Irish Congress of Trade Unions

Retired Workers Committee

Submission on the

Pensions Green Paper

May 2008

Introduction

The Irish Congress of Trade Unions Retired Workers' Committee (RWC) has long been calling for improvements in the quality of life of older people through public policy since the Committee was first convened in 1990. There are a number of issues the Retired Workers Committee would like to raise in relation to the Green Paper on pensions published by the Government. The Committee feels these issues need to be taken into consideration when the Government announce a new framework for future pensions policy towards the end of this year. While the Green Paper is a comprehensive document covering all aspects of pensions policy. The Committee focus is on four areas of priority.

1. **Pensioner's income adequacy**
2. **Pension tax reliefs**
3. **Mandatory pensions**
4. **Demography**

1. Pensioner's income adequacy

The Committee believes that the only way to ensure that older people have an adequate income in retirement is through an increase in the State pension bringing it up to 50% of average industrial earnings or approximately €317 at current wages. This is the fairest means of tackling poverty and creating intergenerational solidarity as well as the most cost effective with very little administrative costs. The objective of pensions should not be about poverty prevention alone, it should be to ensure that older people receive a fair share of national income. The arguments that this level of State pension will not be sustainable in to the future fail to take into account that currently social protection expenditure on old age and survivors was 3.8% of GDP and 4.5% of GNI in Ireland in 2004, compared to 12.0% of GDP in the EU 25. It has been argued that Ireland's expenditure on pensions in 2050 will only reach the current EU level average of 12%. In terms of ensuring pension protection for current and future pensioners, there is currently no requirement to fund a defined benefit scheme if an employer and its scheme go bankrupt. The Government should set up a fund similar to that in the UK which helps defined benefit schemes which are in financial difficulties to make sure pensioner's income is protected.

2. Pension tax reliefs

The Committee is concerns that the tax relief's as they currently exist are inequitable and are heavily biased towards those in the higher income brackets. They benefited almost exclusively the top 20% of pensioners in 2005, whereby the State pension remains the main source of income for 80% of pensioners. The committee believes the tax forgone would be spent more efficiently and equitably on increasing the existing State Pension. According to the publication, '*Choosing Your Future: How to Reform Ireland's Pension System'* in 2003, €2bn was spent paying State pensions, while tax relief was costed at €1.7bn. The ESRI in Budget

Perspectives 2008 argue for a re augmentation of State supports by allowing tax relief only at the standard rate. They argue that this standardisation could bring more than enough resources to increase the State pension by €50 per week. This would bring pensioners over the income poverty line and essentially eliminate this form of poverty. They also outline how this structural change could be phased in over time to ensure a smooth transition. The tax reliefs do not benefit low income earners in the lower tax bracket and private savings needs to be encouraged with refundable tax credits. The Committee also support the Congress idea that a cheaper source of funding for annuities through a State funded scheme needs to be put in place. The private pension system needs to be reformed by;

- reducing the number of tax incentive bases retirement savings schemes
- give tax reliefs such as a refundable tax credit at standard rate of tax
- significantly reduce cap on pension contributions and size of accumulated fund
- use the savings on tax reliefs to improve State pension benefits

3. Mandatory pensions

Voluntary approaches such as the PRSA have failed (by June 2007 only 1.9% of labour force had taken one up) in its objective to increase occupational or second tier pension coverage. It remains around half of the workforce. The Retired Workers Committee strongly supports Congress's position on mandatory pensions as outlined in Motion 17 passed at BDC in 2007. This motion 'reaffirms its preference for a mandatory second pillar pension scheme. This scheme should be operated by the State on the basis of equal funding contributions by employers, employees and the State.' The Committee believes that the only viable way to fund should contributions to pensions and public services more generally is through higher taxation to finance this greater level of public expenditure. The current level of low public expenditure is restraining the development of better pensions and world class public services.

4. Demography

The arguments around demographics although important can often fail to predict trends in immigration, technology and innovation and most importantly productivity. The dependency ratio does not take into account the productivity of workers at a future point in time. There may well be considerable improvements in productivity through work practices, innovation and technology that make the dependency ratio irrelevant.

It has been suggested by some to gradually increase the age of retirement. The RWC believes that any increase in the age of retirement should be voluntary and supported by a number of options for those who choose to continue working. Any personal decision to increase one's age of retirement must not be allowed to adversely affect pension payments. Workers that stay in the workforce need to be encouraged not penalised for continuing to work after 65. Employees remaining at work after age 65 should have the following options;

a) the right to receive their pension entitlement at age 65 / 66
b) to forego immediate payment and receive credit for additional years worked by way of an enhanced pension at time of final retirement which would be actuarially calculated
c) to receive the accumulated additional pension accruing from the extra years worked by way of a lump sum at final retirement.

Conclusion

The Retired Workers Committee of the Irish Congress of Trade Unions hopes that the Green Paper on pensions will lead to a pensions system that promotes intergenerational solidarity by increasing the State pension significantly and supporting this with a mandatory second pillar. This would ensure that pensioners today and into the future can live in dignity and respect without poverty.