Report of the

National Pensions Framework Implementation Consultation Forum

Thursday 15th July 2010, Farmleigh House, Dublin

1. Introduction

The National Pensions Framework Implementation Consultation Forum took place in Farmleigh House on Thursday 15 July 2010. It was hosted by the Minister for Social Protection and representatives from a range of organisations attended. The forum presented attendees with an update on the implementation of the National Pensions Framework and provided participants an opportunity to give their initial views. Each participating organisation had five minutes to make a contribution. A number of observers were also in attendance.

Four main themes were addressed by contributors - social welfare pensions, auto-enrolment, private & occupational pensions, and public sector pensions. These are outlined in sections 2 to 5 below. Some more general issues are presented in section 6. Once each participating organisation had had an opportunity to make its contribution, there was a general discussion – an overview of which is presented in Section 7.

2. Social Welfare Pensions

A number of contributors welcomed the publication of the framework and expressed the view that the State pension should form the basis of the pension system. It was stated that the primacy of the State pension is critically important and the significant increases in rates over last number of years were acknowledged.

One contributor suggested that the commitment to the level of the payment in the framework should be stronger than "endeavour to maintain" because the majority of pensioners depend on it as main source of income. Adequate income and health services are key issues for older people and many pensioners are still in poverty or at risk of poverty and this should not happen. It was pointed out that there was great insecurity at present around private pensions and people wanted to rely on the social welfare system, rather than the private sector, for security. The view was also expressed that there should be a universal State pension.

2.1 Legacy Issues

With regard to current pensioners, it was suggested by a number of contributors that the outstanding legacy issues such as the marriage bar should not be dismissed. It would not be good if future pensions policy has gaps built in. These gaps should be addressed by, for example, increasing the dependent adult allowance to pension level.

The retrospective recognition of business partnerships and the change from homemakers disregards to credits, with level of pension set out in the framework were considered to be positive developments. However one organisation expressed the view that while the change from homemaker's disregards to credits was welcome, it should be backdated beyond 1994 to deal with issues relating to the marriage bar

2.2 State Pension Age

There were differing views on the increases to the State pension age, outlined in the framework. Some organisations welcomed moves to facilitate people working beyond pension age but recognised that some people may not want to do this. A number of contributors felt that pension age for people currently in employment should not be increased as people had a legitimate expectation about retiring at a certain age. It was stated that, at present, there is an element of fear amongst those aged over 55 due to the changes to State pension age.

One organisation stated that they did not agree with increasing pension age especially with regard to construction workers and those nearing retirement age. They were in favour of flexible working, but there should be a choice; people should not be compelled to work for longer. Any pension age increase also needs to have a training element for older people. It was also pointed out that retirement is not all about leisure. Most retirees want to have a productive element and make a contribution to society, perhaps through voluntary work. If retirement age is too high then people will be less likely to volunteer as the ability to volunteer reduces with age. There should be an element of choice supported by a balance in society where the young support the old.

A number of organisations stated their support for the increases in State pension age and feel it is necessary due to increases in life expectancy generally. The importance of social capital was also emphasised. Older people can feel that their skills are under-utilised in services to the state. They would like to contribute to society but this should be voluntary, not compulsory. Incentivising volunteer work for one day per week could combat this.

2.3 Indexation and level of State Pension

Differing views were also expressed on indexation and the level of the State pension. A number of contributors felt that the pension rate should be raised to at least 40% of average earnings over a number of years and that 35% is too low for a reasonable income. The linking of pensions to average earnings was viewed positively by a number of contributors. However, one contributor expressed the view that keeping the State pensions at a level of 35% of average weekly earnings could mean a significant drop in income for pensioners.

2.4 Contribution Conditions

A number of organisations welcomed the introduction of total contributions as the basis for calculating eligibility for State pension and homemakers credits. Concern was expressed though for people who are not entitled to a contributory pension.

3. Auto-enrolment

In general, the majority of organisations were supportive of the introduction of some form of auto-enrolment scheme. Concerns were expressed about the contribution level and also the re-enrolment policy which could be very cumbersome to administer especially with regard to short-term fixed contracts.

It was pointed out that mandatory enrolment in Australia had resulted in a decrease in private pension provision. It was suggested that the state contribution would need to be increased to 12% in order to be effective.

Concern was also expressed about the complexity of the auto-enrolment scheme. One organisation felt that the complexity of the proposed scheme was such that it would be beyond the capacity of the PRSI system. In the UK the NEST scheme provided a good example of the difficulties which can arise. The low risk default option also needs careful consideration.

