Green Paper Consultation Responses

Pension models; Mandatory and Soft Mandatory

Submission 1

Dear Sir/Madam,
Following the UK model (voluntary - reliance on personal pensions etc. with paltry state pensions) should not be an option for Ireland. All modern European economies have state backed pension arrangements funded by high social insurance contributions from employers and workers. Similarly, this "high tax" arrangement is probably not an option in Ireland. However, a solution could be found from Australia - see article below. Labour and Conservative governments in Australia have promoted and implemented this compulsory solution.

Australia may hold key to pensions

The Guardian Tuesday October 12, 2004 by Patrick Collinson

The publication today of the Adair Turner report on pensions will prompt an orgy of headlines about how millions of Britons face pension misery. Yet one country grasped the nettle of pension reform a decade ago and pension misery is no longer part of the national psyche.

In the 1980s Australia faced the same dilemma as Britain - an ageing population, too few people saving and a state pension withering on the vine. Less than half the population, especially women and minorities, were part of a company pension scheme.

Today 95% of full-time employees in Australia have a company pension, compared with half in Britain. Approaching three-quarters of part-time workers have a pension, compared with less than 15% in the UK. And since the mid-1980s, Australia's nine million workers have seen the value of their pension assets soar from A$30bn (£12.2bn) to nearly A$600bn today.

At the heart of Australia's pension system are compulsory employer contributions, brought in by a Labor government in 1992 and backed by unions, but strongly opposed at the time by small business groups.

In 1992, every business in Australia was ordered to put aside 3% of each employee's salary into a superannuation scheme. The contribution rate was started at a low level then increased to hit its target of 9% in 2002, where it remains today. Employees were encouraged through tax incentives to pay into the schemes, known as "the super".

Employers have to pay the 9% contribution for anybody between 18 and 70 who earns above A$450 a month. The self-employed are outside the scheme but are offered a raft of tax concessions to encourage them to join. On average, workers have chipped in an extra 2-3% of salary, meaning that the typical employee now has 12% of their earnings going into a private pension pot, usually made up of a mix of shares, bonds and property.

The Australian government estimates that by saving 12% a year over a 40-year working life, each Australian will now retire on an income of about 40% of their pre-retirement salary.

Somebody earning a typical salary of $50,000 a year will retire on $20,000 a year company pension plus an entitlement to a means-tested state pension.

The so-called supers have emerged from the global bear market largely unscathed, earning their members investment returns of around 7%-8% a year.

Resistance from employers to "the super" has largely crumbled and Australians are much less fearful than the British about their prospects in old age. David Harris, a pensions policy adviser to the Australian Labor government in the early 90s and one of the architects of the compulsory system, said: "Australia then was just like Britain still is today. Company pensions were middle class, middle-aged and male. Our main concern was how to establish a pension for younger people, women and minorities. It's not flawless but it's largely worked."

Mr Harris joined British actuarial consultancy Watson Wyatt and has now set up his own independent consultancy, Tor, promoting pension reform. "On a Friday night in this country you know that the vast majority of young people go out on the town spending their wages without a thought to their pension. Their money is literally being p***** up against the wall. Australians are the same, but I know that when they go home every one of them has got a pension account."

Yet any suggestion in the Adair report today that Britain should follow the Australians into a compulsory model will be stamped on by the pensions industry and employer groups.

Critics say compulsion in Australia has failed; that the country's overall savings level has dropped since compulsion was introduced, that it does not provide an adequate level of retirement income, that it has hurt the economy and that, in any case, the demographics of Australia are so different that it cannot provide a model for the UK. Many point instead to the US 401K tax incentives model as the future for Britain.

Ros Altmann, a governor at the London School of Economics, said: "There's no clear evidence the Australian model has worked. The savings ratio has reduced since compulsion was introduced."

The TUC says it is a myth that the savings rate in Australia has fallen and Mr Harris accuses "vested interests" of blocking a proper debate on compulsion in Britain.

Submission 7

I am not an actuary or accountant, nor possess much knowledge of the financial services sector but I am an ordinary member of the public and I have major concerns about the pensions system in Ireland.

Having spent a number of years living and working in Australia I can honestly say that the pensions (or superannuation) system there is vastly superior to the one here, is far more mature and is also easily accessible and understandable to the general public. Ireland's pension system is needlessly complex by comparison (as are a lot of things in this country) and the establishment of PRSA's did not necessarily improve this aspect of things. Defined benefit pensions, especially in the public sector, should also be scrapped. Listed below are a number of ideas I would like to raise.

- Ireland needs a compulsory pension system. There are a number of ways this can be done, but the two principle methods are through a compulsory employer contribution for all employees (whether permanent or contract, full time or part time) between a certain age bracket (say 18 to 60). This contribution could be a fixed % of the employee's gross monthly pay. This would be similar to the Australian system. A second method would be for the government to make compulsory contributions through the tax system, again as a fixed % of a taxpayers gross monthly income. An advantage of the second method is that pension contributions could be made for people who are self employed or receiving benefits and the state pension could possibly be phased out.

- The government or employer could have a default pension fund provider preference, but in all cases the pension fund member should be able to choose, and change, the pension fund that the contributions are made into if they wish.

- A pension fund member should also be able to transfer or roll-over their pension to any fund of their choosing at any time of their choosing in a simple 'user friendly' manner, with no 'exit' fees allowed by the fund provider. This provides the benefits of competition between the pension fund providers and also 'personalises' the pension for the pension fund member. People tend to pay more attention to, or think more about, something that they have a degree of control over.

- Within a pension fund, members should be able to choose from a selection of investment options (but with the default being low risk).

- Pension fund providers would be obliged to issue a bi-annual statement to each member showing all details of the fund including contributions, fees, interest earned, etc.

- As with the current AVC system, pension fund members should be able to make their own contributions and these should be tax free up to a certain threshold.

- Pensions should be preserved until a minimum retirement age. Upon reaching retirement age, a pension fund member can choose to remain in the work force and keep their fund active and continue to make personal contributions.

In summary, unless a simple, easy to understand compulsory pension system is put in place that is engineered to provide sufficient income on retirement, future governments (through income tax or stealth tax hikes and \ or public spending cuts) will end up paying a lot more in state pension, state care, etc. In 25 years the ratio of workers to retirees will be half what it is now. Does the current government have the backbone to implement a proper pensions system without conceding to the unions and various vested interests?

Submission 8

A very quick note in relation to the green paper on pensions:

- Mandatory Pensions: Workers already have to contribute to PRSI, which IS a mandatory pension. Forcing workers to contribute to another mandatory pension will be seen as yet another government stealth tax.
- Tax Breaks: The richest benefit most
- Public Service Pensions: Pensions in the Public Service are overly generous given the world we live in today, although I am currently in such a scheme, albeit for a very short period of time, I do personally believe that the workers who create wealth in this country, i.e. PAYE workers, are being taken for a ride. The only reason behind this fortuitous arrangement is public service votes and not productivity. Why should low paid workers be forced to pick up the tab for expensive public service pensions, while not having a pension of their own?

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 76

I wish to make a submission, with regard to the debate on the challenges and options for the future of pensions in Ireland.

I am strongly of the opinion that the current arrangements, whereby employers are not required to make statutory contributions towards their permanent employees' pension, is failing. Nor do I believe that the current PRSA scheme on offer is equitable or fair.

As a recruitment consultant who talks daily to employers about remuneration packages for prospective employees, it appears to me that defined benefit/contribution pensions are rapidly becoming a senior management benefit only. In most cases the average man on the street receives no contributions from their employer regardless of length of years' service.

This to me seems grossly unfair. We are rapidly breeding a situation whereby society is being divided into two tiers – those who are set to enjoy a happy, safe, content retirement and those who are not.

The reality is that the cost of living in Ireland is now so high (housing costs, childcare, transportation, education and medical) that most people, particularly young people, do not and cannot make regular contributions from their net income towards a personal pension.

Submission 77

I wish to make a submission re Green Paper. I believe that raising the effective retirement age will be good for the individual and for the economy as well.

I personally believe that we should have the opportunity of working beyond the present retirement age subject to job opportunities for young people and to one's health. I am approaching the retirement age in June 2009 and I would welcome the opportunity to work on for a few more years.

I believe that everyone should contribute to a private pension plan to some extent in addition to paying the Stamp. Sooner or later, this will have to be introduced to stop the drain on the Revenue from Unemployment, Health Payments, etc.

The net effect is that most people are facing into a situation where they will have to depend upon an inadequate state pension to see them through their later years. I firmly believe we are sowing the seed of major inequality and social upheaval for the future.

The solution to this is to make pensions compulsory and to force employers to make specific contributions towards their employees' pensions. If an employer elects to employ the labour of a man or woman, that employer should contribute towards that person's retirement fund when he/she is physically no longer able to work.

