Green Paper Consultation Responses

Public Sector Pensions

Submission 4

Public Sector Employees PRSI contributions should be at a higher rate than Private Sector employees. Public Sector employees have job security, and because of this benefit they should be subsidising the redundancy element of Private Sector contributions. This significant increase could then go towards the States pension reserve.

(It should be backdated a few years and set off against future Benchmarking pay increases)

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 11

Politicians are entitled to a Dail pension. It is a query of mine as to how is this pension provided? Is it provided by payroll deduction from representatives's salary towards a pension by them or is it provided as an additional cost to the taxpayer without any contribution from the politician's own salary?

Therefore in the interest of openness and fairness, I would like it to be included in the Pensions green paper, how much we contribute to each public representative's pension.

I feel a pension is a person's own working life contribution and shouldn't be provided in excess of the social welfare pension (€193.30 per week in 2006) at the cost to the taxpayer if the individual has not made contributions towards it themselves.

Submission 12

General Comments

The State pension system is the only system that guarantees a rock-solid payout for those moving towards retirement. The private or occupational system in contrast does not have the advantage of political intervention if things go wrong.

The performance and security of Private or occupational pensions can sometimes depend on index-linking which can be tied to various markers such as equity markets or futures. There are many instances and law suits where private pension have gone bankrupt due to fraud or mismanagement, leaving investors with nothing.

The Irish government have perhaps spent too much money propping up state pensions especially in the light of elections and improving the outlook on the government with the voters. They are now in a situation where commitments to these pensions may not be easy to keep up with and have begun strongly encouraging people to take out private products. This of course is the result of not seeing the road ahead and taking the easy way out.

Legislative safeguards must be in place to statutory guarantee minimum performance with the financial regulator with private pensions. Many accounts have come from across the world documenting shortfalls and allied issues which cause concern.

The Government should make a distinction strong between savings and pensions for the following reasons: All too often people are hopping in and out of pensions because of their options, to get involved in high risk shares and come out of sound pension schemes because of hearsay talk of a wind fall rumours they heard down the local pub.

The State should ensure that a strong level of competition exists within the private pension market, by assessing premiums and performance against public pensions, and better performing average payouts across the global market for comparison and alignment.

The State should also note that because of the complexity of pension in general, many are discouraged from thinking about it. And like to stay away from things they can’t possibly understand. The government are quick to point out the poor levels of literacy when promoting education.

QUESTIONS AS IN EXECUTIVE SUMMARY

Chapters 1 to 6 : Various issues.

Q1. Answer: Modern day challenges will include migrant EU nationals who will add considerably to the load on the Exchequer. This is a problem created by our government who did not insert reservations on immigration when EU were signed. There will be implications for the state, as opposed to the individual.

Q2. Answer: The use of the word "universal" means ‘one’ or solitary. There's no reason why this word is used to describe what is essentially a "dynamic" pension designed to fit.

Q3. Answer: No Answer

Q4. Answer: "Living alone" should not be a policy recipe for extra payments and national policy should be reviewed in due of this serious haemorrhage on the basis of living alone. Nobody should be compensated for living alone per se. This is a complicated area, but it may in fact encourage people to set themselves up in certain situations so they will get more.

Q5. Answer: No Answer

Q6. Answer: Yes, a formal indexing system is desirable, but should be set below the headline of inflation so was not the cause more inflation or economic pressure. Or delayed prudently in case of rapid or a transient peaks that don't last, and any increases are therefore not merited as such.

Q7. Answer: The government should not engage in massive increases in pensions to win elections, and hope to get a bigger vote thereby. This puts a great deal of pressure on the Exchequer and there are more deserving increases needed elsewhere. Pensions and affordability are coming under strain because of massive inflation in every the goods and services in the economy. Pensions are not immune from the rip-off of culture that is now endemic in this country, making the government's job a race to keep up with a no-competition, cartel-driven economy. The government will do themselves a lot of favours if they push for more competition to force down prices and break up the cartels with severe penalties. This will take a lot of pressure off the welfare system in general.

Chapter 7

Q1 Answer: The government should make tax incentives the cornerstone of the private pension system if it wishes to promote private or supplement type pensions schemes.

Q2 Answer: No Answer

Q3 Answer: The government should do its best to ensure a level playing field as much as possible, to avoid a two-tier spilt developing overall. Much of the pensions problems encountered today involve radically different treatment and payout awarded to different schemes, to the detriment of many who don't qualify or can't afford a better scheme.

Chapter 8

Q1. Higher social insurance contributions would mean reform of the PRSI system, so the exact percentage of contribution would be known to the employee, but in all cases some level of contribution should be made to the State welfare system in case of problems with high risk occupational and private pensions.

Q2. No Answer

Q3. No Answer

Q4. No Answer

Q5. These approaches are convoluted and add greatly to customer dissatisfaction and frustration, given the myriad of issues involved and the problems with understanding them. The government should ensure a level of flexibility within reason.

Chapters 9 and 10. Defined Benefit, and Funding Standard.

