

Implementation of the National Pension Framework

Overview of Developments during 2010

1. Background

The National Pensions Framework was published in March 2010. It encompasses all aspects of pensions, from social welfare to private occupational pensions and public sector pension reform. Development of the framework was informed by the range of views raised expressed during the consultation process which followed publication of the Green Paper on Pensions.

The aim of the framework is to deliver security, equity, choice and clarity for the individual, the employer and the State. It also aims to increase pension coverage, particularly among low to middle income groups and to ensure that state support for pensions is equitable and sustainable.

The implementation of the various elements of the framework involves major reform of the Irish pension system. There are a range of legislative, regulatory, administrative and IT developments needed in order to put the reforms into operation.

As set out in the framework, it is expected that the implementation phase will take 3 to 5 years. In May 2010 a steering group was set up to oversee and manage the implementation process.

This document provides an outline of the implementation process and an overview of the progress made during 2010.

2. Implementation Process

The National Pensions Framework Implementation Steering Group is chaired by the Department of Social Protection. During 2010, the following Departments and Agencies were represented on the group¹: the Department of Social Protection; the Department of Finance; the Department of Enterprise, Trade & Innovation; the Department of the Taoiseach; the Pensions Board; and the Office of the Revenue Commissioners.

In managing the process the group has regard to the prevailing economic conditions and developments in other areas such as the National Recovery Plan 2011-2014 and the Actuarial Review of the Social Insurance Fund².

Four sub-groups were also established (details are set out in Table 1 below). The chair of each sub-group sits on the steering group.

¹ A list of members (at end 2010) is included at Appendix 1.

² The Terms of Reference for the group are set out at Appendix 2.

Table 1: National Pensions Framework Implementation Sub-Groups³

Sub-Group	Chair	Function
State pension sub-group	Department of Social Protection	To examine the policy, administrative, legal, IT and other relevant issues involved in implementing the State pension reforms in the framework (change to State pension age; switch to total contributions approach; introduction of credits for homemakers'; and maintaining the level of the payment).
Auto-enrolment sub-group	Department of Social Protection	To produce a full implementation plan on the auto-enrolment system, including delivery mechanisms.
Occupational & personal pensions sub-group	Pensions Board	To develop the aspects of the framework relating to current defined benefit and defined contribution schemes, including in relation to taxation. To develop the pensions tracing service.
Costings & data sub-group	Department of Finance	To analyse available data and to devise costings, based on available data (and a consistent & appropriate methodology), for all options emanating from the implementation sub-groups.

3. Consultation, Communication and Research

During 2010 what had been the Pensions Green Paper website was revamped to focus on the National Pensions Framework. The framework and associated documents are now available at: www.nationalpensionsframework.ie

In July 2010 the then Minister for Social Protection hosted a consultation forum at Farmleigh House to provide participants with an update on the implementation of the framework and to give them an opportunity to present their initial views. The 21 attendees represented trades unions, employers, the pensions industry and older people. A report of the forum is available on the National Pensions Framework website.

The framework provides for the introduction of a new defined benefit model. In October 2010 it was decided that the development of the new model would be expedited (see section 4(i) below). In developing this new model there has been consultation with the social partners and representatives of the pensions industry.

³ It has since been decided to establish another sub-group to develop the pensions tracing service.

In line with the commitment set out in the framework there will be ongoing consultation throughout the implementation phase.

The steering group has developed a communications strategy to ensure that all stakeholders and interested parties are kept informed of the progress being made in implementing the framework.

The steering group will establish a panel of researchers/consultants which can be called upon to assist with technical issues as needed as the implementation phase progresses. A Request for Tender will be published in 2011 with a view to establishing the panel as soon as practicable thereafter.

4. Policy & Legislative Developments

The steering group and sub-groups each held a number of meetings during 2010 and work across all strands of the framework was progressed. An overview of the progress made during 2010 is presented below⁴:

(i) Defined Benefit (DB) Schemes

Defined benefit occupational pension schemes are experiencing funding difficulties. Losses experienced over the period 2007-2009 have been well documented. Although many schemes experienced a partial recovery over the last year or so, estimates suggest that a significant proportion of schemes are still underfunded. Pension schemes are also under pressure from increased longevity, with an increased number of pensioners drawing pensions for a longer duration.