I understand that government policy is increasingly moving from centre to right, but if we continue to marginalise people at the expense of corporate profits, a time will no doubt come when a great swathe of older people will use their vote to affect a new direction.

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 162

If the State is to compel citizens, by law, to make a MINIMUM contribution to private pension schemes, to supplement the basic State (Social Welfare) Old Age Pension scheme, then it should guarantee a MINIMUM return/ defined benefit for such mandatory contribution.

The competence of the private operators of pension schemes, usually insurers, varies from satisfactory to very poor. Performance can vary significantly over 5, 10, and 15 years or longer. A pensioner can be badly affected by a sudden downturn in the markets within the last 5 years months of his/ her working life.

Due to uncertainty over future performance in the equity/financial markets, most pension fund operators no longer offer "defined benefit" schemes and only have "defined contribution".

To require citizens to make minimum contributions without any guarantee of any/ minimum return, would be equivalent to requiring people to make regular minimum bets from their earned income with a bookmaker!

The State should underwrite a minimum return for pension contributions, as by incentivising compulsory private pension schemes, it will reduce pressures to greatly increase the State pensions/expenditure in future years.

Submission 168

In response to your request to the general public to make submissions on the above issue I am making the following comments:

Those who are employed in the public sector e.g. civil servants, gardai, nurses, etc., are adequately provided with pensions as are those in large businesses e.g. Banks, building societies etc. There is no legislation which obliges private sector employers to contribute or to provide a pension for their employees. In general these tend to be small to medium sized employers. The result is that thousands of private sector employees have no pension and therefore will be reliant on the state pension which is inadequate or insufficient.

Many people do not worry about the future and make no financial arrangement for themselves or their families. The state will have a large bill to pay as growing numbers of employees are now living and working to retirement age and beyond. In fact, some people have to keep working past retirement age as they have no pension or the state pension is insufficient.

It is up to the government to bring in legislation obliging employers to provide pensions for private sector employees. Of course it should also be in the legislation that the employee is also to contribute to his or her own pension pro rata. This would alleviate the growing burden on the state. Of course this legislation may not be well received in some sectors. However in the long term employers, employees and the state will benefit.

Submission 172

Aware of the Government's concern to encourage employees to take out pension, I think that employers should be obliged to make a minimum pension contribution in the same way as employer's PRSI is an inbuilt cost of employing staff. Likewise, a minimum employee contribution should be standard. Where the state provides funding to organisations beyond the public service realm, the cost of the employers contribution to pension should be an inbuilt part of the grant.

I look forward to seeing the green paper when published.

Submission 186

Just looking at your website about pensions. I think the first thing you should do about pensions is to make employers contribute to employees' pensions. I am working 32 years in my job and my employer will not contribute to my pension. I am just paying money in every week myself. It should be made compulsory that employers contribute to employees' pensions.

Submission 193

An objective of the Green Paper on Pensions set out in the Government Foreword is to consider among other things, "*incentives for supplementary pension saving*". It is surprising therefore that, apart from a brief reference at paragraph 7.9 to the need for Revenue approval of private pension fund arrangements and occupational schemes, the paper fails to explore what impact the restrictions imposed by Revenue might have.

One of these restrictions prohibits investment in simple savings products which, since they require no investment advice or management costs, would involve no management fees or fund charges. These savings arrangements involve none of the risks associated with stock market volatility and would be an attractive option for the risk averse provided they were underpinned by easily understood incentives.

Paragraph 7.71 of the Green Paper considers the motivations of those who do not currently invest in pensions. This paragraph and others in the report, refer to the relative reliability which can be attached to assumptions about people's motivations. It does so in terms which imply that these questions of motivation are of their nature imponderable and are not amenable to in depth analysis. In fact, a professionally conducted market research exercise would yield useful information which would go to the heart of the issue which the Green Paper is designed to explore: how can people be persuaded to make better provision for their retirement?

This proposal suggests that the complexity of the tax system, the vagaries of the stock market with its attendant risks, and the tax relief restrictions imposed by the Revenue Commissioners act in combination to reduce the incentive to invest in pensions. A system is required which is simple to understand, where contributions and incentives can be easily administered, and where those not in a position to evaluate the merits of other forms of investment, can have access to a state supported scheme which will give them reasonable assurance of a long-term return on their investments.

Voluntary Social Insurance Scheme

This submission suggests that, to motivate the risk averse to make better provisions for their retirement, tax incentives should facilitate investment in simple savings arrangements. The scheme could have the following features:

1. Contributions to be made by deduction from salaries to a Voluntary Social Insurance Scheme which would be additional to the current compulsory PRSI scheme. All employees to be enrolled by default with a contribution rate of 9% but with an opt out facility.

2. Contributions via a state agency such as the An Post to be facilitated for those not in employment.

3. The compulsory PRSI scheme to provide for minimum payments on retirement and during periods of unemployment as at present. The voluntary scheme to provide for additional payments on retirement only, linked to the level of contributions.

4. In lieu of tax relief, the voluntary scheme to be topped up by the exchequer with a Voluntary Social Insurance Scheme general incentive on a €1 to €1 basis, with a higher incentive than this ratio to be provided to the lower paid. Any additional costs involved to be offset by adjustments to the tax relief currently available on pension contributions to those on higher incomes.

5. The voluntary fund to be ring fenced and managed perhaps by the National Treasury Management Agency. An account to be kept of the value of each individual fund and statements to be issued periodically along with any appropriate advice where relevant on the need to increase contributions.

6. The same restrictions as apply to PRSAs to be applied to withdrawals from the voluntary funds – withdrawal upon retirement only, except in exceptional circumstances.

7. A suitable annual cap to applied along the following lines:

    1. a maximum value to be set for the total value of all funds held for the benefit of a taxpayer above which no tax relief or Voluntary Social Insurance Scheme incentive payment would apply;

    2. an age-related ceiling to be applied to the annual contributions which can be made to all funds, the calculation to take account of all contributions made, whether by employer or employee to private schemes, occupational schemes and to the Voluntary Social Insurance Scheme;

    3. the age-related cap to be so designed as to provide an incentive for those nearing retirement age to defer retirement and continue contributing to the fund.

8. The voluntary scheme to be backed by a state guarantee, with guaranteed returns linked to prevailing interest rates, and/or with guaranteed retirement benefits linked to inflation, to average earnings or to be based on annual actuarial calculations.

Voluntary Social Insurance Scheme – Advantages

The advantages of the scheme are set out below in the context of various issues addressed in the Green Paper on Pensions.

1. Paragraph 4.59 cites a statistic from the Quarterly National Household Survey (Q4 2005) which shows that 23.3% of people without a pension opted to invest in an SSIA. There is evidence that a simple savings scheme with matching contributions by the exchequer has an attraction for those currently without pensions.

2. The proposed scheme meets the stipulation set out in paragraph 6.25. Its lack of complexity allows people to see clearly the benefits arising from their contributions and the provision of an annual statement of account allows them to watch their savings grow.

3. The scheme conforms in principle with long standing Government policy set out in paragraph 6.54 which requires that individual pensions be provided through expanding PRSI coverage. The voluntary scheme proposed is in fact a Pay Related Social Insurance scheme, differing from PRSI only in the fact that it is voluntary and in the stipulation that benefits be paid only on retirement.

4. The proposal is in keeping with one of the objectives specified in paragraph 3.122 "t*o ensure a close link between the level of contributions made and the benefits accruing*".
5. Paragraph 6.146 suggests that the PRSI system needs to be examined to provide a personal entitlement to spouses assisting in family businesses or farms. The scheme proposed provides such an entitlement for all who contribute towards it.
6. The cap envisaged in the proposal removes the anomaly referred to in paragraph 7.13 whereby the age and earnings-related restrictions on tax relief for pension contributions are effectively lifted in the case of employer contributions, which are specifically exempted from being taxed as a benefit-in-kind.
7. The proposal is broadly in line with the report *Special Savings for Retirement* produced by the Pensions Board and cited in paragraph 7.67 which recommends "*that the State incentive for personal contributions to Personal Retirement Savings Accounts (PRSAs) be granted by means of a matching contribution of €1 for each €1 invested (subject to a maximum amount)*. It is in line also with the Pensions Board recommendation that incentives to the lower paid should be provided at the same rate as top-rate payers although it calls for a higher incentive for the lower paid.
8. The proposal is an effective response to an issue raised in general in various chapters of the Green Paper: the question how the growing cost of Social Welfare pensions can be met. The voluntary scheme is funded by those who contribute towards it, with the existing PRSI scheme catering for those not in a position to make any contributions.

Impact on Private Sector Pension Market

The proposed scheme is designed to be funded by contributions. It will involve neither a gain nor a loss to the exchequer and there are no hidden subsidies. As such, issues of unfair competition with the private sector do not arise. In any event only one question should prevail: whether the adoption of a state-sponsored scheme will increase overall the level of provision made for retirement by the population at large. If this can be done in a way which involves no cost to the exchequer; it should be done.