Q1. Answer: Every effort should be made to rationalize pensions and entitlements as much as possible, to remove the convolution of the current system that leaves many wondering what's going on.

Q2. Answer: Primary legislation should force all pension or financial product providers to provide all information and up date clients and the Financial regulator of any changes well in advance.

Q3. Answer: Appropriate security for pensions would mean placing deposits with the financial regulator, or the central bank to meet there liabilities. It could also mean forcing the product provider to reinsure with his own insurance to cover any crash in the market, where pension fund are tied to equities. The state must take very a serious view of the security of private and public pensions and insist on strict legislative safeguard, especially in the area of occupation pensions that can go disastrously wrong when the company folds.

Q4. Answer: Most people view the word 'investment' as a profitable thing. They do not view the word 'investment' as has been prone to risk, and suffer from all over zealousness which produces disillusionment and anger when things go wrong. There is an aversion towards reading the small print, because the advertisements of such products are seen as beneficial to their interests.

Q5. Answer: The government should do everything it can to legislate for the pension industry in ensuring that policy holders are given all and every piece of information regarding their pension benefits, and all risks attached thereto. There are obviously more safeguards with public pensions than with private pensions, which carry far more risk. Guarantees must be guarantees; this is not the case in occupational pensions, where if the pension fund goes bust because of insolvency in the company, the policy holder gets nothing. Any guarantee given with an occupational pension or private pension should be registered and approved with the Financial Regulator.

Q6. Answer: A national reserve fund should be established by the State in the case of shortfalls in the standard welfare pension. The government should legislate to force occupational pension providers and private pension providers to establish their own reserve funds in line with the financial regulators strict conditions for solid security. And change the legislation so occupation pensions are not touched by the company in a windup or liquidation.

Chapter 11 Annuities and related matters.

Q1: No answer.

Q2: No answer

Q3 Answer: The state could be involved in all long-term investment products relating to retirement, whether it's late and it or not.

Q4 Answer: All information should be disclosed on the terms and conditions of the product the moment of purchase or entry into the scheme.

Q5 Answer: The Irish government should insure new players into the market, and we doubt those trying to corner the market or been involved in price fixing.

Q6 Answer: Trade unions are not suitable for encouraging the take-up of the annuities. But, maybe able to assess products on offer for their members. Employers usually occurs employees to invest in shares and some cases have annuities of their own.

Chapter 12: The Role of Regulation.

Q1 Answer: No, more regulation is needed especially in occupational pensions in the private sector, that are prone to a exploitation from delinquent or corrupt fund managers and company performance. And pension holders get nothing if the company goes bust.

Q2 Answer: No, there seems to be little emphasis in ensuring that prosecutions are taken in the event of a reckless or corrupt practice that causes pension funds to collapse. This is a matter of notable omission.

Q3 Answer: No, it must be clearly felt that pension providers will be subject to severe prosecutions for legislative breaches. Some companies may see these as guidelines are not legal rules.

Q4 Answer: All pension charges and fees or other pecuniary levies should be notified and justified to the regulator. Some people take the view that charges should not apply as a separate issue; remain part of the premium, which would cut down on paper work and bureaucracy. All charges relating to any pension should be known in advance and not subject to sudden and unexpected disclosure.

Chapter 13 Public Service Pensions.

Question 1: Answer The public service have excellent job security and can contribute to their own pension funds like the civil science. The public sector also receive a huge public sector pay increases, and should have little difficulty in paying premiums.

Question 2: No Answer.

Chapter 14: Work Flexibility in Order Age: A new Approach Retirement.

Q1. Answer: The government should encourage earlier retirement, not later retirement. This country seems to be obsessed with the older generation, much to the great disadvantage of the young. There seems to be no effort whatsoever made in favour of an up

and coming generation who need job opportunities. However, nobody wants to stop anybody doing what they want with their lives. The British have encouraged earlier retirement and thus made more opportunities for the young and consequently a pension system full of investment.

Q2. Answer: Voluntary deferral of pension entitlements is a good idea, but should have a safeguard of letting later workers apply for job-seekers allowance if work runs out before the deferral date becomes active.

Q3. Answer: No, earlier retirement should be preferred. There are undoubtedly health considerations for those in labour occupations, who may could the state more in the long run with health issues. Working beyond retirement may also prevent family life from reaching a higher level due a life long work culture or stress and strain.

Q4. Answer: The theory that hard work won't do anyone any harm is a nonsense, and certainly if it's prolonged well past the normal retirement can cause stroke and a myriad of health problem which may cost the state billions in health funding. The overriding principle should be to allow greater opportunity to flourish in the younger generation by forcing retirement. Nobody should be working in a hard labour occupation beyond 65 if reason and common is to be applied. Allowances could be made in some clerical posts provided no satisfactory potential employee can be found of a lower age.

Q5. Answer: These questions in this chapter are loaded and preclude where this consultation process is going, which is a no-limit on retirement for the purpose of letting the State off the hook on pension payments that are currently elevated on account of need to win elections. It could be suggested because some people work so long and effectively for life in their greed, that the issue of a pension doesn't even arise. The scenario is— 'work for life and die on the job without a pension or invest in a risky occupational pension, or, retire at a sensible age before health problems arise and get a state or cheaper private pension'.