A number of measures have been taken, in recent years, to ease the funding pressures on DB pension schemes:

- Significant legislative changes in the Social Welfare and Pensions Act 2009 allowed for the restructuring of underfunded schemes; removed the priority given to post-retirement increases for pensioners to ensure a more equitable distribution of assets in the event of the wind-up of a DB scheme; and strengthened the powers of the Pensions Board in ensuring that pension contributions are remitted by employers to scheme trustees.
- The Pensions Insolvency Payments Scheme (PIPS) was established to reduce the cost of purchasing pensions for trustees where the pension scheme and the employer have become insolvent. This scheme came into effect in February 2010 and ensures a more equitable distribution of assets following the wind up of underfunded pension schemes where both the pension scheme and the employer are insolvent.
- DB schemes are subject to the requirements of the funding standard as prescribed in the Pensions Act. Following the downturn in financial markets in 2008, the requirements for the funding standard were eased to allow trustees/employers of pension schemes time to assess and respond to the impact of the crisis. This

⁴ A summary table is presented at Appendix 4.

deadline has been postponed and the funding standard put into abeyance amidst concerns that many schemes still have significant deficits and that, while some schemes have taken very significant action to restructure their schemes and reduce their liabilities, many other schemes have taken no action and are awaiting some 'boost' in equities or further developments. At the same time, work on the development of a new DB model as outlined in the framework, was announced and is underway.

(ii) *Sovereign Annuities*

In December 2010 legislation was introduced to facilitate the purchase of sovereign annuities by scheme trustees. It is expected that the NTMA will issue bonds on which these annuity products will be based. Schemes that purchase these bonds or annuities in respect of pensioner benefits will benefit from a reduction in their liabilities under the Funding Standard (reflecting the higher yield on these bonds compared with German/French bond rates that currently determine annuity rates). This should encourage a move away from more volatile equity investment. In addition, the purchase of a sovereign annuity in respect of pensioner benefits will discharge the liabilities of trustees who previously would have paid pensioners directly from the pension fund.

The sovereign annuity initiative will provide a measure of assistance to schemes in deficit. However, it does not represent a panacea and does not address the fundamental problems with the current defined benefit model (currently being addressed in the work on the new DB model).

(iii) *Extension of flexible options on retirement*

In line with the framework, Budget 2011 provided for all members of Defined Contribution (DC) pension arrangements to have access to flexible options on retirement while at the same time ensuring that people retain a reasonable income stream in their retirement. This reform includes the following elements:

- The Approved Minimum Retirement Fund (AMRF) option is being retained but the "set-aside" requirement will now be the lesser of 10 times the maximum rate of State pension (contributory) – about €120,000 – or the remainder of the pension fund after taking the tax-free lump sum, as compared with €63,500 at present.
- The specified/guaranteed income limit of €12,700 per year is being increased to 1.5 times the maximum rate of the State pension (contributory) bringing it close to €18,000 per annum.
- The guaranteed income requirement, if not satisfied at retirement may be satisfied any time thereafter, at which point the AMRF becomes an Approved Retirement Fund (ARF).
- As a transitional measure, the current guaranteed income requirement of €12,700 per year will continue to apply for 3 years in the case of people who have already retired.

The option introduced in December 2008 to allow the deferral of annuity purchase on retirement for DC scheme members is being extended by the Revenue Commissioners.

(iv) Tax Treatment of Pension Lump Sums

The Commission on Taxation recommended that pension lump sums of less than €200,000 should not be taxed. This recommendation was accepted and it was decided that arrangements for the tax treatment of lump sums greater than €200,000 would be considered and developed during the implementation of the framework.

Budget 2011 provided for the overall life-time limit on the amount of tax-free retirement lump sums that an individual can draw down from pension arrangements to be reduced to €200,000. The excess of this amount will be taxed at the standard income tax rate (currently 20%) up to an amount equal to 25% of the new Standard Fund Threshold (up to €575,000). The excess of retirement lump sum payments over that amount will be taxed at the taxpayer's marginal rate of income tax.

(v) Other developments

(a) State Pension Issues – The homemaker's scheme; state pension age; possible pension deferral arrangements were examined in detail during 2010 in light of the commitments set out in the framework. The framework provides for the abolition of the State pension (transition) in 2014 and for State pension age to increase to 67 in 2021 and 68 in 2028. The Memorandum of Understanding with the EU-IMF on the Programme of Financial Support for Ireland (December 2010) includes a commitment to legislate for these measures by mid-2011.

(b) Auto-enrolment scheme - During 2010 the focus was on developing the rules which may apply to the auto-enrolment scheme. There was also some consideration of the operational arrangements.

(c) Public Service Pensions - The framework sets out plans for the introduction of a new single public sector pension for new entrants. Work on drafting the necessary legislation progressed during 2010.

(d) Pensions Tracing Service - The issue was progressed during 2010, through a number of contacts between the Department of Social Protection; the Office of the Revenue Commissioners; and the Pensions Board. It was decided to establish a sub-group to deal with this issue exclusively.