The rationale for the Green Paper is that the existing arrangements for supplementary pensions do not work. They fail to address the long-term funding needs of pensions. Thanks to Revenue applied restrictions, these arrangements involve the private sector exclusively. It would be a pity if the pensions lobby stymied attempts to introduce an effective public sector alternative.

Submission 201

I wish to address pensions in Ireland and believe that if we are serious about our future that all apprentices and workers should make financial contributions now for their future pensions. This can be achieved by unions and government working together and deducting from wage packet, workers can continue to contribute as they change employment.

Submission 214

The current system of private pension provision has failed under every relevant criterion. Millions of euros of public and private money have been spent on promoting and advertising private pensions. Billions of tax-revenue has been forgone in subsidizing them, yet take-up is poor. For those who have invested, the outcome in terms of providing a decent retirement income has more often than not been disappointing.

If private pensions were perceived as good value, more people would buy them. However, it is plain to see that in spite of all the promotion and advertising, most people believe private pensions are bad value. Over the last decade the average return on Irish pension funds has failed to beat even inflation. The private pensions industry has delivered rotten value both to individual policy-holders and to the tax-payer.

The industry will point to exceptional factors, such as two market downturns during the last ten years as the reason for its underperformance. However, there is no guarantee (or expectation) that the next ten years will be any better. In any case, it would be expected that the funds would earn at least enough to pay for the generous charges and fees the fund-managers award themselves for managing our pension-funds (irrespective of whether they increase or lose our money). They don't. The only thing which makes these fees and charges sustainable is the fact that they are disguised by the tax-subsidy on the income invested in these funds. It would be hard to avoid the conclusion that all this forgone tax-money has done little to further the social-end (decent pension-provision) for which it was intended, and has gone largely to sustain and subsidize these fees and charges. It has been a bad use of public resources.

And what are we paying these fees for anyway? The sum total of investments IS the market. Factoring out the overall rise and fall of the market (which the fund-managers are at pains to tell us are beyond their control anyway) investment in the market is a 'zero-sum-game'. For every fund that beats the market, another will be a commensurate loser. Given that it is impossible to predict net winners or losers over any given time-period, what are we paying for?

We shouldn't really be surprised. There is a precedent – the endowment-mortgage scandal. Private pensions are exactly the same instruments as endowment-mortgages in every salient aspect. The only difference is that one is supposed to discharge the loan on your home; the other to buy an annuity. It is nowadays accepted that pushing an endowment mortgage on the average borrower would constitute miss-selling. Why then should it be considered prudent to fund our retirements with products which are considered too dodgy to finance our homes?

The private pensions industry has had its chance. It hasn't produced the goods in spite of billions of euros in tax-subsidies. Neither will it. All its proposals are merely permutations of the schemes which have served the financial services industry so well and the investing public so badly.

Finally, there is no avoiding the fact that because of the other pressures on family-income, investing in pension provision will be a low priority for many people – particularly the young. If universal pension provision is the desired end, some form of compulsion will be necessary. However, two decades of banking-scandals which has led to a low level of public-trust in the financial-services sector, and the notorious bad-value of private pension products, make it unacceptable to force people into the type of schemes operated by the financial services industry.

My Proposal:

My proposal is a universal, compulsory, and portable pension-scheme managed by an agency akin to the NTMA. This agency (Let's call it the National Pensions Management Agency or 'NPMA') would manage the national pension fund.

The scheme would apply to all employees, and the self-employed. Within a comprehensive system, the rationale for separate pension systems for public and private employees would no longer exist, and the new system would apply to all persons entering public employment once the scheme becomes operational.

1. The basic state pension would be the entitlement of every retired person upon reaching the designated retirement-age.
2. All pension income, including the basic state pension would be taxable as income. However, the tax-threshold for retired persons would be set significantly above the level of the basic state pension.
3. All persons would be assigned a "Personal Pension Account" (PPA) in the same manner as they are assigned a PPS No. These accounts would remain the private personal property of the account-holder. **These pensions would be separate and additional to the basic state pension.**
4. A small statutorily fixed percentage of all income above a set threshold would be payable into the PPA in the same manner as income-tax is payable to the Revenue.
5. In addition, income-earners would be allowed to invest up to a combined total of 15% of their gross income in their PPA. This additional contribution or investment could be provided by the earner and/or employer. Employer contributions could be a matter for individual or collective negotiation and agreement between employee and employer. Employer and employee contributions in respect of permanent and tenured public employees could be fixed by law.
6. All money invested, whether by employee or employer, would be exempt from tax on the part of the contributor.
7. Self-employed persons could still opt to invest income (other than the statutorily fixed percentage) in private pension-schemes. The maximum 15% of income qualifying for tax-relief would apply.
8. The PPAs would be managed in gross by the NPMA. The NPMA would be responsible for devising a suitable investment-strategy subject to criteria set by law. (A very widely-spread and conservative portfolio would probably be the result, with a portion of the fund kept in government-bonds and cash in proportion to the number of PPA-holders nearing retirement). The proportion of any individual account

notionally assigned to equities, bonds, and cash would vary according to the age of the PPA holder. As a result, gains in the funds transferred into the PPAs as income would be according to a published formula relating to the age of the PPA-holder.

9. The administration of the scheme would be financed by a levy on investment income earned on each account (As distinct from a levy on contributions paid into the accounts). This means that in times of poor or negative investment returns subvention might have to come from the exchequer. Alternatively, the levy could be increased in times of better market-conditions.
10. Each PPA-holder would be able to inspect (on-line, or at government offices) his or her PPA. Each account-holder would be furnished with a full PPA statement on an annual basis, or on demand. However, until retirement the PPA would remain "virtual" insofar as it could not be drawn down.
11. The capital sum invested in PPAs would be guaranteed by the government. This amount would be shown on the account statement, as would the current value, and the accumulated administration charges. Accounts would be automatically updated at the end of each month.
12. PPA-holders would be able to take their pension at any time after the age of 55. The NPMA would produce and publish on a monthly basis a table or index showing the actuarially calculated reduction in benefits applying to persons retiring before the age of 65 (and the increase for those delaying retirement after 65). The PPA holder would not be allowed take his or her pension below the age of 65 unless the PPA was capable of funding a pension equivalent to the basic state pension.
13. The NPMA would produce and publish on a monthly basis a table showing the retirement lump-sum and retirement salary purchasable from the NPMA corresponding to the balance held in the PPA on retirement. (The lump-sum component would be the elastic element, contracting in times of lower investment returns)
14. Upon the death of the PPA-holder before retirement, the PPA would be assigned to the designated dependents of the deceased PPA holder in the normal manner.
15. An independent board of overseers would be established to deal with the NPMA on behalf of the PPA-holders and to deal with queries and complaints.

Submission 232

Cllr. Jimmy Mc Garry
Twin Oaks, Oakfield, Sligo

1) Registered Employment agreement (construction Industry Pensions assurance and sick pay) 1946. Forces all employees to contribute €21.49 per week and their employer to contribute €29.78 total payable €51.27 (2007 rates) fixed rate no matter how much earned.

- **Pensions board comment on this point** : Employers who provide an occupational pension scheme do so on a ***voluntary basis***. There is no legal requirement under the pensions act 1990 as amended "The Act" for employers to provide an occupational pension scheme for employees. Since September 2003 employers do have an obligation to provide employees with access to some form of pension arrangement (either an occupational scheme or a PRSA). But they do so, on a ***Voluntary basis.***

- **Pensions Ombudsman Mr. Paul Kenny's comment on this point:** Several industry wide agreements are in force which are "***voluntary***" to the extent that they represent an agreed and negotiated arrangement between employers & employees and unions in the particular industry.
- **Recommendation:** Amend agreement so that contributions are voluntary, like most private pensions or remove fixed rate and apply on a pro rata basis that is a percentage of wage earned.

2) Temporary part- time unskilled workers, working one morning a week, earning for example €100 per week, are forced to pay the same fixed rate (€21.49 from employee and €29.78 from employer, total due per week €51.27), as a fully skilled permanent worker earning for example €2000 per week.

- **Pensions Ombudsman Mr. Paul Kenny's comment on this point:** This is definitely a flaw in the system. The REA provides only for the agreed national average pay for operatives which is 7% of a nationally agreed figure something like €767 per week.
- **Recommendation:** Amend agreement so that contributions are voluntary, like most private pensions or remove the fixed rate and apply rate on a pro rata basis that is a percentage of wage earned.

3) Promulgation of the act. (i.e. notifying persons concerned of their obligation). Most small self employed persons are not aware of the act. When you register with revenue you are immediately informed of your tax obligations. Unfortunately most small self employed persons only find out about their obligation to the REA when a CIMA (Construction Industry Monitoring Agency) agent approaches them on site. At this stage they have probably been operating for a couple of years without any knowledge of their obligation. Therefore they would not have implemented the charge in their invoices. They are then subject to pay all arrears, which have put some small self employed persons out of business as the money for the pension was never implemented into their invoices.