Footnote: *The Executive Briefing Paper for this consultation is a mess in terms of the way its laid out and will probably lead to confusion on readability and questioning moving from one chapter to another for all who read it unless great care is taken.*

<u>Submission 22</u>

Public Sector Pensions:

Public Sector pensions need to change from DB to DC in order to have a sustainable pension arrangement. This needs to be applicable for all new public sector appointments. For existing public sector pension liabilities government needs to consider available funds for public sectors funds and project cash inflow and outflow for the same over next 50 years. They need to provide budgetary allocation for any gaps during each year's budget to make sure that these gaps are addressed.

Private Sector Pension:

This pension should be a mix of Universal Pension and Discretionary Pension.

Universal Pension:

Universal Pension is a minimum mandatory pension for anyone over the retirement age. This pension funding should be part of current PRSI arrangement as well as mandatory employer and employee contribution which should be introduced in the future.

This pension should allow anyone above retirement age to provide for their day to day living expenses.

Discretionary Pension:

This is an additional facility given to self employed and employees to save for their pension. This pension should have following features:

Tax Benefits

This pension contribution should get 50% tax rebate irrespective of level of tax rate applicable. It should be allowed to grow tax free during accumulation period and should be taxed only when received by employee during their retirement year. Govt should consider following EEE model (exempt, exempt, exempt) for this pension arrangement in place of current EET model (exempt, exempt, taxed).

Lock in Period

This pension fund is having a lock in period of 10 years initially. After 10 years a subscriber should be allowed to use this fund for specific purposes e.g. repaying mortgage which are an additional avenue for them to plan for their retirement.

Investments/Choice/Admistration

This fund should be completely portable from one pension fund service provider to another.

It should be managed like a central account by govt agency with subscriber having choice to select his investment funds and switch between investments funds at specific intervals say once or twice every year.

This pension fund should not be any way tied to employer and should remain in force irrespective of change in employment.

Immigrants:

Any non Irish citizen working in Ireland should be allowed to withdraw his pension fund at end of his stay in Ireland. If the same person comes back to work in Ireland then he will need to re transfer his pension funds back into Ireland to ensure his pension liabilities are met by the state.

In case withdrawal is not permitted immediately on his departure, he should be allowed to withdraw at end of specified period e.g. 2 years from his departure from the state.

Pension Age:

Employee should be allowed to retire at current pension age of 65.

However he or she can continue to work in different places after that age without losing his pension benefits.

Annuities:

Annuities should be allowed, however employee or beneficiary should have complete control over his funds post retirement. It is best to assume that a person knows best options available to him to get good returns on his investment.

Regulation:

- Current pension regulation is inadequate and it favours pension service providers as compared to person funding his own pension.

- Fund management charges are still higher compared to many other investment funds

- There are limited fund choices available

- Pension fund providers do not find it lucrative enough to educate about pension and get business due to various reasons.

- All pension funds should be regulated using same regulations. We have some model regulators like SEBI in India which regulates Mutual Fund and IRDA which regulates Insurance schemes including pension schemes. They have a defined cap on annual expenses, entry and exit loads and these charges needs to be defined upfront. There is a scope to increase transparency in this area to a large extent.

Submission 23

How dare this Government tell us we need to pay into a pension, we need to be FORCED to pay into a pension. If this Government had not squandered all the money made off the backs of PAYE workers and self employed over the last 10 years we would not be in this situation in the first place.

We in the private sector have been let down by this Government for the last number of years and we are all sick of it, and now they have the neck to tell us that they will be garnishing our wages each week for a pensions deduction. Bearing in mind that returns on pensions over the last number of years have been poor, and the stocks and shares are going through the floor, why on earth would anyone with cop on invest in such a poor performing product.

Most private sector employees do not have any company contributions to their pensions so all the money paid over is their own. They do not have large bloated pensions like the overpaid, underworked public sector, whose pensions are paid for ironically by the private sector.

So it beggars belief that the Government is now asking us, as well as paying out all these other stealth charges levied on workers, to pay for a pension they should have been able to provide if they had been a competent government.

If the Government have any chance of convincing the already put upon private sector to agree to this they better have a damn good incentive package to back it up, we should be allowed to put it into property, high yield deposits, SSIA type products and not just stocks and shares, and the Government should, similar to the public sector, pay something towards the pension of each person who takes it up, maybe by reducing the already huge pensions enjoyed by the public sector.

Handled properly this could work very well, but there needs to be a lot of give from the government and the public sector on this, handled badly and this is a time bomb waiting to go off.

Submission 24

The Green Paper starts with the premise that there are two distinct types of pensions. I disagree. An individual ability to fund their pension through a defined contribution scheme is dependent on their income. Taking that into consideration I would suggest there is value is looking at four different types of pension arrangements.

