

Seanad Private Members Motion

Wednesday 14th November 2007

Pension Provision: Motion. Senator Fiona O'Malley: I move:

That Seanad Éireann commends the Government on its publication of the Green Paper on pensions as a first step towards ensuring that as our society ages there is adequate pension provision, particularly for people on low and middle incomes.

I am delighted to have the opportunity to introduce this motion on the development of an adequate and sustainable pension system to meet the changing demographic circumstances that our country will face in the coming decades, and I welcome the Minister to the House.

Pensions should be a matter of great importance to everybody and how they are to be provided for in the future is an issue that requires full-scale debate. The Green Paper sets out in a clear and comprehensive manner the issues the country is facing and the potential options which are available. There has been some criticism that it does not reach definitive conclusions as to the various options. I believe, however that is somewhat misguided. Any effective solution requires a sustained long-term approach based on a broad consensus and this can come only from an informed national debate. Hence the consultation period. The motion gives Members of the House an opportunity to contribute to this debate.

Ireland is lucky in the sense that because of our recent strong population growth, we have more time than most developed countries to fashion a response before we have to adjust to a decline in the number of workers who will sustain pensions, or resolve how to deal with a situation where we have a much smaller number of people of working age relative to a much larger number over pension age. While this demographic change may be delayed in Ireland, it will happen and in the event will represent a major social change. As the Green Paper points out, the population aged 65 and over will increase by 59% in 2021 and by a further 142% by 2061. As a result, the ratio of people of working age to those over 65 will decline from 5.6:1 in 2006, to 1.8:1 in 2061.

This is largely as a result of people living longer and healthier lives, which undoubtedly is a cause for celebration. All the projections suggest that as a result of economic growth and technological change the standard of living will continue to increase. Good governance is about preparing and planning for this future scenario. It would be reckless in the extreme to ignore the inevitability of our future pension needs and liabilities. Government must act to make the necessary policy adjustments to plan for the future, and prudence would dictate that we act now. Furthermore, given the projected ratio of working people to pensioners, Government must alert, encourage and incentivise people to plan for their future retirement needs.

It is obvious we need to agree on a national strategy in relation to the provision and funding of pensions that will ensure future pensioners have the resources to maintain a reasonable standard of living, and that this is done in a manner that does not place an unsupportable burden on what will be a proportionately smaller labour force. This is the vital issue. We cannot burden workers today or in the future with the pension requirements that are needed further along the way. It cannot be an unsupportable burden and that is why we need prudent planning. Planning for future pension provision will have to be facilitated through successive governments and therefore a political consensus is necessary.

The State pension must, in my view, form the basic pillar of any such system. I am proud of the improvements in the State pension in the past ten years. In 1997 the contributory old age pension was €99.04 per week. It was increased to €147.30 by 2002 and is now €209.30. This represents a significant real increase, over and above the increase in the cost of living of more than 60% since 1997. It has more than kept pace with the increase in earnings, growing from 31% of average earnings in 2006 to 33% in 2007. The Agreed Programme for Government commits to an increase in the basic State pension to at least €300 per week by 2012. This will bring the State pension to around 36% of average earning in 2012. I believe we should see this as a staging post on the way to reaching a target of 40% of average earnings within the lifetime of the next Government. Furthermore, I would like to see a national commitment towards maintaining at least this level into the future.

Nothing has worked to alleviate poverty among older people quite like the pension increases. That is why it is so important that we commit to linking the pension to the average industrial wage, thereby continuing the significant reduction in the poverty rate among older persons, and hopefully eliminating it ultimately. This would provide all who qualify with a guaranteed level of State pension that would provide the basis from which they could plan additional provision. I am aware that the Green Paper raises concerns about the sustainability of the State pension even at existing levels of provision. However, I believe it is essential that we provide for a reasonable level of basic provision linked to average earnings.

If the State pension is to be increased to, say, 40% of average earnings, then serious consideration must be given to reforms that will make this sustainable, including increasing the share of the population in work, and raising the retirement age. With increasing health and longevity, an increasing number of people will in any event want to work longer, and we must put in place measures that encourage and facilitate this trend. In this regard, I urge that the earliest possible implementation of the commitments in the programme for Government to increase the State pension in respect of every year that a person over 66 delays taking it and to extend the amount those in receipt of the State non-contributory pension are allowed to earn without affecting their pension entitlement.

On supplementary provision, there are significant and ample tax incentives available to those on higher incomes to provide for their retirement. In any event, these people usually have sufficient incomes to enable them to make additional provision without undue hardship. I favour the continuation of tax relief for pension contributions but support strongly the measures introduced by the Minister for

Finance in the last two Finance Acts to eliminate potential abuse. They should be an incentive for a reasonable level of pension provision, but only for a reasonable level.

