work for has contributed huge amounts of money to their pensions.

Also the normal worker can barely afford to lose the couple of hundred a month which they may need to put into a pension because they simply cannot afford to be down that amount in their salary. Those that can afford it know that basically they are paying into a scheme which allows fund managers to invest /gamble their money on stock markets and win or lose depending on the climate of economic growth at the time.

Pensions are not guaranteed – and they should be. Companies who are committed to investing pension money should be held liable for any losses incurred in pension funds.

Pensions when someone retires are treated as income and therefore are subject to tax. No one can tell me what is going to be the tax rate when I retire so I could learn a lot and end up giving it all back to the tax man.

A lot of companies only pay lip service to pensions and defined contributions schemes are not worth anything in reality despite the pension company marketing ploys….

One way to resolve the issue is to adopt the Australian example – every employee pays a % of their salary no matter what – it is taken at source from their pay – we all pay the same percentage and it goes into a state invested fund where the benefits are guaranteed and secured. Treat it like PRSI. Then make the companies who employ the same individuals pay an element or contribution like employer PRSI. Make it compulsory whether you are part-time, full time, casual etc.

Make it a collective scheme and take the control away from the greedy pension funding companies who get rich on the proceeds and continue to do so regardless of the economic hardship of the individuals. Pension companies should only be allowed to make enough money to cover their costs and the rest should be ploughed back in to plugging the gaps in pension losses due to their mismanagement.

The scheme should be fair and equitable and, for example, people – men and women who have been homemakers, carers, etc. – should be entitled to the exact same pension rights as those in full time employment. We need to stop discrimination in favour of or against minority groups.

## 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 119

Please consider the logic and legality of confiscating contributory pensions from spouses of deceased contributory pensioners and who are now in receipt of pensions that were contributed to by the deceased member if they cohabit or remarry. They are still living beings living on a pension that has been bought and paid for. In every Human Rights Charter the right to marry is enshrined; why should such a basic human right be subject to penalty.

If public service pensions are guaranteed by the state it is only right and fair that all pensions should be guaranteed by the state; lay people should not be forced to invest their money with any institution and be vulnerable to losing it without any guarantee. If people are obliged to invest in their future they should be allowed to make investments of their own choosing e.g. in their own house etc., and not be dependant on decisions by what may turn out to be some incompetent person in an investment company.

## Submission 122

The Government is actively advocating that everyone should contribute to a personal pension. I have one for some years now, but did not know until recently (naive me) that personal pensions were invested in the stock market. The Govt does not tell us this at all. I believed my pension contributions were safe but all of my contributions for 2007 totalling app EUR10k which all came from salary, have been lost in the stock market. I am now reducing my contributions when my age should make me increase them, but what is the point in investing in something that's liable to lose all your money?

I am disgusted to think my hard earned money is being gambled by highly paid stock brokers.

## Submission 166

**A STATE "PRIVATE PENSION" FACILITY**

1. A major issue investing for anyone in a pension is having some degree of certainty, but providers (private or state) are naturally wary of taking on such commitment. But if more people who need to make pension provision privately are just offered the current system of private providers and current tax relief, things won't change. Private providers take large fees, typically with no guarantee, and many just track markets and do little to justify their commission and profit: the average fund manager can't do better than the average if they just put everything in a basket of investments as many do. Pooling a large investment in a public provider run by e.g. the NTMA would be much more efficient. I think such a low-cost transparent system would be attractive if it also had a guarantee EVEN IF THE GUARANTEE WAS QUITE LOW. Dept of Finance may be wary of offering a guarantee of even 2-3%, but the reality is that the State implicitly provides guarantees at the moment: if you have no or insufficient pension, you will inevitably end up getting a significant proportion of your income from the state in old age, and politically the State Pension tends to rise with inflation and often much higher than inflation. So if a modest State guarantee for an investment with the state were available, the State would not be taking on much greater risk than it is currently de facto exposed to. The system would lend itself to easily generated Annual Statements to help people see how much they have provided for at any point in time. On the latter point, we do need to get serious: many people have taken out Personal Pensions in recent years that are quite small: it's better than nothing, but it can lead them into a false sense of security ("I've now got a pension"), when in reality they haven't covered anything like enough.

**TAX RELIEF: LIFE CAP, AND ALLOWED AT MAX RATE (NOT MARGINAL RATE)**

2. If tax relief is really based on the concept that it is desirable that individuals take more responsibility for their own income in old age, then it should be based on allowance up to a certain cap, based on achieving a comfortable income for a reasonable life expectancy. Specifically, it is ridiculous to continue giving tax relief to people on incomes of a million! The current cap on % of income that can get tax relief (at a given age) should be changed to an absolute amount. The social policy objective should be to help people be self-sufficient in old age, not to help the rich build huge pensions with state help.So maybe we should give everyone relief at the higher tax rate (even if they are not on it), but cap the total relief (possibly on a life-time basis, with some annual limits if necessary). Note that – if implemented - this might disadvantage me!

**TAX RELIEF LIFE ACCOUNTS AS A FLEXIBLE WAY TO MANAGE RELIEF**

3. Consideration might also be given to "Tax Relief Accounts" for an individual for life i.e. that pension tax relief (and maybe other reliefs such as mortgage interest) might be available in more flexible ways, so that people can use them when they most need them at a particular stage in life, but be encouraged to "bank them" (in a State "Tax Relief Account") at times when it better suits them. It's very hard to get people <35 to take pensions seriously and they will procrastinate, so the scheme might include some incentives to put something away early, while not telling people "that's all irreversibly locked away until you're 65". The Life Cap concept at 2) above would still allow those you had left things very late to put in more in their 40s/50s/60s if their circumstances allowed.