- The State Pension.
- Final Salary Schemes/Public Service Pensions (in particular those set from final salary levels as these must be funded by the general tax payer inhibiting their own ability to provide for their own pension). In these schemes advances in salary in the immediate years preceding retirement have a far greater impact on pension funding requirements than in any other type of pension. For example if over a 40 year working life an employee doubles their salary in the last 10 years of their working life, because of the accumulated years worked even if pension value is taken at 15% of annual income the pension benefit earned by than individual in each of the last 10 years is equivalent to 60% (15% x 40 / 10) of annual income). I have constructed a deliberately simple example but it illustrated the impact accumulated working years have on the pension funding requirements which is not available in any other type of pension arrangement.

- Defined Benefit Schemes which are not final salary based as is the case for many, different from DC schemes because here the risk in terms of funding requirements is with the Employer.
- Defined Contribution Schemes where the pension benefits vary in direct proportion to the value of accumulated contributions made through the employees working life. The risk of funding requirements is entirely with the Employee. Here as contributions

are generally targeted as a % of income a difficulty arises when salary rises in later working years if the intentions to provide income adequacy is set relative to final earnings as significant additional contributions must be made as illustrated in the example given for final salary schemes.

As the majority of Final Salary Schemes will be Public Service the first two scheme types rely on general taxpayer funding. The better those scheme types do proportionately the more difficult it is for either Employers or Employees to fund the remaining DB or DC schemes and ultimately the greatest difficulty rests with the individual employee as the smallest economic unit in funding their own DC scheme.

Submission 41

Just a few suggestions as an ordinary citizen.

1. The state is too generous with tax relief on certain pensions which is only benefiting the better off. Tax relief should be restricted to the standard rate.
2. The lower paid especially should be encouraged with an SSIA type scheme. I think this should be taken out of their employers' hands and operated through banking institutions. A lot of workers don't trust their employers with their money and it could also relieve employer from their duties.
3. Improve public servants early retirement scheme. It's not really attractive at the moment. This is a good way of employing energetic young people. It only makes sense. How can people remain as committed as they get older.

Submission 53

It is correct to state that the overall philosophy and objective of the system is to provide an adequate basic standard of living and to encourage people to make supplementary pension provision.

A major factor to this objective is the aging of the population. Your own data suggests up to 28% of population will be over 65 in about 40 years. This is nearly two thirds less people working than now for every pensioner.

Also stated is the fact that the age group (30 - 65 year olds) who need to save are grossly under-saving. The CSO data suggests the population are living longer now and this trend will continue.

So is there one solution? Probably not. One idea would be to greatly extend the potential savings time span. At present, at best there is a window of about 40 years. When we average late starters, early retirees, home makers etc this time span is greatly reduced. One proposal is to make pension provisions from birth. Some part of child allowance could be set aside and invested on a mandatory basis. This would give all entrants an exceptional investment period (16-18 years) before adulthood and would generate a much needed early savings habit. Parents could also early fund their child's pension with usual tax breaks. Natural down period (Further education – out of work etc) would no longer be a

catastrophe as now. There is a huge effect on compound growth when savings periods are expanded. There would be no real cost to the Exchequer except for normal tax breaks and additional pension fund management change in the national pension reserve.

In the issue on Public Service Pensions, a lot of changes have already happened. Within the last four years alone access to retirement has dropped by 10 years (Age 50/55) and access to full retirement benefits for new entrants has been increased by five years (Age 65).

The current level when applicable of 5% pension/gratuity contribution (integrated and non integrated) is probably not sufficient in real terms to fund an extended lifespan pension.

Public Sector Pensions are complex. A necessary amount of planning on entry is required. Also, tax issues on current contributions and retirement benefits along with existing and retained benefits, all rules & regulations (Employer & Revenue) will need to be entertained. Cost Neutral Early Retirement, Integrated and Non Integrated, Purchase of Notional Years, Professional Added Years, 2/3's Rule, Job/Work Sharing, Widows & Orphans and Spouses and Childrens all have to be considered before a decision can be made to augment same.

A professional qualificiation and experience is needed and such advisors should be compensated accordingly.

Submission 87

The current state involvement in the provision or support of pensions/ pension contributions is patently inequitable as it treats various categories of citizens differently without regard to their economic status. Indeed it appears to be in inverse ratio to their economic need.

For example, the average employee in the private sector who is not eligible for an occupational pension scheme is compelled to contribute to public sector pensions, to some private sector pensions by way of tax relief, to future public service pensions by way of the Nation Pension Reserve Fund, to the state pension by way of PRSI before he can find the money to fund his own pension.

Apart from being inequitable, this arrangement is patently unsustainable.

We already have a state pension scheme funded by PRSI contributions.

This scheme should be enhanced to provide a comfortable pension for all citizens.

The following would bring some sort of equity to the state involvement in pensions:

1. Abolish all occupational pension schemes in the public sector for new entrants
2. Abolish all new tax relief support for pension contributions.
3. Tax, as a benefit-in-kind, pension contributions for those in defined benefit schemes, both public and private, where the contributions by the employee, if any, do not meet the complete cost of providing the pension.