In the UK, over 200 people are employed to work on a similar scheme at cost of over £200 million. The proposed scheme for here is smaller but more complex – there will be up to 1 million people enrolled and many more transactions. Also it is unlikely that the contribution rates will provide the benefits people expect.

With regard to the New Zealand experience of auto-enrolment, one contributor expressed the view that employers move to KiwiSaver in order to lower their contributions and that this needs to taken into account.

Another contributor would prefer if the auto-enrolment scheme "piggy-backed" on the State pension, otherwise there may be concern with regard to how the auto-enrolment funds will be invested. The impact on savings in defined benefit and defined contribution schemes should also be considered – the introduction of an auto-enrolment scheme will have a considerable impact on these schemes.

A number of participants expressed concerns in relation to small employers and labour intensive industries as it was felt that the scheme will cause difficulties for them, for example in relation to cost and the potential administrative burden.

One contributor felt that there is a need for a second tier pension but private pension providers have a bad track record and have high commission and charges. The auto-enrolment system should be reviewed after five years and the record of pension providers should be tracked. The Government should do a cost benefit analysis and feasibility study before the scheme is commenced and there should be a competitive process to select pension providers. The design of the opt-out in the scheme should be further discussed.

4. Private & occupational pensions

4.1 Tax relief and PRSI

A number of participants expressed the view that the maximum level of relief on retirement contributions was needed to ensure take up and that tax reliefs at the marginal rate do not favour the rich but middle income earners. Any changes to tax relief will have a greater effect on middle income pension savers as they will be discouraged from taking out a pension and greater impact analysis should be undertaken before this is introduced. The annual tax allowance could be structured so that it would increase as people get closer to retirement.

Some contributors disagreed that tax relief at 33% will provide equity and stressed that it will reduce the take home pay of workers taxed at the higher rate. Another organisation felt that the earnings ceiling for tax relief should be reduced from €150,000 to €75,000. A maximum annual allowance is being introduced in UK instead of tax relief.

One contributor felt that the maximum permissible tax free pension fund could be restricted to a reasonable level as the vast majority of people do not come close to permitted maximum. A number of other contributors felt that the tax relief system should be made fairer by focussing on lower income people. They welcome fairer tax reliefs and endorse the view that the tax system is merely a pay back at a later stage.

4.2 Defined Benefit and Defined Contribution Schemes

Several participants stressed that Defined Benefit schemes are struggling right now and are in need of some immediate actions. A hybrid scheme may be the preferred option but more detail is needed on this.

The existing role of pension providers was acknowledged by one participant. This reaffirmed that the Irish pension industry understands the complexity of start up costs and have the capacity and to deal with multiple accounts.

One organisation was of the view that Section 50 regulations need to strike the right balance between regulation and flexibility. It was considered that the framework was an opportunity lost and, as a result, many DB schemes will collapse in the coming months. DB schemes can be wound up under section 50 and employers can walk away, unlike in the UK. The result is that there will be much smaller pensions than people deserved and expected based on their contributions.

4.3 Annuities and Approved Retirement Funds (ARFs)

It was stated by one participant that the ARF extension is welcome if it is a real extension but at present, if it includes an €18,000 limit, it seems like a restriction rather than an extension. The AMRF (Approved Minimum Retirement Fund) option should also be retained and State pension not yet received should not be taken into account.

One organisation welcomed the framework's approach to annuities. It was also stated that the State should take on managing annuity funds and not the industry, for safety of investments and the fact that there are significant scheme costs taken from pension funds.

It was also argued that pension adequacy is very important. While, the broad thrust of the policy in relation to ARFs was supported by this contributor, the €18,000 requirement restricts the option to people with a fund of €300,000. The AMRF requirement should be doubled from €63,000 to €120,000.

One participant would like the Government to finalise its consideration of the sovereign annuity proposal in the near future.

4.4 Regulation

Disappointment was expressed that the framework did not address consumer protection for pension holders. It was felt that more regulation is needed in the area and financial institutions have a role to play with regard to financial education.

One contributor stated that light touch regulation has proven to be a bad system and customers are in need of greater clarity and transparency. High commissions are being charged by financial service providers. The UK has now banned charging commission due to miss-selling. Consumers also need to seek advice. A traffic light system for financial products was introduced in Denmark – perhaps this should be introduced here.

5. Public Sector Pensions

Differing views were expressed in relation to public service pensions. One contributor felt that the public service pension was very good and should not be changed, other contributors felt that there is a need to reduce public service pension cost.