I am concerned that the current system of tax incentives does not appear particularly attractive or user-friendly for low and middle income earners. It was for that reason the Progressive Democrats, in its election manifesto, proposed an SSIA-type scheme for those earning up to twice the average industrial wage to encourage them to make personal pension provisions. Under our proposal, instead of offering tax reliefs, the State would add €1 to a pension fund for every €2 contributed by the individual. The rules for contribution limits would be broadly similar to those applying to PRSAs at present.

We witnessed an extraordinary and massive uptake of SSIA's by people of all levels of income and this was for a scheme that offered a return of one additional euro for every €4 contributed. Furthermore, we have seen that people have, to a large extent, continued to save at the same level and not splurged their savings, as some more excitable commentators predicted. Our proposal of offering €1 for every €2 contributed is warranted in the case of pension funds because people are making a longer-term commitment than was the case with SSIA's. It also represents a significant improvement on the relief for those in the standard tax band. This relief is available to those on more modest incomes but it is not encouraging people to provide for their pensions as we would like.

In many instances people on modest incomes are also inhibited from contributing to a pension scheme by the high level of charges levied by the fund managers. As in the case of the SSIA scheme, there should be maximum charges specified for providers of funds. I am pleased that the programme for Government commits the Government to develop, in consultation with the social partners, proposals "to provide an SSIA type scheme in an effort to make supplementary pension provision more attractive to those on low incomes". I recognise that there are many variants to the scheme other than those we in the Progressive Democrats have proposed and I look forward to the Minister's proposals arising from the consultation process. Our scheme would be more attractive to individuals on modest incomes and obviate the need for a mandatory scheme, which could be regarded as a tax and would be fraught with difficulty.

I do not intend to address the broad issue of pension regulation today but one matter in this area raised by constituents should be addressed as a matter of urgency. It arises where people in the workplace have a defined contribution scheme rather than a defined benefit scheme, which is increasingly the case. In the case of defined contribution schemes, the pensioner, upon retirement, can take a lump sum equal to 25% of the value of the fund but must use the rest of the fund to purchase an annuity. Annuity rates have fallen considerably in recent years and many pensioners feel they are getting a very raw deal. They also point out that PRSA holders do not have to take out an annuity but can opt for other arrangements.

I am aware that there are pros and cons in respect of requiring the purchase of an annuity, but I believe people deserve to have a wider range of choices than they have at present. I ask the Minister to give serious consideration to extending such choice to individuals in defined contribution schemes at an early date.

I welcome the Green Paper and congratulate those who prepared it on the comprehensive manner in which it lays out the issues. The challenge we face on pensions is a problem of success in that it results from people living longer and healthier lives. Our recent economic success provides us with the opportunity to address it effectively. We must grasp this opportunity, learn from the experience of others and forge a national strategy that will ensure this and future generations will have the resources to enjoy a secure and productive retirement.

Senator Ciaran Cannon: I am delighted to have the opportunity to discuss this motion. As my colleague, Senator O'Malley, said, this is an issue of great importance for the nation. The provision of an adequate and sustainable pension system is of great importance not only to current and future pensioners but also to the future prosperity of the country. If our generation, living at a time of considerable prosperity and benefiting from a historically high ratio of workers to pensioners, does not address this issue properly, it will place an unsustainable burden on workers in the future and endanger national prosperity. While the Green Paper does not give all the answers, it sets out the issues fairly and indicates the range of options to address them in a satisfactory manner.

I believe strongly that an adequate and sustainable State pension is the essential foundation upon which any system must be based. The Progressive Democrats has always been at the forefront in seeking to improve the State pension. It was the first party to advocate a pension of £100 per week in the mid-1990s when others said it was unaffordable. In Government, we achieved it. We then advocated a pension of €200 per week and this was more than achieved by 2007. In the previous general election we committed to a pension of €300 per week by 2012 and I am delighted that this has been included in the programme for Government.

While I am aware that the Government faces tight prospects in the forthcoming budget, I urge the Minister for Social and Family Affairs and the Minister for Finance to give priority to giving a significant increase to pensioners on 5 December to make more apparent our determination to reach and, if possible, exceed the €300 target in the lifetime of this Government.

Another important issue concerning the State pension affects the status of women who left the labour force for various reasons prior to 1994 when the homemaker scheme was introduced. Those of us who canvassed in the previous general election will have met many such women, many of whom are now widows, who were effectively forced out of work either by formal or informal marriage bars. They rightly resent the fact that their pension entitlement, if they have any at all, is dependent on the contributions of their husband.

In our election manifesto we committed to amending the homemaker scheme to ensure the aforementioned women would be entitled to a contributory pension.