4. Use the savings arising from the above to double or indeed triple the current state pension. And do it now- not in five or ten year’s time. Some of those currently in receipt of the meagre old age pension were hit by slave-like tax rates of 73% on average incomes in the nineteen eighties. They are entitled to their money back, now that we can afford it.

The above changes would not stop anybody making appropriate additional provision for their old age by investing as they see fit.

It would make Irish companies more competitive as they would not have to make provision for defined benefit schemes.

It would enhance mobility in the public sector.

The enhanced pension would allow pensioners to make meaningful contributions to their care in old age where needed and would give them more freedom of choice.

Until equitable changes along the lines proposed above are introduced, the government remains exposed to court action under equality and other provisions.

Submission 145

I have a small point to make in relation to my pension and it relates to an issue I find discriminatory and exclusive. As a permanent and pensionable employee of a semi state body, I am forced to participate in our pension scheme and I support this approach wholeheartedly as it forces younger employees to participate in a pension scheme at early stage of their career.

However the pension scheme administered by [employer] has a compulsory ‘spouse and child’ element. I would have no problem with this if it were optional, however I strongly object to an ongoing compulsory payment of spouse and child provisions when all payments made into the scheme are absolved by the Fund, if I do not marry or have children. Surely I should alternatively be entitled to nominate a family member/partner to receive the benefit. My marital status should not exclude me from designating who receives the benefit of years of these contributions.

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 174

I have read the Green Paper, particularly Chapter 13 on public sector pensions. The entire chapter seems to be based on the premise that civil servants normally have 35 years+ service. Has any research been done on the likely pension entitlement of women currently employed in the public service, particularly those who started before 1995 who have interrupted their careers in order to look after young children, either by taking one or more career breaks or by opting for job-sharing? Persons who started after 1995 will get 'homemaker credits' for periods out of the workforce which were spent minding young children. While job-sharing, they earn an insurance contribution for part of any week worked. This should entitle them to a full contributory pension at age 65.

Salaries were increased in 1995 so as not to disadvantage those who had to pay full PRSI. Meanwhile, no such credit system exists for those of us pre-1995 entrants who have taken time out to look after children. I am currently job-sharing and am buying back 5 years service which costs me 21% of my salary (10.5% of full salary). The maximum contribution which Revenue allows for someone of my age is 25% of salary. Even with this level of contribution I will still not receive a full pension.

There is general lack awareness among my colleagues about the effects of job-sharing/career breaks on future pension entitlement. It may not become an issue until those who have availed of career breaks/job-sharing (which only started in the mid-80s) come to retire.

Given my own situation and the high cost of buying service, I find it very annoying every time I hear or read in the media about the public sector are so much better off than the private sector as regards pensions.

Submission 181

As the widow of a civil servant, I feel very strongly that pension payments are biased against widows and widowers. When my dear husband died in 2002, I was granted only half his retirement pension. However, if I had pre-deceased my husband, his pension would have continued at the full rate.

I feel this is completely wrong as, when a couple get married, what they have is equal.

I still have the same outlays – I'm keeping my home, my car, etc., and indeed maintenance on the house as this was carried out by my husband.

I feel this is against the constitution and should be dealt with by your department.

Submission 195

Public Servants' Pensions:

Last week in the Dáil, the figure for these has now risen to **75 Billion Euro**. This has come about because of the increase in the number of public sector staff, the first round of benchmarking, the national pay agreements and improved life expectancy. At one time the security of job, and a good index linked pension scheme made up for the salaries that were generally lower than the private sector but this is no longer the case as salaries, in some cases, exceed that of the private sector.

Such schemes that were also in the private sector, e.g., Banks, are now being discontinued due to the very heavy expense of funding them.

There is the need for public employees:
Fund higher contributions on their pensions.
New recruited employees not to have index linking of their pensions.
Discontinue the final salary based pension and use an average of the last five years.

Contributory Pensions.

With the increased life expectancy and the pensioner numbers increasing, there is an urgent need for changes to the present system. The National Pensions Reserve Fund was a first step in trying to fund future pension liabilities; the yearly amount put into it needs to be increased.

There is a disincentive for PAYE workers to fund pension schemes. After the tax free payment from their funds, they then must hand over 20 to 40 years of saving to an insurance company to obtain an Annuity.

Depending of interest rates at the time of obtaining an Annuity, the amount of yearly income can vary and is only guaranteed to be paid for five years or until the person dies. If the pensioner wishes to safe guard his wife or partner and cover both lives, the return is even poorer.

The PAYE worker should have the same option as the self employed person and put his fund into an ARF (Approved Retirement Fund) instead of an annuity, if he so wishes. Legislation can be made so that such a fund can only pay out a maximum amount each year so as to safeguard exhausting the fund too early.
An ARF has the added attraction that any remaining funds left in it can be left to dependents

Submission 209

I wish to make a submission in relation to the Green Paper on Pensions that I hope you can address.

