Irish Congress of Trade Unions Response to Green Paper on Pensions

Congress identified the provision of sustainable adequate pensions as a strategic priority during the 'Towards 2016' negotiations. The response of Government was to commit to the publication of this Green Paper. Congress recognises that the Green Paper is very comprehensive. However many of the issues dealt with have been researched, discussed and analysed by the Pension Board and others over a number of years. In 2005 Congress issued a document entitled *'Pensions Problems and Solutions'* which covered much of the ground covered in the Green Paper. Many of these issues have also been discussed as part of national agreement discussions prior to the Towards 2016 agreement.
The Green Paper consultation process has involved many of the same arguments being repeated and rehashed. Congress is disappointed that this consultation process is postponing vital decision making in relation to pensions policy. We are concerned that the climate for pension provision is not getting easier as the discussion continues. Congress believes that it is time to make brave political decisions if our pension system is to be protected and improved.

We do not intend to engage in a detailed critique of the Green Paper or to restate the many arguments we have made previously in favour of progressive pension reform. Rather we intend to succinctly outline the steps we wish to see taken on foot of the crises affecting the funded part of our pension systems. However, we feel compelled to respond to the inclusion in the Green paper of spurious demographic argument dressed as fact which is designed to imply that public pension provision cannot be improved or sustained at a reasonable level.

The Demographic Challenge

The Green paper rehearses the demographic issues in some detail. It suggests that 'with increasing life expectancy and falling fertility rates, the "pensioner support ratio" is expected to fall from its current level of 5.6 workers per pensioner to just 1.9 workers per pensioner by 2051. The pay-as-you-go State pensions and pensions paid to public sector employees are projected to rise in cost from currently 5% of GDP to 13% of GDP by 2050. While the National Pensions Reserve Fund will provide some relief, it will only partially address the problem.'

This is spurious and irrelevant for three reasons.

- Demographic projections are notoriously error prone and cannot accurately capture migration. They cannot therefore be a reliable guide to policy. The longer the period of projection the more the certainty of error. Demographics are no basis for planning forty years ahead.
- Demographics are blind to productivity gains. It is not the number of people at work that matters so much as how much those at work are producing.

- The problem the Green Paper is implying is one that might affect us forty plus years from now. Our pension system has more pressing short term problems.

Congress believes that there is a cynical motive for this material appearing in the Green Paper. Firstly, it is designed to suggest that there is little on no capacity at present to improve public provision. Secondly, it is designed to soften people up for a reduction in pension entitlement in the future.

The Tax System and Private and Occupational Pensions

The State encourages occupational and private pensions through tax reliefs. It is the top ten percent of earners who benefit most from these arrangements while the lowest earners get almost no benefit from them. Congress demands that tax relief should only be available to a level which will allow a person to provide themselves with a decent pension and no more. The tax forgone on bumper pensions would more efficiently and equitably spent on increasing the existing State Pension. It an individual wants a bumper pension there should be no obligation on the general body of tax-payers to pay for it. For lower earners and those outside the tax net the State should make an SSIA type contribution in lieu of what is currently a tax relief entitlement which is rarely if ever claimed.

Public or Private Pensions - 'the choice'

The Green Paper suggests that:
'There is a fundamental choice to be considered in addressing the question of pension adequacy between, on the one hand, concentrating largely on enhanced Social Welfare payments and, on the other, focusing mainly on measures to encourage greater personal savings through supplementary pensions."
If this is the fundamental choice then Congress wishes to state that enhancing public provision must always take priority for reason of equity, certainty and sustainability. Enhanced public provision favours older workers and current pensioners who will have no hope in a private sector solution. Collective risk-sharing is the optimum delivery model according to economic analysis and this is best achieved under a State run Defined Benefit approach.

Mandatory Pensions

Congress believes that a mandatory system of pension contributions with equal contribution from the employer backed up by an SSIA contribution from the State could achieve almost full pensions coverage. Whether this is delivered by the State or by the Private Sector should not be decided on ideological grounds but rather on where the best value for money is to be had. However a mandatory scheme whether public or private must be collective rather than individualised as PRSAs are. Individual schemes would involve the asset being eroded by costs and charges. A mandatory scheme should deliver at least 50% or higher of earnings on retirement. The mandatory system must be designed in such a way as not to drag down decent voluntary provision.

Defined Contribution Schemes

It is generally recognised that insufficient contributions are being made to Defined Contribution schemes. In recent times poor investment performance has damaged the reputation of such schemes. The reputation of AVC schemes has also suffered. This has focussed attention on the charges both open and hidden in regards to these products. SSIA style top up rather than tax relief might help to increase contribution levels. However there is need for more transparency regarding charges and cost and this will require legislation or at least further regulation of the providers.