- **Pensions Ombudsman Mr. Paul Kenny's comment on this point:** The legal principle here is that ignorance of the law does not justify failure to comply.
- **Recommendation:** Put some system in place that when you register with revenue for the construction industry, that a leaflet is given with REA obligation.

4) Some employers are making contributions others are not. This is mainly due to point number three, they are unaware of their obligation

- **Pensions Ombudsman Mr. Paul Kenny's comment on this point:** I agree that some employers are making contributions and others are not and that there is uneven policing of the agreement, with some employers paying from the date they are approached by a CIMA monitor while others have to pay arrears. (His own office deals with arrears going back as far as 1996.)
- **Recommendation:** Put some system in place that when you register with revenue for the construction industry, that a leaflet is given with REA obligation.

5) Pricing competition in the North West. Employers in the North West can be undercut greatly when pricing a job by people in the north as they are not obliged to contribute to the REA (Registered employment agreement). Therefore local people end up not getting the job. Which is contributing to unemployment.

- **Pensions Ombudsman Mr. Paul Kenny's comment on this point:** The scheme does impact differently upon different employers It is more of a burden on smaller employers and it is a particular burden to employers in the area of the Northern Ireland border counties, as there is considerable competition from across the border in terms of construction work. Smaller employers are also more likely to employ lower skilled workers and part-timers, who are certainly more than proportionally impacted by the Registered Employment Agreement and the scheme. The only thing I can say to this is that smaller employers greatly outnumber larger employers in this industry, in terms of the numbers of employers, if not in terms of the numbers of people employed. ***Only when smaller employers can get together and make their voices heard is any change likely***.

- **Recommendation:** Set up a system for small employers to come together and have their voices heard. Contact Cllr. Jimmy Mc Garry in confidence.

6) Causing unemployment as small employers and employees cannot afford the fixed Rate.
- **Recommendation:** Amend agreement so that contributions are voluntary, like most private pensions or remove the fixed rate and apply rate on a pro rata basis that is a percentage of wage earned.

7) Avoid discrimination against low income earners.
- **Recommendation:** Amend agreement so that contributions are voluntary, like most private pensions or remove the fixed rate and apply rate on a pro rata basis that is a percentage of wage earned.

8) Avoid discrimination against part-time, temporary unskilled workers
- **Recommendation:** Amend agreement so that contributions are voluntary, like most private pensions or remove the fixed rate and apply rate on a pro rata basis that is a percentage of wage earned.

9) Avoid discrimination against small self employed, employers
- **Recommendation:** Amend agreement so that contributions are voluntary, like most private pensions or remove the fixed rate and apply rate on a pro rata basis that is a percentage of wage earned.

Conclusion from Pensions Ombudsman Mr. Paul Kenny. The whole problem here is that this is a scheme which was thought up to cater for a whole industry and as such, it is a blunt instrument whose impact varies quite considerably from one employer to another. While it is my custom to feed back to the policy area of the Department of Social & Family Affairs and I will definitely feed back in my own response to the forth coming Green Paper on pensions, the existence of the Registered Employment Agreement is actually an industrial relations matter and outside the remit of this office.

Submission 236

I attach several papers and articles I wrote in recent years on the National Pensions debate. Together they critique proposals and costings made by The Pensions Board in their reports, National Pension Review (2005) and Special Savings for Retirement (2006), and provide an alternative proposal that provides considerably better value for money to contributors and therefore must be regarded as preferable by the State.

To summarise, to the point of being unjust to the arguments I advance in the papers and articles attached, my key points are;

1. individual pension savers of modest means or those mandated to save must be considered risk-averse

2. Low risk investments to provide for a pension are index-linked bonds of suitably long duration with low credit risk

3. For mandated pension savings designed to provide a minimum pension, investment in low risk instruments should be compulsory

4. The costings in the National Pension Review (2005) and Special Savings for Retirement (2006) are not market-consistent (that is, the assessed present value is significantly different to the market value). They assume an inappropriate investment strategy with too high a level of investment risk. The Reports do not model the possible consequences of the investment risk assumed, but take full account of the expected risk premium. This materially overstates the pension from any given level of contributions or, equivalently, materially understates the contributions for any given level of pension.

5. The costings and commentary provided in National Pension Review (2005) and Special Savings for Retirement (2006) conceal the very large impact of administration and other costs associated with personal retirement accounts. It is shown in the papers attached, that compared to a sustainable partially prefunded and partially PAYG system, the ultimate pension payable by such personal retirement accounts will be 10% to 20% lower for the same level of contributions, due to the lack of economies of scale.

6. In short, the arguments developed in the papers and articles are opposed to the introduction of special retirement savings accounts suggested in Pensions Board (2006) report. Figures presented show that, for the same level of contributions, such accounts will lead to pensions lower by at least 10 per cent, and probably closer to 20 per cent, than those delivered by the alternative sustainable PAYG system proposed.

The attached papers, with in-depth discussion and analyses, are:

1. *Valuing Ireland's Pension System*. Quarterly Economic Commentary, Summer 2007, 55-80.
2. *Constructive Critique of Pension Policy in Ireland.* Forthcoming in Proceedings of the 21st Annual Conference of the Foundation for Fiscal Studies 2006 (48 pp)
3. *Vote of Thanks to Hills, J. (2007), Demographic trends and the future of pensions in the UK.* Journal of the Statistical and Social Inquiry Society of Ireland, Vol. XXXVI (read before the Society on 19th April 2007, Belfast).

The attached articles, with a concise summary of key arguments, are:

1. *A Principled Approach to the National Pensions Debate. Irish Pensions Magazine. Vo. 2, Spring 2007, 12-15. [Cover Story]*
2. *Individual Retirement Accounts are Less Efficient than State Pensions,* Finance, Vol. 21, No. 7, 10, August 2007.

My further research on pensions, pension investment risk, risk in capital markets and projecting longevity of pensioner is available on-line at: http://www.ucd.ie/statdept/shanewhelan/publicat.html.

Submission 246

Some years ago I put forward a couple of ideas regarding pensions in Ireland. This was based on the declining birth rate against death rate and an aging population over 65 years.

The benefits to industry and the country by keeping people over 65 at work by using their expertise, knowledge and experience is un-calculable. Also it would take a lot of the financial burden from the existing pension fund and allow it to be better regulated.

(1)

1. (1) People in certain occupations which does not demand a great deal of physical work could easily work up to 70 years of age. From the age of 65 they could retire any year after that if they felt the work was too strenuous or their health was not up to doing the work.

   As an incentive

2. They would not have to pay Social Welfare contributions after 65.
3. The amount of their pension would be included in their tax free allowance from 65 as an incentive.
4. People with a superannuated pension would be given their lump-sum at 65 and their pension when they retire.
5. They could also be allowed to build up "A" stamp credits if they needed them to increase their Social Welfare Pension entitlement when they retire.

To use as an example:

It would probably be best to take one firm and use it as a model. FAS has a number of pension schemes and also different types of work force and therefore ideal to see if it was possible for it to work.

(2)

If a scheme was designed where every PAYE worker paid a sum of say €5 per week and this money was invested. The money would be deducted even if they were drawing unemployment benefit. People not on PAYE would be allowed to opt into the scheme.

After five years the interest was paid to those who retired while the capital sum was still being collected. After a certain number of years the interest would not only pay the increase in inflation but would do away with the government's contribution altogether and give a pension that people would be able to live on comfortably.

Year 1. 2m workers @ €5 = €10m per week 52 weeks = €520m + interest

Year 2. €1040m Capital Sum + Interest

Year 3. €1560m Capital Sum + Interest

Year 4. €2080m Capital Sum + Interest

Year 5. €2600m Capital Sum + Interest

Year 6. €3120m Capital Sum

The interest from this year would be paid out to the people on the pension register. When the interest exceeded the cost of living the additional amount would be taken off the monies paid by the Government.

Eventually the monies paid by the Social Welfare Pensions would be reduced and the people would have a guaranteed pension which would give them a good standard of living.

The capital sum would never be touched. Running expenses would be paid from the interest.

Year 7. €3640m Capital Sum

Year 8. €4160 Capital Sum. And so on

To set up the scheme by using the first weeks money, hire staff, buy equipment and premises required to run a successful organisation. The whole thing would eventually belong to the members. The staff would be totally independent of any influence from Ministers or Government but would be overseen by an all party committee in the Dail which would have no say except as watching brief.

This is not a quick fix, but a long term solution to the problems of people pensions.