ENDS

Appendix 1

National Pensions Framework Implementation Steering Group

List of Members at end December 2010

- Dr. Orlaigh Quinn (Chair), Assistant Secretary, Pensions Policy Unit, Department of Social Protection
- Brendan Kennedy, CEO, Pensions Board
- John O'Connell, Assistant Secretary, Pensions Policy Unit, Department of Finance
- Eugene Creighton, Assistant Secretary, Income and Capital Taxes Division, Office of the Revenue Commissioners
- Dermot Curran, Assistant Secretary, Employment Rights and Industrial Relations Division, Department of Enterprise, Trade and Innovation
- Patricia Murphy, Principal Officer, Pensions Policy Unit, Department of Social Protection & Chair of the sub-group on auto-enrolment
- Fiona Ward, Principal Officer, Pensions Administration, Department of Social Protection & Chair of the sub-group on State pensions
- Colin Menton, Principal Officer, Social Partnership Division, Department of An Taoiseach
- David Hegarty, Head of Policy, Pensions Board & Chair of the sub-group on occupational & personal pensions
- Paul Ryan, Principal Officer, Taxation Division, Department of Finance & Chair of the costings & data sub-group

Secretariat: Dearbháil Nic Giolla Mhicíl, Assistant Principal, Pensions Policy Unit, Department of Social Protection

Other attendees:

- Vera McGrath, Assistant Principal; Pensions Policy Unit, Department of Social Protection
- Finbarr Hickey, Assistant Principal, Pensions Policy Unit, Department of Social Protection

Alternates:

- John Reilly for John O'Connell
- Donal Murtagh for Paul Ryan
- Brian McCabe for Eugene Creighton
- Anne Coleman Dunne for Dermot Curran

Appendix 2

National Pensions Framework Implementation Steering Group

Terms of Reference

1. Oversee all elements of the implementation process – i.e. the legislative, regulatory and administrative infrastructure required to implement the various elements of the framework, having regard to the prevailing economic conditions.
2. Establish, oversee, co-ordinate and prioritise the work of the necessary sub-groups, namely:
 - State Pensions Sub-Group
 - Auto-Enrolment Sub-Group
 - DB/DC Sub-Group (to include ARF issues; new DB model & Tracing Service)
 - Costings and Data Group
3. Decide on the research required and engage the necessary technical assistance
4. Devise and implement a communication strategy
5. Manage the consultation process at key milestones
6. Ensure that the implementation process takes account of developments in other areas such as the Actuarial Review of the Social Insurance Fund and the possible introduction of a social contribution charge.
7. Report to Minister and Government regularly
8. Prepare Memoranda for Government in relation to legislation being presented for approval as appropriate and present final options to Government for decision
9. Ensure that a Regulatory Impact Assessment and a Poverty Impact Assessment are conducted where appropriate

Appendix 3

NPF Implementation - summary of progress to end December 2010

Year	Milestone	Status
2010	<ul style="list-style-type: none"> • Publish National Pensions Framework • Establish implementation group • New public service pension scheme introduced 	<ul style="list-style-type: none"> • Achieved - March 2010 • Achieved – May 2010 • Work on drafting the necessary legislation progressed during 2010.
2011	<ul style="list-style-type: none"> • Extend New ARF rules to DC schemes 	<ul style="list-style-type: none"> • Achieved. Budget 2011 provided for the changes. Legislation included in the Finance Bill 2011.
2012	<ul style="list-style-type: none"> • Increase contribution for state pension to 520 paid contributions (as planned in line with legislation in place since 1997) • Replace homemakers’ disregard with credits for new pension claimants. 	<ul style="list-style-type: none"> • On target. Legislation has been in place since 1997. • On target. Details e.g. in relation to IT requirements are being worked out.
2013	<ul style="list-style-type: none"> • Review Pensions Insolvency Payment Scheme 	<ul style="list-style-type: none"> • On target. Scheme (which was introduced in 2010) remains due for review in 2013.
2014	<ul style="list-style-type: none"> • Abolish State pension (transition) thereby increasing state pension age to 66. • Introduce auto-enrolment system 	<ul style="list-style-type: none"> • On target. Necessary legislative provisions being developed for Social Welfare & Pensions Bill in 2011. • On target. Details, e.g. in relation to rules & structures are being developed.
2020	<ul style="list-style-type: none"> • Introduce a “total contributions” approach for State pension (contributory) 	<ul style="list-style-type: none"> • On target. Details are currently being worked out.
2021	<ul style="list-style-type: none"> • Increase State pension age to 67 	<ul style="list-style-type: none"> • On target. Legislative provisions being developed for Social Welfare & Pensions Bill in 2011.
2028	<ul style="list-style-type: none"> • Increase State pension age to 68 	<ul style="list-style-type: none"> • On target. Legislative provisions being developed for Social Welfare & Pensions Bill in 2011.