

To: Mr. Séamus Brennan, T.D.
Minister for Social and Family Affairs

The National Pensions Policy Initiative (1996 – 1998) formulated a strategy and made recommendations for a fully developed national pensions system. Most of the recommended changes were implemented between 2000 and 2003 and the Pensions Board conducted a National Pensions Review in 2005 which effectively assessed progress of pension provision since implementation of these recommendations. A number of messages emerged from the National Pensions Review including the prediction of a significant increase in the costs of State retirement pensions and public service pensions and also that good pension provision has a very high cost. The National Pensions Review's assessment of coverage and adequacy concluded that the generally accepted pension targets will not be met without some change to the present pensions system.

In the National Pensions Review the Board was in favour of specific enhancements to the current voluntary supplementary system. Many members of the Board considered that further enhancements to the voluntary system could, over time, achieve significant improvements in supplementary coverage and adequacy. Although some members of the Board did not think the proposed enhancements would achieve the agreed targets, they nonetheless supported them as a means of improving the current situation. However, some other Board members believed that a mandatory approach is the only way of achieving the agreed targets and that such an approach should be considered urgently.

The National Pensions Review report was presented to you in November 2005 and you formally launched it in January 2006. We understand that the Review was considered to be a good base for the consideration which the Government is now giving to the overall pension situation and that the Government's consideration is a work in progress.

On 5 May, 2006 a Pensions Forum was held in Dublin Castle to elicit views of the many stakeholders who contribute towards the formulation of pensions policy in Ireland. This made a valuable input to progressing thinking on future pensions policy. The national social partnership talks in the first half of 2006 also included discussion of the pensions issue. The outcome of this discussion was included in the "Ten-Year Framework – Social Partnership Agreement 2006 – 2016". In this proposed agreement the Government commit to publishing a Green Paper on pensions policy outlining the major policy choices and responding to the consultations on foot of the paper's publication within 12 months of the ratification of the new partnership agreement, by developing a framework for comprehensively addressing the pensions agenda over the longer term.

In February 2006 you wrote to the Pensions Board and asked that the general principles in relation to a mandatory or quasi-mandatory pension system be fully explored with a view to recommending the most appropriate system for Ireland at a practical level and to cost this. You also asked that the report would be completed by end June 2006 which set a tight timeframe for this extensive piece of work. The National Pensions Review had set out that there were differing views among Board members on the merits or drawbacks of mandatory pensions. The Board has not reconsidered its views for or against the introduction of a mandatory system and this report which we are presenting to you is a technical examination of the practical issues associated with a mandatory pensions system if such a system were to be introduced. The views expressed in this report are the collective views of Board members and do not necessarily represent the views of nominating representative

organisations. Furthermore, the collective recommendation was made notwithstanding that Board members may individually have other preferences.

The approach adopted in this report is to identify different types of mandatory systems and, within each type, to define and specify the important parameters. The specific systems have been subjected to qualitative and quantitative assessment. In accordance with your request, the report includes a conclusion and recommendation of the most appropriate and practical approach to improving the position of pensioners in Ireland by means of a mandatory system. The system recommended would be known as the Special Savings for Retirement and individuals would hold Special Savings for Retirement Accounts. It recommends a combination of an increase in the State pension with a “mandatory” supplementary system for those who are not making supplementary provisions. It is based on the concept of improved adequacy in the State pension which is there as a base for all and an incentivised savings framework which will supplement the State pension.

This report is presented as a contribution to the policy debate which we now expect to continue on Irish pension provision. We are conscious that the tight time schedule for the report restricted our ability to deal comprehensively with some important and closely associated issues which we mention in the report as needing further research and analysis. However, we believe that the analysis and in particular the costings contained in this report, and in our previous National Pensions Review report, should provide a sound basis for the preparation of the Green Paper and Government decisions on pension provision. The Board would welcome the opportunity to participate in the Green Paper process and to continue to contribute to development of pension policy.

The Board is very pleased that the Government is now addressing the pensions issue and that it is being actively discussed by the social partners and in the media. Favourable demographics give Ireland some time to address the issue of adequate retirement provision but that time is passing quickly. There has been consultation, discussion and research and it is very important for the future prospects of the Irish economy and the welfare of our people that decisions are now taken on pension provision. The Board understands that these decisions must be made in the context of employment interests, competitiveness and overall economic and social considerations. The various recent reports have tried to assess the possible impacts of the changes which might be made but it is also very important to remember that there will be serious impacts in all of these areas if Ireland does not put in place a sound system for adequate future retirement provision.

Tiarnan O Mahoney
Chairperson