Submission 255

I have worked for nearly 20 years (in a voluntary capacity) in the provision of social housing for the elderly, day care facilities for the elderly and I see the plight of people who have had none or little pension provision (most of the clients I have experienced are returned emigrants who worked in low paying jobs in the UK or US or who wasted any money they saved.) They returned to Ireland as poor and with no home to return to.

In my own life, I have always had a personal pension and lately a PRSA. No employer, despite my loyalty and trust, has ever given or offered an employer contribution to my pension. I have worked in the private sector for nearly 25 years. I am 45 years of age and I take a keen interest in current affairs and the gaps in the social structure in the country.

I believe that the retirement age should not be moved from 65 years of age. Doing this will penalise people in the low paying jobs, or people who never had proper employment. The high earners and public sector will not be affected. We should allow people over 65 years to continue in any job if they wish and let them work tax- and PRSI-free from the age of 65 providing they frontload the tax/PRSI foregone by the State in to their final pension fund which should ultimately benefit the pensioner and reduce dependence on the state.

There should be a minimum state pension for all persons over 65 as is at present , a statutory pension contribution scheme for all employees like construction industry pension scheme where employees and employers contribute to it. Employers and employees would contribute. A minimum amount (%) of gross pay tax-free like the PRSA would operate for any yearly earnings.

A beefed-up Pensions Board to control and administer the scheme and control the employer and employee contributions linked to the Revenue Commissioners.

The Pensions Board to maintain a stricter control on the pension providers on costs, management charges and returns on investment equal to estimated return, i.e. make them more accountable by ensuring the best return to the pension account owner.

Therefore, all working persons would have a pension fund to top up the minimum state pension and ultimately reduce our dependence on the state.

There is a case as well where the PRSI system could be revamped as part of any change to the PRSA / new statutory contribution scheme to encourage voluntary contributions and a new state scheme where all employees and/or employers would pay a (%) of income to a full health coverage covering hospital, GP and medicine costs. The minimum contribution would cover a basic health cover and enhanced cover would require a larger contribution from the employee allowing persons to choose the level of cover. The VHI, Vivas and Quinn could be employed to handle this scheme. If the health service is accountable and transparent, people will be willing to pay more taxes for a proper service. The link to pension is important in that a universal contribution scheme to healthcare would mean people of my age group would be assessed for health problems at a younger age for free, avoid a greater cost at a stage later in life at a greater cost to the taxpayer, and clogging up the health system and live longer to be able to enjoy the fruits of their pension scheme.

Submission 265

I feel I have been discriminated within the Social Welfare system. I have been a lone parent since 1991. During that time, I stayed at home to raise my seven children and only returned to work in the last two years, when my last child started school. I find now all those years spent looking after and caring for my children, that I have no credits built up for a pension in my later life. I am looking for credits for all those years of caring. Both for myself and countless other women who chose to raise their children at home themselves.
I have been involved in the National Women's Council social welfare campaign. I see the need for women's economic independence as a priority in combating women's poverty in older years. The majority of those over 65yrs, especially women because they live longer, are solely reliant on the state pension through the social welfare system for their income. (And 36.2% of women over 65yrs are at risk of poverty). The Irish social welfare system, based as it is on a male breadwinner model, discriminates against women. And defines many older women as 'qualified adults', deriving their pension rights through their husband's contribution record and receiving a reduced payment on their behalf. The system thus reinforces women's dependency on men as the primary earners.
The National Women's Council of Ireland - Comhairle Naisunta na mBan, a non - governmental organisation, is the national representative body for women and women's organisations in Ireland.

The National Women's Council of Ireland works to achieve change through a very broad range of action and activity. Increasingly their work is carried out in partnership with other organisations in the public, private and voluntary sectors.

As an affiliated group of the National Women's Council we share a common vision.

My aim is with the help of The Nation Women's Council of Ireland to provide a decent pension for all, particularly women. To ask for recognition for women who chose to stay at home and care for some one be it child, husband, or parent. To look for credits for that time of caring in order that I and they may have a decent standard of living in or retirement age. Also women who were affected by the marriage ban.

As the collective voice of women, The National Women's Council is committed to securing economic independence for all women whether working as carers in the home or in the formal economy. We see Pension policy as an essential component in the work of ensuring women's economic independence.

Pension Policy affects the lives of all women - young and old, working in the informal or formal economy. Pension policy particularly affects women who, due to the nature of our taxation and social security systems, are economically dependent and women who are living in, or at the risk of poverty.

Women's access to pensions was historically restricted and reflected the general male breadwinner character of social welfare, taxation and employment arrangements: one of the first tasks of future reforms should be the final removal of discrimination.

Fewer women than men in old age have independent access to pensions and that the level and sources of their income in old age differ from those of men. These differences arise from past and current differences between men and women in relation to their respective roles in the economy and the family: women still earn less, work fewer hours and withdraw from the labour market to a greater extent than men.

We are concerned that the government, for instance, has attempted to make the case for mandatory supplementary pensions because of the low take up of voluntary (supplementary) pensions. Such a reform would tie the pensions system as a whole *more closely* to the nexus of employment and earnings and would therefore exacerbate rather than mitigate gender inequalities.

These concerns are all the more important in light of the fact that women comprise a majority of the older population.

If state pensions are not adequate, women lose relatively more than men, as women are more likely than men to rely on state pensions. We have a shared vision with the NWCI in which we want to see a society where men and women enjoy the same power to define their lives and the type of society they live in. It is a vision of the future in which both care and employment are shared more equally by men and women and which achieves gender equality outcomes. In pursuit of this vision pension policy needs to promote the following gender specific principles:

- **Economic autonomy.** Financial autonomy and individual entitlement are core characteristics of a feminist pension model. The key challenge for a feminist model is to move to a feminist model of pensions where women have <u>direct</u> pension rights.
- **Labour Market Equality.** Gender inequality in pensions is primarily a function of cumulative labour market inequality. A woman friendly pension cannot happen without measures to address gender inequality in working life and without reforms to support and maximise high levels of female labour market participation for considerable periods of their adult lives.
- **Facilitating atypical work.** Gender equality in pensions requires a pension model that recognises and rewards all labour market participation.
- **Ethic of care.** No reform can be complete without the development of a care contingency that enables care work to be facilitated and respected and that enables women to have pension cover and maintain pension contribution records during key stages of care.
- **Equal sharing of care obligations.** The method of facilitating and/or compensating for time spent caring during working age and caring should not disproportionately lock women into long-term patterns of caring . This requires the State to invest in a child and elder care infrastructure and also requires the state to have parallel policy promoting men's full engagement with care obligations. This can be achieved by way of statutory family friendly policy, obligatory paid paternal leave and supporting

traditionally male employment sectors to engage more fully in developing work life balance policy and culture

- **Pension equality or pension justice.** While working towards greater gender equality in terms of participation in care and employment the pensions system must not reinforce and must be capable of compensating for the disproportionate time women spend in periods of care and the wider gender equality women experience in the labour market

Include women affected by the Marriage Bar

- **Retrospective pensions justice.** The pensions model must be able to compensate for the disproportionate time older Irish women have already spend in periods of care and the significant historical discriminatory practices (until 1973 married Irish were banned from public employment and women also experienced other discriminatory policies and practices) which led to significant gender inequality in the labour market.

Special attention is drawn here to principles of *economic independence* for women and an *ethic of care* that values and rewards care in the context of gender neutral care policies. These principles have implications for many aspects of pension provision. At a *general* level it requires policy makers to ensure that the pensions system as a whole is not predicated on male lifetime patterns of work and earnings: on the contrary, we insist that women's continuing experience of lower earnings, fewer years employment and greater contribution to unpaid care work should not exclude them from an adequate, independent pension in old age.

Gender and pensions- Overall strategy

The policy principles reflecting the concerns of the organisation: I and the NWCI and the international experience of pension provision and reform suggest the following strategic lessons for Ireland.
The critical decision is the relative importance in the pension system of the first-tier state pension. Specifically, the core of the pension system should be an *adequate, comprehensive pension guarantee* for all individual men and women. The stronger the first tier of pensions, the lower the level of poverty and the greater the access women have to an independent pension in old age.

- In relation to adequacy, the structure and amount of state pensions should build on the so-called 'paradox of redistribution'. Policy should not only *prevent financial poverty* but *guarantee a decent quality of life* by offering income replacement levels significantly above the 'poverty line' rather than targeting means-tested pensions to those on lower incomes to alleviate their poverty
- The redistributive impact of pensions arises not only from the generosity (or otherwise) of pensions but also from *the mix of direct state expenditures and indirect tax expenditures.* Even if these are not wholly equivalent, there is a clear trade-off between tax subsidies (for example to occupational and private pensions) and

improvements to the state pension. Indirectly, women benefit less than men from tax expenditures and therefore general equity considerations and gender equality principles suggest that reforms should focus on a considerably enhanced state pension in the context of a more limited use of tax allowances for supplementary pensions.