While this is not addressed specifically in the programme for Government, I welcome the commitment it contains to remove anomalies identified in the pension system and ensure women are treated fairly by way of pension provision. If any group of women deserves to have this anomaly removed, it is the women in question. Such reform will cost money but, unlike many initiatives in the pensions area, the cost will decline over time. This is because it only applies to people who left the workforce prior to 1994. In any event, an increasing number of women stay in or leave and return to the labour force nowadays and thus qualify for a contributory pension in any event.

I would strongly support further increases in the State pension as a proportion of average earnings after 2012 to bring it to approximately 40% of earnings. I recognise that if this is to be sustainable over time in light of changing demographic trends, we will all probably have to work longer. Most people today would be more than prepared to do so but every effort needs to be made to provide an environment that makes it possible. I therefore welcome the commitment in the programme for Government to allow people to benefit from PRSI contributions made after they reach 65.

However, initiatives must go beyond Government. Employers must be prepared to offer more flexible working conditions to workers at or approaching what is now regarded as retirement age. As we confront our changing demographics, the concept of a retirement age will become increasingly irrelevant. I therefore refuse to regard the change in the age structure of our population as a burden. We are living longer and healthier lives. In October 2006, Dr. Garret FitzGerald described this nation's rapid increase in life expectancy from 1999 to 2005 as a "remarkable phenomenon". Ireland had the lowest life expectancy of the 15 EU member states in the early 1990s. By 1996, it still had the third lowest life expectancy but by 2005, it had the sixth highest. Our workforce is increasingly healthy, educated and adaptable. We have proven ourselves capable of dealing with massive social change.

An adequate, sustainable and flexible pension system is an essential component in making a successful transition to this new demographic reality. The Green Paper gives us the tools with which to address the challenge of designing such a system.

Senator Nicky McFadden: I move amendment No. 1: To delete all words after "Seanad Éireann" and substitute the following: "recognising that:

- according to most recent poverty figures almost one in five pensioners is at risk- of poverty;
- among EU member states Ireland has the second highest at-risk-of poverty rate for persons aged 65 years and over;
- Ireland has the lowest pensions expenditure among EU member states;
- the number of people over 65 will increase by 60 per cent over the next 14 years, and will more than triple by the year 2061; and
- that progress has been slow in reaching the National Pensions Review target of ensuring that 70 per cent of the working population has private pension coverage;

calls on the Government to ensure that the consultation process, as set out in the Pensions Green Paper, will conclude by May 2008 and that a strategy is implemented as a priority to fill the existing pensions gulf."

I am pleased to meet the Minister for the first time and thank him for taking the time to come to the House. Senator Cannon noted that in the agreed programme for Government, the Government promised to increase the basic State pension by around 50% to at least €300 per week by 2012 while reducing the rate of PRSI from 4% to 2%.

A recent report proved that by 2010, PRSI contributions will not be enough to pay for welfare benefits. This means that the social insurance fund will move into huge deficits. The current surplus of €2 billion will be gone by 2010 and by 2016 we will have reached a deficit of €12 billion in today's money. According to recent poverty figures, almost one in five pensioners is at risk of poverty. The other day I met an 80 year old man who retired on a pension that was not index linked. His pension at the age of 80 is the same as it was 15 years ago. How can we talk about the pensions of the future while standing over the failure to index link the pensions of the elderly today? I know this is mentioned in the Green Paper.

We are putting away money to provide for the pensioners of the future when the pensioners of today are the people who gave us the Celtic Tiger. It is these people who are in poverty and it should also be noted that the majority of pensioners are dependent on social welfare. The number of people over 65 is expected to increase by 60% over the next 14 years. That people are living longer, healthy and full lives is to be welcomed. However, it means that the number of pensioners at risk of poverty will rise significantly.

It is estimated that the pensioner support ratio, which is the number of people of working age compared with the number of people over 65, will fall from six in 2006 to two in 2061. In addition, Ireland has the lowest State pension expenditure as a percentage of gross domestic product among EU members.

Given these facts, how does the Government realistically expect to provide pensions in the future? How does it expect to deliver on its promises to increase State pensions, a move we also want, and reduce PRSI? Fianna Fáil has been in Government for ten years and this Green Paper is its first attempt to provide adequate pension coverage. Senators O'Malley and Cannon commend the Government's publication of this Green Paper but it has taken ten years, which is a very long time. The Government promised this Green Paper seven months ago. I acknowledge the work of the former Senator, Sheila Terry, who worked on this issue for a significant period and put forward many constructive proposals in respect of this issue.

