Green Paper Consultation Responses

Property investment as pension vehicle; investment

Submission 3

To whom it may concern.
I would like it to be considered that a family with one investment property may use this as a form of pension. It is a long term investment controlled by one. For individuals who intend for their investment property to be used for retirement the government should give tax breaks and stamp duty claw back options to such individuals. Many people have no pension per se but may have an investment property already. If they commit to keeping such an investment until near retirement then this should be accommodated for and items such as capital gains tax should be reconsidered.

Submission 17

I am writing to you with regard to serious anomalies in our taxation system in its treatment of property owners. As a person of 59 years of age, it seems the development of a personal pension is impossible in light of current legislation, my income is derived from the letting of my own properties; the result being I'm not allowed any tax benefits from investing in a pension.

As an over 55 self-employed property owner, I do not have the benefit of disposing property without incurring Capital Gains Tax, this it must be noted is in stark contrast to other categories, such as farmers or businesses, neither can I avail of the roll over relief that is accorded to Property Companies. I feel the current situation is extremely unfair in that property owners are been denied the same opportunities in planning for their retirement as every other worker (PAYE, self employed and farmers) are given in this country. Natural justice should prevail, even though political expediency doesn't demand it.

Submission 29

I wish to make a submission regarding your recently issued Green Paper on Pensions.
I am full-time involved in the property business and derive my income wholly from rental income. This of course is classed as ‘unearned’ income for many purposes most notably for the purpose of not allowing me to claim any tax relief on contributions made to my pension fund.

This is my full-time business and I feel particularly discriminated against as all other businesses to the best of my knowledge are allowed this concession.

The ‘unearned’ aspect of this is also particularly galling and unfair since I can spend from 40 to 60 hours working most weeks maintaining and improving the properties and looking after the tenant’s welfare. This can also mean call outs at all hours of the day or night.

The business of Rental Income has changed dramatically in the past 10 years. I now have much more legislation to deal with, tenant registrations require much more administration and in general the business has become much more regulated and controlled than in the past. Therefore I cannot understand why this business is being unfairly treated in many aspects of tax law and in this instance where contributions to pension funds carry no allowance of tax relief.

I respectfully request that you will give consideration to these comments and suggestions in your deliberations and future legislation on Pensions in this State.

Submission 74

I have met many pension investors, pensioners in receipt of annuities, new starters to Pensions, pension trustees and Pension Product Designers.

I do not profess to know it all, but I would just like to put some personal bullet points, to be considered.

1. All pension funds in the last 20 yrs to retirement should, under pension legislation, automatically have to switch funds staggered to capital secure investments, to avoid potential fund risks near retirement.

2. Property pension investments, must be into a property income providing vehicle.

3. Community investments ... of pension funds, to promote new local community centres, with state/community buyback, could qualify for additional tax relief.

4. Premium holidays be compulsory allowed on pension contributions at times of job loss, ill health, care service, new start up.

5. Tax relief on Pension Premium Insurance Cover be allowed against missed payment cover against redundancy / ill health.

6. Simplified sip trusts be allowed set up, with solicitor legal sign off , self trustees (possibility). Cost is a current deterrent to SIPs. Review current trust costing structures.

7. A+ rating for investment companies for pensions.

Submission 105

I am an individual and I want to make my submission on chapter 8 of the Green Paper on Pensions, Possible Approaches to Pension Developments. One of the questions in the summary is “Can tax incentives be better targeted to encourage improved coverage in a cost effective way?”

As an active property owner whose income is derived from Rental Income, I am being unfairly treated. I am allowed no tax relief on contributions to my pension. As a property owner in the private rental sector I am being treated differently to everyone else.

To anyone who has never had property in the private rental sector, it is impossible to explain the time and effort involved to keeping the property maintained and keeping tenants contented. In short, it is income like any other, which, is earned by my time and effort.

To change the unfairness of the current pension legislation, the pension law needs to be changed in this area to allow me to use my rental income to obtain tax relief. This change would encourage me and all those in this sector who are opting out of pension contributions at present. The change would meet the green paper's objective of encouraging improved coverage to me and all those who have rental income.

Submission 167

Point 1
Personally as someone who has a lot of one-off pensions that have in the main performed badly or even lost money over the years, I would much prefer being able to buy my own shares/property directly for my pension rather than having to hand it over to commission hungry intermediaries. I know the SSAP (small self administered pension) exists for company directors but the costs on this are quite high to set up and maintain so not suitable for someone with my lower income.