As a collective voice with the NWCI we acknowledge that a pension appropriate to Ireland's evolving circumstances requires *the development of a second-tier pension*. However, NWCI suggests that neither the recently introduced PRSA scheme nor the option of a mandatory second-tier pension is appropriate for women. Aside from general social arguments against such provisions (shifting of risk to individuals, uncertain pension outcomes, need for tax support, the inability of such reforms to improve the incomes of current pensioners) these pensions tie the second-tier directly to workers' capacity to fund pensions and therefore to their incomes and employment: this would be to women's disadvantage.
Stressing that the critical issue is the link between the first and second tier, we propose that, if a second-tier pension is to be introduced, it should take the form of *a state earnings related pension* that builds on the existing, widely accepted social insurance system. This should have low entry thresholds in terms of income and hours worked, offer scope for credits for periods of non-employment for care, and apply an earnings formula that allows women to reflect their 'best' years in terms of ea

<u>Recommendations</u>

<u>Gender and Pensions- specific reform priorities</u>

We recognise that in developing this vision of a pension model specific short-term reforms are required in themselves and as steps that are incrementally consistent with the recommended longer–term strategy.
<u>Comprehensive Pension Guarantee</u>

Make adequacy and individual entitlement the immediate, core function of first tier pensions.

Over a time period introduce an adequate universal pension for all over 66 and resident in Ireland for a minimum of ten years with a value of 1/40th pension for each year of residency.

<u>Social Assistance aspects of pension provision.</u>

1. The means testing system needs comprehensive reform to ensure maximum coverage and maximum level of individual entitlement within a partial household resource test. All of these reforms could be introduced in the short-term.
2. Full individualisation of marriage-based old age non contributory pension;
3. Introduction of means-tested parental allowance as discussed in DSFA (2006);
4. Abolition the 'limitation rule' and the qualified adult allowance and changes to the

household means test formula to maximise economic autonomy
5. Reform of Carer's allowance/Benefit into a 'wage' - facilitating care of older and infirm people to be valued as paid work
6. Information campaigns, administrative changes and resources to ensure consistency in regional application of guidelines, so that each individual man and woman is exercising his/her full potential to be an individual claimant.

<u>Social Insurance aspect of pension provision</u>

1. As a long term objective, introduce an income replacement function into social insurance, but more immediately introduce a gender sensitive income replacement function into social insurance old age contributory pensions by:
2. Ensuring maximum eligibility by permitting short time spans for minimum entitlement, moving away from an average contribution test to a shorter time span for testing contributions, switching from rewarding 'maximum number of years' contribution records to a 'best of' rule over shorter periods that allows the most beneficial period to be chosen for pension contribution periods.
3. Ensure benefit calculations advantage women by avoiding averaging over 'last' years of employment when the gender pay gap can be more pronounced, and having tiered gradual movements across contributions-based entitlements and across averaged earnings.
4. Maximise access by enabling easy re-entry after periods of disruption; this would entail reforming the S.57 SI 312 1996 rule, according to which a person with no SI record for more than two years must have 26 paid contributions before credits can be awarded, and would also reform of social insurance contribution rules to enable relatives assisting, including spouses of self-employed and farmers, to be insured as employees.
5. Accommodate care and address previous pension injustice by transforming homemakers' disregards into credits and awarding these retrospectively from 1973.
6. Promote a gender neutral care ethic by introducing paid parental leave benefit for parents of young children
7, Acknowledge the previous injustice of the 'marriage bar' with a once-off, ring fenced retrospective scheme

<u>Voluntary pension recommendations</u>

- There are various reforms to the tax treatment of pensions that could bring greater equity and more progressive income distribution outcomes
- In the next and subsequent budgets it should be possible to make the tax treatment of pensions more equitable and there are a variety of specific reforms that should be considered that include full abolition of tax relief for private and occupational pensions, restricting such relief to standard rate relief, introducing more stringent caps on the use of reliefs, and limiting the use of Approved Retirement Funds as tax avoidance measures
- Examine options for savings schemes that are supported by the State and structured progressively to benefit those on lower incomes.
- Encourage Credits Unions, and the Money Advice and Budgeting Service to introduce a state-backed low charge savings product for low income earners.
- Regulate to require unisex life plans and pension splitting

Governance

Effective, gender inclusive, transparent governance systems are also required. As a member of the NWCI we wish to engage fully in the pension's debate and in seeking formal representation in key pension's policy institutions including the Pensions Board. We will also seek to ensure pensions policy is fully engaged with, within the National Women's Strategy. We also insist that all data on pensions (including tax reliefs and private pensions) are disaggregated by gender.

As an affiliate of NWCI we fully support the NWCI in pursuing economic independence for women and we look forward to a transformed pension system which acknowledges the disproportionate time women spend in periods of care and employment.

I believe that the Government must place women's issues and concerns at the centre of the current developments in pension policy as part of the Green Paper.

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 280

I would be obliged if you would consider the following ideas in your review of the Pension System. This would only apply in situations where there was no existing occupational pension scheme meeting the requirements listed below.

1. Make Occupational Pensions compulsory from age 21 both for the P.A.Y.E sector and also the Self-employed. Set a minimum rate of 5% for the employee.
2. Ensure that the Employer, especially in the case of PRSA schemes, contributes a reasonable minimum, possibly setting the employers a target of a minimum 5% of the employee's pensionable pay to be reached within 5 years of implementing the scheme. I wonder how many employers currently make any significant contribution to existing compulsory PRSA schemes.
3. Standardise tax relief @ 25% along the lines of the Govt Special Savings Scheme which was a great success and understood by everyone. This tax relief would be given in the form of a 25% addition to the employee (employer?) pension

contribution by the Govt at the end of each year. Allow employers the normal annual tax relief on their contributions.
4. Educate the Employers, the Unions and the public in the scheme and point out to the public the similarity of this scheme to the Govt Special Savings Scheme and how beneficial it would be to get an occupational pension to supplement the State pension at retirement age. Point out that a tax-free lump-sum could be available at retirement age or a pension paid to a partner in the event of death before normal retirement age.
5. Involve the Credit Unions in the implementation and operation of the scheme.
6. Issue annual statements to all individual contributors detailing all contributions by both the employee and the employer and show at the bottom the Govt 25% addition to both the employee and employer contribution for that year.

In any event, it would seem that there is currently a lack of advice being given to pensionable employees on their retirement options at both normal retirement age and also in early retirement situations. Many employees are quite ignorant of the tax benefits currently available (AVC's for example). I think that both the Pension Trustees, the Employers and the Unions could easily give appropriate advice, particularly as an employee approaches retirement age.

Submission 287

1. The Irish state should provide an independent advice service on pensions similar to MABS. I was advised by a 'reputable' Irish pensions firm to move 17 years of an occupational pension to a buy-out bond and now I believe that my bond will deliver 50% of what my occupational pension would have delivered on my retirement.
2. The charges by the pension industry are excessive. Why is it that if I invest 20k per year via a managed fund at the Bank of Ireland I will be charged 0.75% pa for management but if I invest the same amount into an AVC, I can be charged 7.50% pa for management?
3. Self-employed people are often ripped-off by 'pension management companies' set up by their accountants.
4. The setup and ongoing charges for AVCs are exorbitant.

n conclusion, I would like to say that I believe that the PRSI system should be used to deliver pension. It should be a cheaper system to operate and people would have a sense that they would not be ripped-off. Employees should be able to pay more into PRSI and get the corresponding pro-rata pension. Our Government would benefit as they would have more money to invest in Ireland. Overall, I find the pensions industry to be run by unethical people and would like alternative methods of funding my pension.

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 293

Pensions Coverage (PAYE Workers)

Current situation

Some employers provide company pensions, mostly on a defined contribution basis, however group pension coverage is on a voluntary basis. PRSA's (Personal Retirement Saving Account) while initially seen as a possible cure for pension coverage by making the products simple to understand and obliging employers to inform their staff about them in the absence of another group arrangement have done little but stimulate the AVC (Additional Voluntary Contributions) industry.

Why it doesn't work

Many firms do not provide pension arrangements to staff and have set up "shell" PRSA schemes to meet legislative obligations but these schemes sit empty. Many staff particularly in industries which have high staff turnover such as the retail/food/tourism industries are uninformed and not motivated to find out about pension provision. The "soft" approach taken with PRSA's simply didn't work.

Proposal going forward

Compulsory PRSA schemes for all staff not in a pension should be put in place. Employers should not have to contribute but should make available payroll deduction facilities as they are obliged to do at present if required. Employees should have 5% of their salary deducted at source and put in a PRSA, with the option that they can increase the contributions within their revenue maximums dependent on age. Every PAYE individual should have an obligation to help provide for their own retirement.
5% while not a huge amount will take some burden off the state when they come to retire.