Pensions should be dealt with by one Department. It could be argued that there should be one Minister with complete responsibility for pensions, perhaps the Minister for Social and Family Affairs. As it stands, the regulatory body for life assurance companies and pension funds is in the hands of the Department of Enterprise, Trade and Employment.

The Pensions Board regulates occupational pension schemes, while the Department of Finance controls the National Pensions Reserve Fund and the SSIA scheme. The latter scheme, to which Senator O'Malley referred, would, if slightly modified, make an excellent pension vehicle.

Only one third or 32% of pensioners have an occupational pension. Around one half of pensioners get 80% or more of their income from social welfare. Half of those currently working hard and paying taxes to the Government expect their main retirement income source to come from occupational or personal pensions. The other half of the working population is not part of any occupational or personal scheme. This means they expect the State to provide their full income after retirement.

A total of 27.5% of people under the age of 25 have a pension. It is crucial that the views of young people in their 20s and 30s are heard in this debate as they will be most affected by these policy changes. I consulted the National Youth Council of Ireland when researching for this debate and it was made very clear to me that young people recognise that there is a long-term need for a greater uptake of private pensions by young Irish workers. The Government should encourage young people to take out pensions as soon as they start work.

In light of this, it is essential the Government takes a role in changing people's views on pensions. It needs to take a lead role in encouraging people to plan ahead, find other sources of income after retirement and not depend solely on the State pension because this Government will not be able to provide it. It is important the Government looks at the distribution of tax benefits for private pensions and considers ways to better target tax incentives at lower and middle income earners, drawing from experience with the successful SSIA initiative. I call on the Government to rise to this challenge. We must ensure the consultation process set out in the Green Paper is concluded by the deadline of mid-May 2008 and eventually leads to positive legislation

A pension is a property right which is protected under our Constitution. It is a breach of an individual's constitutional rights to force him or her into a pension which ultimately turns out to be more or less worthless. Some people continue to be forced into such schemes as a condition of their employment. Will the Pensions Board continue to stand over current circumstances in which a person does not have a choice to opt out of a pension, even where an employer seeks to make it a condition of an employee's contract? The Green Paper on pensions represents a comprehensive examination of the challenges and options facing Ireland in ensuring all our people have adequate pension coverage, and I welcome it. Given that one half of the working population does not have any personal or occupational pension scheme and few have the security of a defined benefit scheme, it is vital that major steps are taken in the coming years to improve pensions. I ask the Minister to honour the promise to increase the basic State pension to €300, provide for it in the upcoming budget, remove the anomalies identified in the pension scheme in respect of farmers and ensure women are treated fairly in pension provision, especially those affected by the marriage bar, as Senator Cannon noted.

Senator Jerry Buttimer: I second the amendment. I welcome the Minister to the House and congratulate him on his elevation. This debate is timely and opportune. In many people's eyes, the time for debate is over and it is now time for action. I commend Senators O'Malley and Cannon on tabling this motion.

I welcome the publication of the Green Paper. I suppose it is a case of better late than never. Like the bus, it is better to have it than not to have it. This Private Members' motion is being played out in every private house across the country and ignites a debate about provision of a comprehensive pension scheme. Members are aware of the fear of growing old and not having adequate cover to survive the last few years of life. The Green Paper represents a detailed diagnosis of the current situation and of the challenges we face, as Senator McFadden stated. It gives us options. I agree with Senator O'Malley that we need to plan for future provision of pensions. There is consensus on all sides of the House on that matter, provided it is done thoroughly and fairly.

Senator O'Malley also referred to increases in pensions in successive budgets. It is correct that it was increased for citizens whose toil and labour gave rise to the Celtic tiger. She neglected to mention that the cost of living has risen in tandem with the old age pension.

Senator Fiona O'Malley: I made the point that the pension increases were far above that.

Senator Jerry Buttimer: I accept that. We all aspire to the €300 figure by 2012 and that this be a staging post. That is the consensus on this side of the House. We need to alleviate poverty. There is a growing differential between people in society at present. On Monday night I knocked on doors in Cork South-Central. An elderly woman opened the door in her coat, jumper, scarf and gloves because she was afraid to put on the heating. That is the reality, not an invented story. Her money is gone before it comes in.

I support Senator O'Malley's suggestion of an SSIA-type scheme for pensions. Let us have a detailed proposal on that. We need to engage people in a debate. Successive advertising campaigns have been run but we need a debate on the matter. Senator Cannon referred to women forced to leave the workforce. This constitutes an anomaly that must be rectified. Ireland has an ageing population. How does the Government propose to provide adequate pension cover for its citizens given that the Green Paper does not give us a way forward? Perhaps the Minister could respond to that.

Deputy Martin Cullen: A Green Paper does not give the answers. It is the purpose of a Green Paper to set out the debate. A White Paper would point the way.