**GRASP THE NETTLE OF PARENTS AT HOME.**

4. All parents who spend a significant amount of time out of the workforce to raise children fulltime should get specific pension benefit for it. But this needs to be done in the context of other tax reliefs. (Again, my spouse and I work, so this is a disinterested observation).

## Submission 194

I have a pension fund organised by the [professional body], managed by an assurance company. I was extremely disappointed with the recent performance of the particular fund. As I am eligible to retire in 2009, I was particularly concerned that nobody communicated with me to best plan this imminent milestone. I was told that this was entirely up to me to initiate.

I have now consulted the brochure which was the basis of my decision to join this scheme and it is quite clear that I am being misled.

I received a proposal which was assuming returns of 6% p.a., when I queried the validity of such a rate when the annualised loss was nearer 18% I was told that this is what they were allowed to do. I hope they do achieve that this year, I however, consider bit highly unlikely and feel that a much more realistic approach should be taken, and that the planned return should be quoted year by year so that we can judge performance and take meaningful decisions accordingly.

I trust by giving you this example you will see how perilous the private sector is. I am having to consider working for a further 5 years minimum and still have this great uncertainty. The SSIA was a spectacular success, I believe that a similar scheme should be introduced for pensions and that providers have a mandatory duty to lock in gains within say 2-3 years of retirement.

## Submission 203

I am concerned by the lack of options open to me for investment.

My current funds are in equities and are averaging circa 2% for the last 7/8 years.

This will not build an adequate pension as I have only 4.5 years to retirement.

If I had the option of investing in some of the options available for non pension investment which offer returns of circa 7%, I would be better off.

## Submission 239

This submission highlights four issues concerning private and occupational pensions.

### 1. The need for private/occupational pension provision

This arises from the demographics as set out in the Green Paper. That deals mainly with the population as whole. It is also worth translating the broad demographics into implications at individual and family level.

Working life begins later as years in full-time education increase. Despite higher life expectancy, there has not been any general extension at the other end. Thus the ratio of post-work lifespan to working lifespan is increasing. Say 24 years post-age 65, compared to a working or life of about for a pension contributing life of about 45 years i.e. **pensions need to provide for a duration over half their working life**. I see this as the major challenge.

Post-work income can arise from the State, from family or from personal provisions. Changes in family life mean **the average 30-year old may have his/her own family to support, parents approaching retirement age and grandparents still living**. So it is unreasonable to expect the working family to offer much personal support to its elders.

This throws responsibility back to the State which again translates to workers supporting a higher number of dependants. Although the older dependants will have votes, as set out in the Green Paper, ability and willingness to provide has to be limited. Individuals' confidence in a generous State pension should likewise be limited.

Therefore, personal/occupational provisions are important.

## 2. The need for flexibility

Given the rate at which jobs appear and disappear and how people move to better themselves, inside Ireland and beyond, (beyond adding another layer of complexity), the traditional concept (for the lucky) of a pension paid after a lifetime job is no longer realistic. It is therefore desirable that people moving from job to job retain cumulative entitlements and do not lose when they transfer jobs as many do at present.

Flexibility should also extend to actual retirement age and timing of drawdown of benefits, so that people can enhance their income if they defer taking benefits and do not fall into traps such as continuing to pay contributions while benefits are capped after a fixed age or a fixed number of years of service.

## 3. The inadequate participation to date

I believe that the low participation rates in private/occupational pensions are influenced by two system weaknesses:

1. The need has not been adequately communicated in ways people understand, such as the points I have set out above longevity and the unlikelihood of family support.
2. Product weaknesses

Mostly, when you go to buy a product, it is clear what you get and it comes with some form of guarantee. Pensions, whether DB or DC, are exceptions. They rely to varying extents on investment performance, annuity rates on retirement day and survival of the supplier over a long-term - say 70+ years plus for someone joining at 20. That is all a bit daunting.

If people were promised reliably that their contribution of €100/week now [at age 25], increasing annually would give a lifetime indexed income from age 65 of [say] €160/week in real terms, or double that assuming a modest rate of inflation, it might mean more to them. [The arithmetic is indicative only].

Some pension arrangements, such as PRSA, have been very narrowly defined to exclude benefits which have come to be taken for granted in most occupational schemes (illness, spouse/partner survival pensions). This needs to be reviewed.

## 4. Elements of a solution

1. Communication of the need and that products that meet people's exist and are affordable (including tax reliefs or/ direct support from the State).
2. Suitable investments: products which can be relied on to produce what they promise and which do not attract excessive charges
3. Availability of suitable reliable products may need more participation by the State, partly or wholly, directly or indirectly - for instance, thorough issue of index-linked bonds by the NTMA, permitting individuals and/or providers to participate in investments managed by the NPRF, a pension protection scheme which covers the risks of scheme shortfalls, some provision to share in the "risk" of increased longevity.

## 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 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 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 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.

## Submission 307

I am writing to express the concerns of the members of the (company name has been removed) pensioners association particularly with regard to the present situation we now find ourselves in.

The group is made up of ex employees now retired, receiving pensions or with deferred pensions.

Our main concerns are with regard to the following areas.

1. Security of our pensions i.e. at present our pension fund could be sold on to a purchasing company with no guarantee that our present pension entitlements would be maintained into the future.
2. Legal protection is non existent.
3. Continuation by company of the benefits enjoyed when the company was operating in Ireland.

As pensioners we feel that companies or employers should be legally responsible for ensuring the continued provision of pensions for pensioners on the sale or disposal of the businesses or the company.