Compulsory pensions do not have to be portrayed as a negative solution, more that they are empowering citizens to look after themselves better in retirement and it is more likely to increase awareness of pension provision if individuals see a deduction made from their salary and receive an annual statement of benefits. The very use of the word compulsory is unadvisable as it brings to mind negative emotions on the issue. I prefer the term Citizens pensions, as they would not be State pensions even though State bodies would enforce their collection. The emphasis on bringing the compulsory aspect in would be on citizens preparing for their own retirement. If the right language is used, I feel this could be viewed positively by the public/media as its key message is responsible citizens and responsible government, both planning for the future.

Pensions Coverage (Self Employed)

Current situation

Many self employed people do not take out pension arrangements. Every survey done shows a shortfall in self employed pension coverage.

The Problem

In my opinion part of the reason for low coverage is the nature of being self employed and that is living in uncertainty. Many self employed people do not want to lock away funds long term in case something unexpected happens to their business. Many opt to invest in a second property instead as they know that they can sell the property if needed to gain access to funds in case of an unexpected crisis.

Proposal going forward

Do nothing. Self employed people are by their very nature independent individuals who enjoy being their own boss and do not need to be cajoled into pension arrangements, if it suits their needs they will take one out. Many self employed people work after retirement age or sell their business to provide for their retirement. A shortfall in self employed pension contributors is not necessarily a problem as they have other assets for example their business to help provide for their retirement.

Taxation

Current situation

Tax relief given at marginal rate of tax, 20% and 41% respectively.

Why it doesn't work

In reality the system penalises the less well off in society. Why should someone earning €50,000 a year get 41% tax relief while those earning €20,000 a year only receive 20% tax relief? Those on lower wages should have just as much incentive to provide for their own retirement as those on higher wages.

Proposal going forward

Uniform 41% tax relief on all pension contributions made up to an income cap of €150,000. After €150,000 allow tax relief of 30%. This will make the system fairer to those on lower incomes while still giving those on higher incomes a decent but not excessive amount of tax relief on income over €150,000. Some might argue for a lower rate than 41%, like in the UK, however uniformity means fairness regardless of rate.

Pensions Coverage (Housewives)

Current situation

Very few housewives, even those with part time jobs have any type of pension provision other than possibly a spouse's pension on their husband's policy.

The problem

As housewives have no taxable income, they receive no tax relief and therefore have no incentive to start a pension. A PRSA (Personal Retirement Saving Account) could be taken out by a housewife but without tax relief, it's just a long term investment with no access to funds in the short/medium term.

Proposal going forward

Develop the concept of, "Married People's Pensions", that is. Make 50% spouses pensions compulsory for all married pension contributors and expand the tax relief available to married pension contributors to take into account that they are providing pension coverage for 2 people. This proposal does not have to be retro-active, it could take place on all new pensions taken out from some point in the future.

For example
Husband earns €50,000 a year and receives 41% tax relief on contributions at present. Under the above proposal, he would have to set up his pension with a 50% spouse's pension included. This in effect will lower his main pension but to make up for the shortfall allow 60% tax relief on the contributions encouraging him to put more in his pension within revenue age percentage limits. Where he may have only saved 10% of salary in his pension before, now there is a real incentive to maximise his contributions while at the same time providing pension coverage to his spouse.

Leaving Service Options for Group Pension Members

Current situation

Members of group pension schemes can take an annuity or a tax free lump sum and residual annuity at normal retirement age but do not have access to ARF/AMRF products unless they are a 5% director.

Why it doesn't work

Approved Retirement Funds (ARF) and Approved Minimum Retirement Funds (ARMF) are superior products being offered to the self employed and 5% directors. Most annuities only have a guaranteed period of 5 years after that the insurance company pockets any of the fund not used up in paying a pension. With ARF/AMRF products however, the fund remains the property of the individual at death and can be left to dependents. While there is a danger of the fund running out before death, this is a choice the contributor should be allowed make for themselves like the self employed.
As it stands there are ways to get around this restriction by transferring your fund to a PRSA etc. therefore this restriction should just be removed in the interests of the consumer.

Proposal going forward

Allow group pension members to avail of ARF/AMRF products if they wish.

Conclusion

Taken as a whole I believe these proposals will benefit all the stakeholders in the pensions industry;

- The public will benefit from a fairer tax relief system through uniform relief and in the long run a better retirement due to being compelled to be responsible and provide for some part of their retirement provision.
- While pension providers will have to invest resources to cope with the legislative changes proposed, this should be outweighed by the increased revenue they will generate through all the currently inactive “shell” PRSA schemes becoming active.
- Overall pension coverage will increase and the system will become fairer.

Submission 295

I wish to make the following points-

1. People should be able to make Additional Voluntary Contributions to their State pension. This would guarantee a specific defined benefit and would eliminate the administration and commission fees charged by private pension companies. It would also give the State substantial income on an ongoing basis as basically an interest free loan.
2. All organisations that receive State funding as their sole or substantial source of funding should have their employees in the Public Service Pensions scheme

Specifically in the Education Sector where 3rd level Colleges receive Capitation fees and tuition fees, all such Colleges should have a State Pensions Scheme.
3. Where those Colleges have Dept of Education staff, or staff from a public body ,on secondment , those Colleges have to pay the Dept of Education , or the public body, employer’s pensions contributions for those teachers and staff but the Colleges themselves may only have private and or PRSA types schemes for their own staff. Indeed, whereas the State sector employees remain on defined benefit schemes even whilst on secondment, it may be the case that employees of some Colleges of Education are on defined contribution private PRSA type schemes

4. I would like a review of all pension schemes in operation in the 5 Colleges of Education in order to establish equity and equality.

Submission 306

I am forty seven years of age. I have spent a huge part of life as a homemaker. I am very proud of these years and I place a lot of value on this work. This is my story.

I left school in 1977, got married in 1983 and in 1984 my husband’s job was relocated to Co. Clare and I had to give up work. This was during a time of economic recession when unemployment was very high in Ireland. At this time I tried to sign on the live register but was refused. I appealed this decision and won. I signed for fifteen months, when this ran out no one in the Department of Social Welfare informed me of the importance of continuing to sign for credits.

In 1986 I had my first child and became a stay at home mom, I then had a second child in 1989.

I feel let down for all the years I spent at home caring for my family with no recognition from the state. The role of caring and nurturing that I have taken on is not valued or seen as contributing to society.

When my second child was well established in school, I went to sign on explaining I was available for work but was told I couldn't. I then applied to go on a FÁS course but again I couldn't because I wasn't on the live register. I get so angry because within our constitution the family is recognised as central to society yet these years caring are disregarded and women are classified as adult dependents in many cases financially dependent on their spouses.

I felt totally isolated from the world outside of my family. I couldn't get back into employment because I needed to be re-skilled. I decided to take on some summer work thinking this would bet back in credits but unfortunately I wasn't aware of the break from employment rule which meant you must work for a continuous twelve months but as we live in a seaside resort this is seasonal.

By this time my father had got sick and I decided not to take work in the summer of 2000 so I could be available to visit him at a moment's notice. I continued to sign on and by the time my father passed away I was unemployed for one full year. I couldn't believe I had finally qualified for a community employment scheme.

I was delighted to be involved in a way where I could meet other people and be re-trained in new skills. I decided to go to college and began working in full time employment in 2005.

By the time I am due to retire it will be 2025, I still don't know if I will qualify for a contributory pension. I tried to find out in 2004 and I was told to come back when I was older. It makes me so angry that information is so hard to get, I wasn't aware of homemaker's credits until 2007. This information needs to be disseminated to all women in the country. It isn't good enough to say we will disregard years spend caring. Why should these years be disregarded when women are contributing to society in most important and meaningful way?

I would like to see the language used within the social welfare code changed, words such as 'Disregards' and 'Adult Dependents' these are negative terms. I am angry that my role as a wife and mother is not recognised as important in Irish society**. I believe women should be credited for the years spent as homemakers.**

Submission 319

Introduction: I am a qualified Accountant and a qualified Company Secretary and I have worked for companies, where part of my work dealt with pensions. In addition, I have worked as a general insurance broker for over 40 years.

When considering the Green Paper on Pensions, it is necessary to define the real meaning of the word 'PENSION'. When citizens reach age 66 years of age, they do not want money, but they want adequate amounts of food, fuel, services and all that is necessary to live a comfortable life each year until they die. This requirement results in only one conclusion as to what the word 'PENSION' really means. 'PENSION' can only mean an inflation proof sum of money to purchase, each year, what is necessary for a comfortable life. Consequently, it is impossible for the overwhelming majority of citizens to provide for the future cost of living and, therefore, citizens are unable to provide a pension for themselves. For example, when I was working as Company Secretary in the late 1960' s, an employee with a fairly good job retired with a fixed pension of two thirds of his final salary, which pension was equivalent to the salary that a qualified tradesman was earning at that time. However, within 20 years, this pension was much less than the State Pension. Inflation had eaten it away. Therefore, 'PENSION' in terms of the Green Paper on Pensions, can only mean the State Pension, which must be paid out of the State Income, in the year in which it is paid out, as this is the only inflation proof pension that can be provided to the overwhelming majority of citizens.