Senator Jerry Buttimer: I accept that but it should give us a blueprint.

Deputy Martin Cullen: Then it would not be a Green Paper.

Senator Jerry Buttimer: Almost half the women in our workforce of 2 million do not have personal pensions. Only 43% of the private sector have personal pensions and this must be rectified. Will a one-for-one pension scheme, espoused by the Members opposite during the general election campaign, be introduced for those on low incomes? Will this result from the Green Paper or must we wait for it until after the tax cut commitments are delivered? Senator McFadden referred to the fact that one in five elderly people is at risk of poverty and that EU data show that, among member states, Ireland has the second highest rate of risk of poverty for those aged 65 or over. That is a sad indictment. The number of these people will increase by 60% over the next 14 years and we must have a scheme to cope with this.

According to some independent commentators, PRSI contributions may not be sufficient to pay for social welfare benefits in three years' time. The Minister may disagree with this but how does he expect to deliver on the promise to increase the State pension and reduce the rate of employee PRSI to 2%?

We need action on pensions. It is almost 12 months since the Pensions Board proposed a mandatory system. The Green Paper has been published. At the launch the Tánaiste stated that we face "a difficult challenge in ensuring the financial and economic sustainability of our pension system as the task of financing increased spending on pensions falls to a diminishing share of the population". That presents a challenge and it behoves us to ensure people do not live in poverty and that our elderly and those who have contributed to society are treated well at their most vulnerable time. The proposed amendment recognises this and I ask the House to support it.

Senator Marc MacSharry: This is the first opportunity to welcome the current Minister in this Administration and to wish him well in his portfolio. I thank my colleagues in the Progressive Democrats for tabling this motion on what will be one of the most important issues in the future. I wish to comment on some of the issues I have come across in the Green Paper, even though Deputy Olwyn Enright's reaction was that there was nothing in the Green Paper. Senator Buttimer, who has just left the Chamber, commented that the Green Paper has no concrete proposals. The Minister intervened to explain that the nature of a Green Paper is to inspire reaction and suggestions. It is a mature admission by Government that this is such a problem that, after 2012, if still calculated as a proportion of incomes, pensions will be in unsustainable territory. It requires all of our ideas and innovation to come up with a strategy that can best address this issue.

By 2021 the population of those over 65 will have increased by 59% and by 142% by 2061. The worker to pensioner ratio, currently 6:1, will be 1:1. This is frightening when one considers its implications. I hope all sections of society will buy into the process and allocate thought time to their views on planning and tackling the issue. One of the greatest challenges is that working class people, or less well-off people, are those on whom we must focus because they are least likely to be in a position to provide for their future. We must be most innovative in this regard. Research by the Irish Association of Pension Funds suggests that 86% of those without a pension in the services sector would start one if the Government contributed €1 for every €1 saved. That is not sustainable.

It also stated that 91% of those with pensions said they would increase their contributions. Again, we are not dealing with those who are already making pension contributions but rather with those who are not doing so. I refer in this regard to younger members of the population who must be told to make provision for the future.

When one is 18 to 21 years one may well be a student. For those between the ages of 21 to 26, the emphasis may be more on taking a year out to travel to Australia, buying a first car or whatever. It is alien in the extreme to young people to consider providing for their futures by way of making pension contributions. We must focus on ways to encourage these individuals to make such contributions. Perhaps we could do so via a scheme under which it might be possible, if the scheme was successful, to withdraw an amount of money every five years — until one reaches 45 — in order to make key purchases. People might be of the opinion that they could reap benefits from such a scheme.

I first paid into a pension scheme from the age of 21. I thought I was being exceptionally prudent. However, I reached a period in my mid-20s where, when buying a car or whatever, I realised that I would not see the benefit of the money I was putting away until I reach the age of 65.

Senator Phil Prendergast: That age is beginning to draw near.

Senator Marc MacSharry: It is drawing nearer in any event. Many of my friends, none of whom was contributing to pension schemes, laughed at me and stated that it was my tough luck. Perhaps I will eventually have the last laugh. These are some of the reasons the people who will be most vulnerable when the time comes have not bought into the process. In discussions on the Green Paper, perhaps we could consider the introduction of SSIA-type schemes. It is interesting, however, that the pension-incentive tax credit scheme --- which post-dated the payment of SSIA's --- attracted only 1% of people. That is significant.