Integration with the State Pension Scheme

When the State Pension increases faster than salaries there is a windfall gain to the employer and a loss of occupational pension for lower paid employees. This creates serious anomalies between different pensioners depending on when in the cycle they leave the work force. Some steps have been taken to rectify this matter in the Public Sector. This matter needs to be addressed in the Private Sector. One solution is that for lower paid workers pensionable salary should not be reduced when social welfare entitlement increases.

Approved Retirement Funds

A few years ago the Government decided that the Revenue's rule should change to allow wealthy people to avoid buying a pension with the bulk of their pension fund on retirement. The State now forgoes billions of potential tax take in order that high net worth individuals can have substantial tax free savings rather than a pension. If Government wishes to allow wealthy people to salt away large sums of tax free saving and investments then they should say so and drop the pretence that this is in any way related to the need to provide pensions for our older citizens.

An Annuity provided by the State

Congress has been calling for the State to provide annuities as a fair, cost free [to the State] and equitable element to pension provision. We still beilieve this is a viable and creative proposal

Minimum Funding Standard

The crisis facing defined benefit provision over the last number of years has highlighted the lack of security of pension entitlement. Workers were told both explicitly and implicitly that their pension promise was guaranteed and involved no risk to them. Almost everyone now knows that this is not the case. No member of a funded scheme can have certainty about whether they will receive any pension. If the scheme is wound up while insolvent the active and deferred members of the scheme may lose all their accumulated entitlement. The Minimum Funding Standard is designed to give some security to scheme members. Some pension practitioners have argued that as presently calculated the MFS is too rigorous and is encouraging employers to abandon DB provision. Others argue that the present standard is too weak and ascribes a valuation to employees' benefits well below a true economic cost of their entitlement. The problem is not the MFS, which only highlights the lack of investment performance and increased longevity. If there was no MFS requirement the schemes which have problems would still have problems. Therefore, on balance the MSF should be retained as it can give members and employers a signal that remedial action is required.

Pension Protection Fund

The need for a fund to compensate members of pension schemes that become insolvent has been discussed repeatedly and the pros and cons are well known. It is accepted that Ireland has the weakest benefit security in the EU. .ECJ Case C 278/05 which forced the UK government to set up such a fund suggests that Ireland may be in breach of EU law by our failure to do so. It is a shameful fact that the Irish Government supported the do nothing approach of Britain in this matter. The ECJ judgement means we will have no choice but to establish such a fund. The most common way of financing such a fund is to levy existing schemes. This makes pensions even more expensive and will increase rather than alleviate funding problems. It will also have the affect of penalising well run schemes in order to bail out failed schemes. On balance Congress is supportive of a Pension Protection fund. However the disadvantages are such as to call into question whether the approach of providing pensions from a risky investment market is inherently flawed.

Pensioner's income adequacy

Congress believes that the only way to ensure that most current pensioners can 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 wage levels

Retirement Age

Given increased longevity and improved health amongst older people, there is a strong case for flexibility regarding retirement age. Workers should be allowed but not compelled to work after age 65.

Public Sector Pensions

Our Public Service pension schemes are working well but employers and others have been demanding that the benefits available should be eroded as if that is an alternative to decent private sector provision.   Chapter 13 of the Green Paper attempts to fix something that is not broken and identifies a range of possible amendments to the current Public Service Pension Schemes that would have the effect of eroding the current benefit structure.

This chapter has been largely superseded by events following the publication of the 2nd report of the Public Service Benchmarking Body. The 2nd Benchmarking Body conducted an exercise designed to place a value on the current Public Service Benefit Structure and to compare that with the cost of pension provision in the private sector. The Body summarised the main features of public service pensions (pre 1995 staff) as:

- An annual pension based on 1/80th of pensionable remuneration per year of service subject to a maximum of 40/80ths.
- A lump sum of 3/80ths of pensionable remuneration per year of service subject to a maximum of 120/80ths.
- A spouses pension of 50% of members pension
- Optional retirement age between 60 and 65
- Pay parity indexation of pensions

The Benchmarking Body concluded that:

- the pensions of the Public Service groups covered by the Benchmarking exercise are significantly more valuable than those of Private Sector groups
- having regard to actuarial advice received, the body decided in an arbitrary and far from transparent fashion that the superior value of public service pensions should be quantified as 12% of salary and that a discount of this amount should be applied in comparing remuneration levels in the Public Service and the Private Sector.

The Green Paper acknowledged the reforms introduced in 2004 but has now outlined a number of additional options which include significant changes to the summary features identified by the Benchmarking Body:

- Raising the minimum retirement age
- Modifying the pay parity basis for increases in pensions
- A slower accrual rate
- Calculations based on ‘career average’ earnings

As the salaries of Public Servants have been set following a 12% discount based on the estimated value of the current benefits, it would be completely inappropriate and unacceptable to further alter or erode the benefit structure which was used in making the comparison.