I have been a public sector employee for the last 18 years and would be entitled to retire at 60 years of age on a full pension, as I would have completed 42 years service at that stage. However, if I chose to work until age 65, I would be compelled to continue my superannuation contributions for a further 5 years and on retirement, I would receive absolutely no benefit in relation to these extra payments.

This seems grossly unfair, as somebody who started their career at age 25 and worked until they were 65 would retire on the exact same pension as me (presuming they were the same grade as me) having made far fewer superannuation contributions.

With a pension crisis looming in the years to come, it would surely be in the government's interest to offer an incentive to people like me to work on til they are 65 ? Are there any plans afoot to address this anomaly ? And if not, what is the justification for penalising workers for being prepared to work longer years than is necessary to obtain a full pension ?

Submission 263

I wish to make a submission in relation to my and many others' situation. I work in the public sector and it is compulsory for me to pay into widows and orphans scheme which is 1% of my salary. I very much object to this. I am single and have no dependants so there no necessity for me to be paying into this fund as this money will never be utilised. I feel this is another tax on the single person and is discrimination. I work very hard for my money and these contributions should be stopped and all monies refunded. The widows and orphans scheme should be optional and therefore would be fair to all.

Submission 268

1. I retired age 68 in 2004 on an annuity with a 10 year inclusion of my wife. After 2014, if I die before her, she is reduced to widows state pension only. That was all we could afford. It was a lousy choice to have to make. Invested/managed at 2.5% p.a., I would have to survive to 88 to exhaust the fund. This is a most unlikely prospect for most people. So, subject to a regulated management charge, I advocate that on death, the balance of one's fund should become part of one's estate. The odds are far too much in the annuity providers' favour and there is no real competition among them.

2. Unless there is guarantee that one's fund contributions are protected from mismanagement or market vagaries, the people in small private sector employment will never make adequate contributions to their retirement fund. The more one becomes aware of the lack of certainty in the eventual outcome, the less attractive the prospect and the more like buying Lottery tickets.

3. On retirement day, one is at the mercy of variable annuity rates, so a fund contributor cannot be told, as he approaches retirement, how much of an annuity his fund will actually purchase.

4. People working outside the public sector, the banks, quangos etc., look with envy on those fortunate occupiers of secure employment whose pension amounts are guaranteed and index-linked, and whose wife or husband will continue to benefit after the pensioner's death. If such a scheme can be provided for one section of the

workforce, what good reason can there be not to have it available to all. I hope and trust that you will endeavour to create a level of equality for the many like me who are neither in the public service, are not self-employed, nor members of large unions.

Submission 275

I am about to retire after almost 45 years service. My date of birth is [date]. I had 40 years service at age 58 in November 2003. Superannuation contributions have continued to be deducted from my salary since then. I understand from enquiries made that I will get no benefit from contributions made beyond 40 years. Neither will the contributions be refunded. In my case these “extra” contributions amount to almost a full SSIA. I fail to see the equity or fairness in making deductions and giving nothing in return. This scenario might have been accepted and tolerated for a long time but I feel the situation is no longer tenable and should be examined in detail. In my view contributions beyond 40 years should be recognised on a pro rata basis. A review of this “40 year lockdown” is long overdue.

The unfairness of the present system is best illustrated by an example:

- Officers A and B are the same Grade and both have reached max salary
- Officer A retires aged 60 with 40 years service
- Officer B retires aged 64 with 44 years service
- Both Officers get the same pension benefits but Officer B has contributed more

Is this fair and equitable?

Perhaps you will give my submission some favourable consideration in the examination of pensions now taking place.

Submission 279

The soaring costs of pensions, particularly public service pensions is worrying. In addition the share out of the pensions pot is not very equitable. The societal changes that have taken place have not resulted in the adjustments which such changes should necessitate. I refer to situations where very many people, public servants, and others, can end up with three pensions, viz the death of a public servant, or a retired public servant could result in the spouse having three pensions (his/her own, the survivor’s pension and the social welfare pension) or indeed a full salary and two pensions.

When widows’ pensions were introduced the situation was entirely different. When women sought, and got equality , they did not think to abandon the advantages of inequality. Now is time, in the interest of equity and solidarity to review this issue. To insert the simple word ‘dependant’ before spouses’ pensions, would enable a considerable saving for the taxpayer, or a redistribution to the less well of survivors, of the amount saved.

The argument might be made ‘but we have contributed for this’. Some single people make the same argument !

Submission 288

It is desired to present a note on aspects of pensions and related retirement benefits in relation to the learned, comprehensive and lucid Green Paper on Pensions.

Public Service Pensions

There is some merit in altering to defined contribution pensions in line with much of the private sector. However, an immediate total change would not be easy so it is suggested that in future salaries up to €50k pa be continued on DB and that salaries above that be DC. There may be a need for some marginal treatment in respect of salaries a little over €50k.

Salary costs may tend to be somewhat high in the public service compared with the private. In the private sector in bad economic times, some staff tend to be "laid off" and then some incremental pension costs cease to accrue. In the public service, there tends to be no more than a pause in recruitment; but staff are not laid off. In consequence, pension costs may be comparatively high.