One participant pointed out that the only sector with guaranteed a pension is the public sector based on a 6.5% contribution. Whether this should be treated as benefit in kind was questioned. Recent moves to link public sector pension rises to cost of living increases were referred to and it was asked what the real cost of guaranteed pensions is.

The question of whether it was appropriate that public servants with guaranteed pensions should be drawing up and policing pension rules for others, was also raised by one contributor.

6. General issues

A number of other issues were also raised by participants at the forum, including the need for financial education about pensions and the promotion of pensions on a massive scale. The public need to be educated on retirement planning and financial education in schools should be improved. This training and education is critical, particularly given the issue of the potential gap between leaving work and starting to receive the pension. This is an issue that should be considered by the Implementation Group and included in its terms of reference.

Another underlying issue, in policy and practice, is age discrimination but this not mentioned in framework. It was suggested that age limits for training in FÁS need to be abolished. The emphasis is on equity – but an emphasis on equality is also needed.

Another issue raised was in relation to the demographics used in the framework and in the Green Paper on Pensions. One contributor wondered if the Government were taking into account changes to productivity; with greater productivity and more wealth to distribute the ratio of worker to pensioner might not be so important. Another contributor felt that there were problems with the demographic material, which had been pointed out at Green Paper stage. It was suggested that the experience shows that actuarial figures are always wrong so why would the demographics that are used be correct. Behavioural economics needs to be used in all analysis procedures.

The subgroup on data and costings that was established as part of the implementation process was welcomed but a good deal more analysis needs to be done in the context of equality.

The view was also expressed that, at present, there is a need to improve pension contributions overall and reduce expectations which is difficult to achieve. As people live longer, we need to minimise demands on other services and an adequate income facilitates this. The framework suggests that the percentage of GDP spent on pensions will increase from 5% to 15% - this figure was not broken down between State and private pensions and was unclear.

It was suggested that the national pensions framework was not set in stone and that the Minister should re-examine the parameters. Concern was also expressed at how the National Pensions Reserve Fund (NPRF) is managed and some contributors stated that funds should not have been taken from the NPRF to invest in the banks.

The adequacy of pensions was also raised. The best way of eliminating poverty is by having an adequate minimum income. Currently, the population is of the view that there is no security of pension funds, and they have no confidence, and a lack of trust in financial institutions. One participant blamed the country's problems on bad management, not on a global recession and stated that mistakes were made in the 1970's when taxes were high; taxes should have remained high so that revenues could be used during a recession.

7. Open Discussion

An open discussion was then held and a number of observers present at the forum were invited to participate.

One observer felt that the State pension is the solution to the pensions crisis. Currently, there is a race to the bottom in terms of pension provision and there is concern about the adequacy of DB schemes. Financial education is good but there is too much regulation. A simpler and more transparent system is needed. The introduction of the tracing service was welcomed but the ARF system needs to be tweaked.

Another observer expressed the view that a Sovereign bond is a good idea. DB schemes will need to find money or else they will have to cut benefits or wind-up and so an urgent response is needed.

The importance of monitoring and analysing how the pensions system is affecting people/individuals was also stressed. Substantial data is available on this. The overall picture should be looked at in terms of peoples' lives for e.g. housing and health. Issues will arise depending on adequacy of pensions system.

The cost of public service pensions at €250m per annum was queried as was the value of tax relief and to whom. This figure was broken down in Green Paper on Pensions. Approximately €5.5 billion is spent on older people each year.

A holistic approach to retirement age should be taken with less reliance on chronological age because people age differently. People's early life chances and subsequent health is a determinant of healthy ageing.

ENDS

Appendix: Participants and Observers

Participants	Observers
Age Action Ireland	Pensions Ombudsman
Association of Pension Lawyers in Ireland	Office of the Pensions Ombudsman
ICTU Retired Workers Committee	Members of the Pensions Board
Irish Association of Investment Managers	TILDA
Irish Association of Older People	Office of the Minister for Older People
Irish Association of Pension Funds	Members of the NPF Implementation Steering Group
Irish Business and Employers Confederation	
Irish Congress of Trade Unions	
Irish Farmer's Association	
Irish Institute of Pension Managers	
Irish Insurance Federation	
Irish Senior Citizen's Parliament	
National Federation of Pensioners' Associations	
National Youth Council of Ireland	
Older & Bolder	
Older Women's Network	
Professional Insurance Brokers Association	
Retirement Planning Council	
Social Justice Ireland	
Society of Actuaries in Ireland	
TASC	