As already stated, this is one of the biggest challenges we face. The population is getting older. There are positives in that Ireland currently has the lowest number of people over the age of 65 among EU member states. That gives us time and creates a window of opportunity to allow us to be proactive and tackle this matter in the most effective way. This issue is non-political and cross-party in nature. While we may kick many a political football around this and the Lower House and beat up one another in respect of all sorts of issues, it is my opinion that there would be broad agreement on this matter. There also would be broad agreement that this is a good news story. The Green Paper is good and we look forward to having an input into the debate on it. I hope that solid actions will eventually result from the publication of the White Paper that will follow this one.

The publication of a Green Paper is likely to be regarded as one of the most important events in a Government's term of office. Such a document is deserving of the closest scrutiny. The future direction of policy in this area is obviously vital to the long-term health of the economy. Any decisions we take on foot of the publication of this paper will have profound and long-term consequences.

I do not wish to be overly repetitive and everyone recognises the importance of this matter. In my opinion, significant innovation will be required to allow us to arrive at an optimum solution. I will be preparing a submission, which, I hope, will help in some way. I also hope that everybody prepares a submission. I ask the Minister to focus our efforts on encouraging those people who are of the opinion that, at this stage, pensions are not remotely relevant to them to buy into making contributions. We should be innovative and develop a system under which people could, at key stages of their lives up to a maximum age of 45, reap the benefits of pension funds that are performing well. I thank the Minister for coming before the House. I again thank my colleagues from the Progressive Democrats for using their Private Members' time to table this most important of motions, which I obviously support.

Senator Feargal Quinn: I welcome the Minister and I wish him well in his new role.

I am also pleased that Senators O'Malley and Cannon tabled the motion because, as Senator MacSharry stated, Green Papers must be discussed. This is exactly the forum at which the debate on them should take place. One of the options examined in the Green Paper is the question of introducing some form of compulsory pension system. I hope this option will be considered carefully because, realistically, it is the only option that will deliver what we want and need in this area. Sooner or later, we will accept that compulsory pensions are inevitable. It is very much in our interest that this should happen sooner rather than later. I accept, however, that this is a difficult nettle to grasp.

The truth is that too few people want to make voluntary provision for their pensions. When one is young and at the beginning of one's career, one fools oneself into believing one will always be young and healthy. Looking ahead to what will be our financial position nearly half a century hence requires more foresight than most young people in their 20s possess. As someone pointed out to me recently, many people expect to win the lottery at least once in 50 years. If one is 20 years old, one will assume that one will win the lottery before one reaches 70. Perhaps this is one of the reasons people do not start to make provision for their pensions at the start of their working lives.

Most people only start to consider providing for a pension, if at all, when they get married. By that time, they are older and providing for a pension is more expensive. Moreover, this is a period in their lives when they must cope with many additional calls on their incomes. The result is that a shockingly small percentage of our population approach pensionable age having made a proper provision for their declining years.

Given that, as individuals, we are reluctant to face up to the consequences of this challenge, as a society we have no option but to take collective action. All Governments have a responsibility not only to serve the voters of today but also to protect the interests of the next generation and the generation beyond it. If this necessitates making unpopular but correct decisions, so be it. No one ever said that government involved making only the easy decisions. The only way out of the

problem we face in respect of pensions is to make it compulsory for everyone at work to contribute to his or her pension.

While one could argue that we do this already through the PRSI mechanism — providing for pensions was the original purpose of the scheme — we must face up to the fact that the sums simply do not add up in that respect. If people are to have decent pensions to provide for them in retirement, they must pay out more than they do at present. If they expect a future Government to play fairy godmother to them, they are only fooling themselves. By now we have had more than enough experience of the voluntary approach to know that it simply does not work to the extent required.

Only a tiny minority of the population has proper pension provision. I forecast that the position will not change for as long as we continue to consider pension provision to be a voluntary matter. I say this in the knowledge that a large number of people involved in business are frightened at the thought of that. They say that if we are to maintain competitiveness in this country we must be extremely careful in the context of how we monitor our costs. People in business recognise that something must be done and that it is the Government's duty to take action. The Green Paper gives us the opportunity to debate the matter.

There is nothing outlandish in the idea that pension provision should be compulsory. Several countries already operate schemes of this kind, all of them with, as far as I am aware, conspicuous success. Finland, Germany, Singapore and Switzerland operate compulsory pension schemes and Australia is, I understand, phasing in a new scheme.

I am not pushing an idea that has not been tried before. On the contrary, compulsory pensions work and a number of countries already have them. One of the great benefits of the compulsory approach is that people start providing for their pensions from their first day at work. In other words, they start paying in to their pension at precisely the best time for them to do so. By putting aside money for their pension throughout their working careers, individuals make it possible to get a decent pension at a reasonable cost, which is not the case if they leave the matter until they are in their 30s or 40s. In the past when I suggested to an employee aged between 19 and 25 years that he or she should set money aside for his or her pension, I discovered that he or she did not regard this as a major concern and it was not high on his or her list of priorities.