A solution which may be difficult to achieve, is that staff would take a pay pause, equivalent to a 5% reduction in real terms, for a period. An alternative would be an objective and rigorous review of some functions, leading to redundancies with compensation at the statutory level and with preservation of accrued retirement benefits. This may be a matter for future public service employment contracts, from which the pension consequences would follow.

It is interesting that in the 1960s the salary of a civil service executive officer was much less than that of, e.g., a private sector skilled tradesman. Forty years later, the executive officer has nearly twice as much as the tradesman and has a much better pension scheme. The public service may be overstaffed in some areas and overpaid when pensions are included. It may be difficult politically to grapple with a remedy. Perhaps elected public servants have the opportunity to give appropriate example.

The comments on Chapter 13 (Public Service Pensions) below are on the basis that public service salaries are at a correct level. Some of the comment, in the interests of trying to be brief and neat, partly reflects what is stated in the Green Paper.

Cap on tax-supported pensions

The existing cap on tax-supported retirement benefits is suggestive of Government reservations at the somewhat lavish levels of executive pay in certain areas of the private sector. Should statutory provisions be contemplated along the lines of restricting relief from taxes on income in respect of such remuneration (e.g., treating salaries in excess of €600k as profit distributions) it would seem that action in regard to tax-supported retirement benefits has already taken place (TCA 97 Ch. 2C) and that further taxation steps would not be needed.

PRSA- type incentive

It seems appropriate to provide a financial incentive in low cost terms somewhat along SSIA lines to encourage pension saving. Some suggestions are given below. It is appreciated that they are no more than outlines and that practical detail needs to be attended to.

It is hoped that this presentation, Having One's Say, may be of some assistance.

Chapter 13, Public Service Pensions

Assuming that pay levels in the public service are reasonably correct, an aspect which may be questionable in modern and current economic times, it is possible to seek to address aspects of the levels of pension and related retirement benefit.

1. Salary up to €50k
   5% employee contribution up to €50k.
   State contribution as may be required
   Result: Pension €14k + lump sum (db) +€11k State pension

2. In respect of the portion of the salary over €50k., the employee contribution and the State's to be 50/50 at a commercial, actuarial, level – perhaps 20% each.
   Result: Incremental pension and lump sum on dc terms.
   Employee contribution to be held in trust in, e.g., NTMA.
   Resultant retirement benefit, n/60, to be paid 25% lump sum and n/80 pension.

3. Pensionable salary to be the career average or the average of the years of employment should such be less than what is accepted as the career.
   (This, inter alia, would end any practice which may exist of "benignly promoting" people financially within a few years of retirement so as to afford them better retirement benefits for life.)

4. Retirement benefit not to exceed n/60 of salary where n is complete years of service. The present system of n/80 + lump sum seems acceptable. In regard to salaries in excess of €50k the incremental retirement benefit may possibly be somewhat less or greater than n/60 should the actuarial calculations prove imperfect. As a separate matter, there may be a case for reviewing whether the multiple of a years' salary as at present in use is an adequate measure of the lump sum, when life expectancy is increasing.

5. Normal retirement date, nrd, to be 65. Employee may opt to retire younger on full pension on completion of 40 years' service. Employee may opt to stay on after 65 by agreement with the employer, subject to fitness, perhaps in a position with a reduced salary level. May opt to have pension and lump sum reckoned at age 65 or on completion of 40 years and then preserved or partly paid and preserved, the preserved portion being subject to a modest inflation adjustment to date of payment. The reckon-and-preserve option would protect the employee from losing in respect of career or employment period average

6. On the question of pay parity as a basis for the equivalent of pay after retirement of which pension is a fraction, it would seem fair that matters such as productivity bonuses awarded after nrd should not be taken into account but that instead an inflationary adjustment be allowed at a modest (ECB?) level.

7. Should there be non-pensionable earnings after nrd, tax deductible PRSA contributions would be possible.

Green Paper on Pensions

Chapter 04, Income Adequacy in Retirement

PRSAs. Incentive to Pension Funding

It is suggested that a PRSA product with an incentive somewhat along SSIA lines would be a useful incentive to individuals towards saving for retirement benefits, being a tax exempt lump sum and taxable life pension at normal retirement date.

Problems perceived with existing PRSAs are the high administration cost and the lack of any effective influence over the investment activity of the administrator.

As well as an incentive to pension saving, we need a disincentive to "cashing in" accumulated pension savings.

Suggestion

Have a retail bank, perhaps PostBank, under contract with the State, sell PRSAs over the counter for cash to individuals in exchange for a dated receipt stating the investor's name and PPSN. The Bank's IT record would be accessible to Revenue for checking or audit.

The individual would state the contributions in his tax return, the yearly tax deductible maximum being the same as for Retirement Annuity Contributions, 15% to 40% (depending on age) of non-pensionable earnings (or largely non-pensionable which is a suggestion of something new). The individual would be obliged to maintain a permanent record of contributions, as would "PostBank" in its IT system.