A mechanism whereby a employee like myself with no occupational pension scheme could buy an investment property and declare it as part of a pension scheme whereby the same rules as SSAP property would apply would work I think, but without the exorbitant costs. Something like the regulation around PRSAs could work but with a cap on the costs (unlike an SSAP).

Point 2
My wife stays at home minding out 2 young children. A mechanism whereby I could pay a certain amount into a pension for her as the sole-breadwinner and claim the tax relief myself would be a good idea I think.

Submission 184

Access to Funds:

Please provide access to funds in pension fund after a specified period, say 5 years from contribution date without any tax payments. This will encourage people to save for the future and will be an SSIA-type of successful scheme.

Property Pension:

Allow PAYE employees to start Property pension and allow tax benefits on self-occupied house for capital repayment on the same. This will encourage everyone to save more money on their mortgage interest and save for future.

Migrants:

Please allow any migrants returning to their home country to take their pension fund free of tax and lock in to their home country. This will make sure that migrants can save for their retirement without fear of access to their funds and also in case they become Irish citizens they are not a burden on state in their old age.

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 294

I make this submission in good faith in reply to your Green Paper on Pensions, as:

1. An Elected Member of Meath County Council, and
2. An Elected Member of Trim County council, and as
3. Chairman of the Tara Mines Disabled Workers & Pensions Association, and
4. As a PAYE taxpayer and now as a pensioner.

The following are my submissions:

With SW OAP pensions increasing at a rate above inflation in order to meet the Government's commitment to have the OAP at €300 during the lifetime of this Government, and the majority of occupational pension schemes deducting one and a half times the OAP from basic salary. With wage increases linked to cost of living/inflation, this means the worker's pension is actually reducing each year in real terms. To compensate for this, I am suggesting for a test period of say 10 years, the deduction of one and a half times the OAP, be fixed at say the 2007 SW OAP rate.

It becomes even more ridiculous and unfair in some of the State companies where the deduction is twice the SW OAP from basic pay. This deduction leaves thousands of lowly paid workers with a pittance at 65. To give some increase in pension, this deduction is changed/reduced to maximum of one and a half times OAP and as I have explained in (1) the deduction fixed at the 2007 SW OAP rate.

The present retirement age of 65 years for workers should be increased to 70 years of age.

The present retirement age for Gardaí is too early and needs to be increased as many Gardaí consider them fit enough to take up private work when they retire. The taxpayers could be better served by increasing the retirement age and/or the total years of service within the Garda Siochána by say 5 years and the change reviewed in say 10 years.

The Terms of Reference / powers of the Pensions Ombudsman be revisited and in particular the rules for the election of Trustees.

The Terms of Reference / powers of the Pensions Board be revisited and in particular the rules of the Pensions Act for election of Trustees.

I believe the fines/penalties against companies/pensions brokers and trustees for misdemeanours and breach of the Pensions Act/s are not a deterrent. I believe the penalty should be jail as the companies can write off any fine against profits and trustees have insurance against any fines or claims against them for breach of duty fully covered!

Legislation to ensure income continuance plans are fully integrated with pension schemes, i.e. where income continuance provides 5% escalation of pension payments, the accompanying employer's pension scheme provides a pension at 65 which fully accounts for this 5%.

The pension scheme rules should provide funds to be made available for any member/s to go to the High Court when a worker or group believe their pension scheme is not being administered as per the rules, or maladministration, or not being run in the best interest of members.

The present structure of Boards of Trustees is unbalanced. Despite there being the same number of company representatives as the numbers representing the workers. With the employer having the right to elect the Chairman, and the Chairman having a casting vote or second vote, this then hands the power of veto to the employer, making the employer the dictator and the workers' representatives' power to change really worthless.

Many companies employ workers who do not belong to any trade union. Since it is the union nominees who become workers' representatives on Board of Trustees, the non-union workers have no representation.

Teachers who took career breaks in the 1960s and 1970s, and may have withdrawn their pension contributions, should be allowed to repay pension contributions without having to again take up a career in teaching (which may not be possible due to age). This would allow them get credit for their years of teaching service and add to their final pension, etc.

With the switch from Defined Benefit to Defined Contribution pension schemes, even less workers will be prepared to join private pension schemes for the reasons as outlined above as well as the uncertain time for workers!

I am prepared to go before the Joint Oireachtas Committee on Pensions to discuss the issues outlined by me in good faith. The same applies to any meeting with any Minister or Member of Government or group of civil servants as I believe that pensions provisions are an important part of remuneration and it's essential that the incentives are put in place to protect workers' rights.

Councillor Philip Cantwell

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%.