The only option that meets the requirement of providing a comfortable retirement for all citizens is **Reform B: Universal Pensions.**

It will be realised, that the current policy of the Government in saving in a fund for future pensions is pointless, as nobody knows how much will be required to provide a comfortable pension in 20 or 30 years time. It would be better for the Government to pay off National Debts, and then save in a General Fund during good times, and use some of these Savings during times of recession to carry out worthwhile projects to give employment.

The main thrust of the Green Paper on Pensions was '**HOW TO FINANCE A COMFORTABLE RETIREMENT FOR ALL CITIZENS IN FUTURE YEARS**'. This is not as difficult as it appears, but it requires a radical approach by all citizens of the State. Every citizen will have to forget their own sectional interest in favour of the interest of society as a whole.

If the State is to act in a fair and equitable manner, certain injustices must be dealt with in the near future. The main injustice, is the injustice suffered by those women who had to give up their jobs, in past times, because they were forced to retire or pressure was put on many others to retire on the grounds that they were bad mothers if they did not retire and devote their full time to looking after their husband and children. In fact, the aim should be to give every citizen, who has lived their life in the Republic of Ireland, even if they have been unemployed, due to bad luck or mental of physical disability, an adequate pension at 66 years of age.

FUNDING: General remarks. Most citizens have not the means to save for old age when they commence work, as their income is too small and they certainly will not be thinking of old age when they are young and old age is a long way off. Most citizens will want to buy a car and many other items so as to meet members of the opposite sex. Many will form relationships or get married and the means to save substantial amounts of money will not occur until late in life for most citizens. The State has commenced a PRSA pension system and the low take-up shows the lack of means of many citizens. Even this PRSA pension system has turned out to be an act of deception by the State, as charges by the financial service providers eats up a large part of money paid in and inappropriate investments by financial service providers means that the holders of PRSA pension funds will be lucky if the value of the money they save and invest will still buy the same amounts of goods and services in their old age as it did when they invested it.

However, it certainly will not assist in their old age. It appears that the purpose of the PRSA scheme was to enrich financial service providers. In fact in the Budget 2006, the Minister for Finance attacked these funds, by decreeing that he was going to raid these funds on an annual basis, mostly small funds, so there is no chance of most citizens of these funds having a comfortable retirement from them. In the same Budget 2006 the Minister for Finance increased the tax avoidance for the benefit of rich citizens by allowing a further 10% tax relief on up to €254,000 at the top rate of 41 %, allowing such rich persons to save an additional of over €1 0,000 in tax each year. The Budget also allowed the Minister to increase this tax avoidance scheme for the rich in future years by Ministerial Order. 40 years ago, the main saving by the majority of citizens was in deposit accounts. About 30 years ago, the financial institutions introduced funds as an alternative to deposit accounts. These funds were managed for the benefit of the citizens investing in them. The financial institutions made an annual charge of half of one percent for managing the fund and the funds were managed in a prudent manner. However, during the past 30 years, the attitude of most financial institutions has changed. Nowadays, most financial institutions act to transfer as much of the money invested in the funds into their own pockets and the money in invested in the most imprudent manner possible, in most cases. The Financial Regulator adds to the woes of the small investor by issuing propaganda, to the effect that it is regulating financial institutions and that citizens will obtain competent advice from financial institutions and also that the Financial Regulator imposes marvellous training standards on financial institutions. These claims by the Financial Regulator are rubbish. Proper investment advice is a matter of common-sense and prudence. What has been happening is that financial institutions think up more and more schemes to transfer investors money to themselves. For example, I constantly get literature from financial institutions, usually selling the latest financial flavour of the month. Most of these investments are in geared funds. This means that if a citizen gives a financial institution €10,000 to invest, the financial institution will borrow many times the €10,000 to invest. This means that the financial institutions obtains inflated management fees on many times the amount actually invested. But when the financial flavour of the month investment bubble bursts, the investor of the €10,000, suffers, not only the loss on the €10,000 invested, but also the loss on the borrowed money and the loss of the interest payment on the borrowed money. I write this hard hitting paragraph, as I am disgusted with the greed of financial institutions and I want some proper regulation, in the interests of the public good.

The main point I am making, with some force, is that PRSA pension schemes are of no value for pension provision and any mandatory pension scheme imposed on the Public would also have no value, as they are and will be used to exploit the public, as is happening at present. The present world-wide crisis in financial affairs shows that most financial institutions are incompetent in running their own affairs, and therefore are not competent to advise citizens on investment. At present most financial institutions are making strenuous efforts to repair their balance sheets. Ireland suffered the huge ISTC collapse and a great number of citizens lost their pensions and life savings in this.

FUNDING: Self-employed sector. At present, self-employed citizens are allowed tax relief, at the highest rate they pay on up to 40% of €254,000 of earned income, depending on their age, a maximum yearly saving to such citizens of over €40,000. If this tax avoidance allowance was abolished, the State would receive billions of euros more each year in tax, which would finance higher and adequate State Pensions for all. Furthermore, If the State wanted to encourage citizens to save money, which citizens could use to further improve retirement, it could introduce a more equitable incentive, such as allowing every citizen tax relief on €50,000 savings or other reasonable amount, during that citizen's lifetime. Even if this encouragement to save was brought in, additional tax of billions of euros would be paid to the State each year. I realise that the saving of billions of euros will be obtained mainly from the top 30% of self-employed, as they are the main beneficiaries of this tax avoidance allowance. However it is a scandal that millionaires and in some cases billionaires should have this tax avoidance allowance, when the State is debating whether it can pay adequate State pensions in the future.

Most self-employed persons have small to medium incomes. I would also point out, in the interest of equity, that lower earning self-employed are discriminated against in tax. Under the PAYE system a person with an income of €20,000 would have deduction of just over €1,000, whereas a self-employed with the same taxable income would have €2,800 in deductions. This should be remedied.

FUNDING: Company directors and company sector. Company directors are also allowed to claim tax relief on large sums of money each year, which can amount to more than 100% of their salaries. After the 2006 Budget, a prominent businessman announced that he was making a contribution of €6,000,000 to his pension fund. Companies obtain tax allowance on amounts they pay into pensions for employees regardless of the amount of pensions purchased. If these tax avoidance schemes were abolished, then many billions of euros would be paid in tax to the State. Of course, as stated before, citizens could be allowed tax relief on reasonable amount of saving during their lifetime. An advantage to all employees of companies would be that they would receive inflation proof pensions and much larger inflation proof pensions when they retired. It must not be forgotten that many directors of companies and employees of such companies, even though they will be entitled to the State Pension, do not need such pension as they will retire multimillionaires or, in a very small number of cases, billionaires. If the tax avoidance allowances were abolished, the State would receive billions of euros more each year in tax, which would finance higher and adequate State pensions. In the 2006 Budget, a restriction of five million euros was placed on individual pensions, but the Minster can increase this amount by Ministerial order from time to time.

As a result some company have increased the salaries of directors to compensate for the restriction. However, tax has to be paid on this increase.

FUNDING: Civil service sector. Civil servants, including TD's have inflation proofed pensions, whereas most citizens do not. This leads to civil servants wishing to retain such an advantage, inadvertently, at the expense of the general public, and the Green Paper on Pensions is now putting forward the idea that the present inadequate State pensions might not even be payable in the future. If such pension rights were abolished for newly engaged civil servants, and replaced by higher general State pensions, lower paid civil servants might not be worse off, but there would be screams from higher civil servants, some of which receive a number of pensions amounting to hundreds of euros a year. However, many of these higher civil servants will retire multimillionaires as they can save, even after tax, sufficient to become multimillionaires, from salaries and bonuses of€300,000 and much more.

CONCLUSION: As I have shown the only equitable answer to the Pensions problem is to abolish all the tax avoidance measures which has resulted in inflation proof pensions for a minority of citizens and inequitable inflation proof pensions at that, and replacing these with adequate inflation proof pensions for all citizens, so that all citizens can have a comfortable retirement until the day they die. In addition, limited incentives could be put in place to encourage savings, as in the SSAI accounts. Implement Reform B: Universal Pensions in the Green Paper on Pensions in an equitable manner.

In carrying out reform, the State could also reform the tax system to reduce the burden of tax on medium income earners. For example, there could be more than two tax rates. They could be 20%, 30%, 40% and 50%, these rates to include all the add-ons, such as the health levy and PRSI. At present self-employed taxpayers pay a top rate of 41 %, plus 2% health Levy, plus, pension levy/PRSI of 3%, making a real top rate of 46%.