Young people setting up home and having children are tempted to put off providing for retirement because they face additional costs at that time. One day we will have to face up to it and the sooner we do so the better it will be.

The case was made to me on the difficulties caused by defined contributions as opposed to defined benefits. We cannot argue with this. We live in a world where it will be defined contributions and not defined benefits and we must recognise this. The State has its own headaches with this but we have managed to convince our citizens to recognise that their pensions will be based on what they contribute and not on defined benefits. We face a challenge. I am pleased this motion was tabled

this evening. I am pleased the Green Paper provides us with the opportunity to debate it. This should be the start of a debate in which the Minister will take an interest. I am confident he will not allow this to be put on the long finger and will act on it.

Senator Dan Boyle: I welcome the tabling of this motion this evening. It is stark in its simplicity. I am more than a little surprised that an amendment to it has been tabled. I would have thought everyone in the House would have welcomed the publication of a Green Paper and the consultation process accompanying it. It is clear we must prepare for the future.

Policies are in place which are beginning to address this matter and we need a national debate to define how we make the journey from now. Much was said about the future demographic difficulties. I prefer to be more positive in this regard. In European terms, we remain a young country and during recent years we have had immigration to our country. Both of these factors mean our dependency ratio is much better than more established European countries such as Germany and Italy. That said, we must provide for future pensions and how we go about it will determine the livelihoods of those, including ourselves, who will be older in future years.

We need to have a debate on having either State or private pensions or the best combination of both. In recent years, we struggled with getting this balance right. On the State pension side, major progress has been made from the old £100 to €200 to the projected €300 and beyond. We are fast catching up with the rates of pension provision found in other countries and keeping in line with 30% of average income, which is a policy objective as a result of the partnership agreement. We also fail to factor in to the State pension the ancillary benefits which accrue such as free travel, electricity, gas and television licences. When these are factored in, we come closer again. That said, issues of equity must still be tackled and I hope the consultation process will address these.

The issues of women having separate social insurance records and being obliged to leave the public service in the recent past were raised by other speakers. These must be addressed through improvement of the non-contributory pension. It must be acknowledged that steps were taken in most of the recent budgets to address this anomaly. I look forward to it being addressed again in the forthcoming budget.

The situation with regard to private pensions should be scrutinised carefully. I take a more dubious view of the talk of impending meltdown in the pensions service which is informed by a vested interest in the private pension industry itself. Those of us in the political process need to take due regard of the fact that our primary responsibility is to ensure the State pension is properly resourced now and in future.

Previously I stated the support measures which exist to encourage private pension take-up are badly in need of examination. Although it is the mainstay of current policy, I do not believe the use of tax relief is the most effective way of bringing it about. That the State now forgoes more in tax than it pays in State pensions while

supporting private pensions is not a statistic in which we can take pride. It is useful that the Green Paper points out alternatives we can follow in addressing this anomaly. In opening the debate, Senator O'Malley discussed the SSIA proposal. My party made similar suggestions in the past and had such suggestions included in the Green Paper.

We should go towards the idea of a long-term savings plan where the benefit is targeted towards the lower paid. The modification we can make to encourage future pension take-up is that the payback of such a special savings scheme should have higher amounts for people on lower incomes tapering down for people saving on higher amounts. Accepting this principle could address the difficulties we saw in the past with the take up of the PRSA.

I welcome the fact the Minister is addressing this issue with sufficient gusto and is giving commitments that the consultation process will be advanced to a major extent by next July.

If we stick to this timetable, whether it is accompanied by a White Paper or promises of specific legislation, we can look forward to putting in place reforms of the pension system during the lifetime of this Government, a system which has gone unchanged for too long. A generation of people need a reformed system put in place. I welcome this debate and congratulate the Progressive Democrats on tabling the motion. I look forward to the House in its entirety accepting the motion which, in its stark simplicity, is a sufficient statement for the House to make without resorting to amendments.

Debate adjourned.

Pension Provision: Motion (Resumed).

The following motion was moved today by Senator Fiona O'Malley: That Seanad Éireann commends the Government on its publication of the Green Paper on pensions as a first step towards ensuring that as our society ages there is adequate pension provision, particularly for people on low and middle incomes.