"PostBank" would remit the contributions periodically to the likes of NTMA, net of 0.1% representing "PostBank's" commission. "NTMA" would hold the funds as the pension fund of the contributor and would obviously keep a permanent IT record.

The State would annually remit a sum to "NTMA" equivalent to 10% of the amount paid by the individual as a pension saving incentive and a sum equal to the tax credit. (One considered tax credit on more than the contribution by way of a tax incentive and dismissed it on the grounds that tax-exempt workers deserve a pension incentive as much as taxpayers.) The fund would earn say 2.9% compound interest, being 3% less 0.1% retained by "NTMA" as its reward. The fund would be State guaranteed.

(Should the contributor withdraw the investment prematurely even on grounds of financial hardship, all he gets by way of a disincentive to early withdrawal, is the contribution he has paid in less 5% to compensate the State's interests in respect of admin costs. The 10% incentive, the tax credit equivalent and the 2.9% accumulated interest would be remitted to the State by "NTMA".)

When the individual reaches nrd, he may take 25% of the fund as a tax-exempt lump-sum and the remainder is transferred to an ARF of his.

A “PRSA Control” guarantee company under contract with the State, at a cost of some €200k.per annum, would supervise the foregoing, supply annual statements to savers and prepare financial accounts. All to be subject to audit by the C&AG

Case studies

(a) Individual aged 30 marginally taxed x 20%
Pays €5k pa over 30 years fully tax deductible: basic fund: €150,000
“Service charges” 0.1% twice (300)
Contribution through Revenue, = tax relief x 20% x 30 years: 30,000
Further 10% State contribution (incentive): 15,000
Total, say, : €195,000
Interest 2.9% compound, assume: 25,000
Total fund: €220,000

For lump sum -- €55k; For ARF -- €165k = perhaps life annuity €200 a week.

(b) Individual aged 35 marginally taxed x 40% on average
Pays €10k pa over 30 years, fully tax deductible: basic fund: €300,000
“Service charges” 0.1% twice: (600)
Contribution through Revenue = tax relief x say 40% x 30 years: 120,000
Further 10% State contribution: 30,000
Total, say: €450,000
Interest 2.9% compound, assume: 50,000
Total fund: €500,000

For lump sum €125k;For ARF-- €375k = perhaps a life annuity €24k.

Questions

Whether the 10% State contribution can usefully be marketed as an incentive. Yes

Whether it is fair to have €15k incentive contribution for the lower income person and €30k for the higher income. Yes, a 10% contribution for all is fair.

Whether useful marketing tools would be the State guarantee of the total fund, the tax credit (contribution through Revenue), the further 10% State contribution, the nearly 3% compound return, the independent audit, the low admin costs, the transparency and the services supplied at trivial cost eg the C&AG Audit. Yes

Perhaps these would be adequate incentives

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 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 321

Politicians have privileges with regard to pensions. Ministers, Taoiseach and President enjoy privilege with regard to pensions.

If we wish to be serious and acknowledge the impending crisis looming I call upon such people to lead by example and opt for less, not a full pension after a few years but a pro-rata pension system, length of service the same as that which applies in the public service. For example a teacher has to work for forty years in order to obtain a full pension.

Let us hear the Taoiseach and his cabinet the president and those that are retired on over-generous pensions lead the way be acknowledging that the present system is not sustainable.

Submission 325

I wish to make the following submission to your committee. I am 87 years old and hope you will be able to read my writing.

I commenced my working life at 15 years of age and my contributions to Social Welfare commenced in 38/39 period and continued at the Class A rate until 1957. At that time I was working with [Company Name] in 1957, I was promoted and, as a consequence, I was then changed from Class A to Class D rate. The latter rate did not entitle me to an Old Age Pension.

From 1957 to 1986, my contributions continued at Class D and when I retired I was not entitled to an Old Age Pension because I had been superannuated at [Company Name] who were exempted from paying the full rate. As I had time on my hands a number of us formed an association "Deprived Old Age Pensioners" and commenced lobbying TDs and senators and after a very long fight over 12 or 14 years we got some recognition and small amounts of pensions were paid to us. As a result of the anomalies created in Social Welfare and the injustice of the scheme from 1995 all public service employees recruited after that year are now paying Class A contributions and will be entitled to State pensions as they are now called plus their occupational pension.

At present I have my occupational pension approx €298pw and half the State pension which is approx €125pw. After contributions made by me for 48 years of my life at either the Class A or Class D rate I feel this is a shocking injustice to me. I have given loyal service to the State both as a public servant and in [Employer Name] from 1940 to 1946.

The use of pre 1953 contributions was only allowed on a very limited basis for half the State pension and despite the fact that I have pre 1953 stamps on record I am not allowed to use them and I am denied a full pension. This is disgraceful and I am not sure whether or not it is within your remit? I hope it is and that you will rectify it.

If you require any further information from me or if there is any way I can be helpful, I am very willing to do so, even to travel to Dublin, I am quite capable of doing so T.G. I await your comments & reply.