Debate resumed on amendment No. 1:

To delete all words after "Seanad Éireann" and substitute the following: "recognising that:

- according to most recent poverty figures almost one in five pensioners is at risk- of poverty;
- among EU member states Ireland has the second highest at-risk-of poverty rate for persons aged 65 years and over;
- Ireland has the lowest pensions expenditure among EU member states;
- the number of people over 65 will increase by 60 per cent over the next 14 years, and will more than triple by the year 2061; and
- that progress has been slow in reaching the National Pensions Review target of ensuring that 70 per cent of the working population has private pension coverage;

calls on the Government to ensure that the consultation process, as set out in the Pensions Green Paper, will conclude by May 2008 and that a strategy is implemented as a priority to fill the existing pensions gulf." (Senator Nicky McFadden)

Senator Phil Prendergast: As spokesperson for older people I welcome the opportunity to take part in this debate. I welcome the Minister for Social and Family Affairs, Deputy Cullen, to the House. I greatly acknowledge the major contribution older people have made to our economic success and continued prosperity. We have an ageing population which, I am glad to say, is living longer and in a healthier condition than was the case previously. A number of years ago, when I was on the national executive of the Irish Nurses Organisation we profiled the ages of nurses as part of an assessment of the future needs of nursing. It was not good because we discovered that more than two thirds were over 40 years old. Through the census we will know what the future needs of society will be.

I welcome this Private Members' motion. The Green Paper goes some distance towards meeting future pension requirements and will excite debate among many segments of the population, such as at meetings of the ICA and widows' associations. I concur with previous speakers who recounted how when we were canvassing we met people who were cold, wearing extra clothing and fearful of putting on heat. They were worried about the cost of living meeting their needs. The Mercer actuarial assessment of the social insurance fund, which was published last month, shows that current PRSI contributions — the money going into the social insurance fund — are running slightly ahead of expenditure and payments. However, in just three years' time a deficit will begin to emerge. The Mercer report is based on the existing PRSI rates and the current entitlements in terms of payments. It does not take into account the Government commitment to increase the pension to €300 per week or the promise to cut PRSI contributions for employees and the self-employed. The cost of the PRSI cuts promised would be €645 million per year and the full cost of increasing the pension would be €2.019 billion. If both were to proceed, the social insurance would be plunged into insolvency, which might lead to increases in taxation.

I welcome the opportunity to have this debate and I look forward to the Minister's response. The Green Paper is a step forward and I would like to think that in our term it will be progressive, forward thinking and positive.

Minister for Social and Family Affairs (Deputy Martin Cullen): I thank the Members of the Seanad who have already spoken. In particular I thank Senators O'Malley and Cannon for tabling the motion. It is important to have a robust and substantive debate on the issue. Seanad Éireann is often a place to get leadership on such a debate. Interestingly, some Senators, including Senator Quinn who has left the House, have taken an employers' point of view. I disagree with his analysis that defined benefits should be regarded as a thing of the past. That is not my approach to the debate. They are not a thing of the past in many other countries that have been highlighted in the House this evening as having a good pensions regime.

It highlights the complexity, vested interests and different perspectives that will be reflected in the debate in coming months. For that reason it was somewhat disappointing and missed the point of what the Seanad can achieve that an amendment to the motion was tabled. The motion was sufficiently all embracing to allow the Seanad to give leadership by initiating this debate in an important public sense because of how the Seanad is viewed. In recent weeks motions in the Dáil have been accepted by the Government side because they were regarded as sufficiently all embracing for us as politicians to give the leadership that is required in a debate such as this. I view the debate in the Seanad this evening in the same context. Perhaps the Opposition will choose not to press the amendment because it misses the point of what this debate will be about in coming months.

The publication of the Green Paper on pension policy marks another major step in the process of reviewing our pension system. More importantly it marks the start of a major debate to decide how we, as a Government, and as a society, plan and secure the future of those currently in retirement and those of younger generations. Pensions have been an important issue on the Government agenda for a number of years and we are proud of our achievements for older people. In the past ten years there have been a number of major initiatives to ensure that our pensions system is sustainable in the future, that social welfare pensions offer a decent income to those who are already retired and that younger people make provision for their futures.

We introduced the National Pensions Reserve Fund in 2001 to pre-fund part of future pension liabilities. At the end of June the fund was just more than €21 billion and is continuing to grow. Great credit is due to the former Minister for Finance, Charlie McCreevy, for having taken this policy initiative. While it does not resolve the future pensions issue, we all accept it will form part of the solution. We have increased social welfare pensions significantly — by 56% since 2001 which is higher than the rates of increase in both earnings and prices. The rate is now in excess of 34% of gross average industrial earnings which was the target recommended in the national pensions policy initiative published by the Pensions Board in 1998.

We have promoted an increase in the number of people contributing to a private or occupational pension through the national pensions awareness campaign and the introduction of personal retirement savings accounts. More than 1 million people now have a personal or occupational pension with about 120,000 of these contributing to a PRSA. I am somewhat disappointed in this figure and we need to review its structure to encourage more people into the system. Despite these major improvements, there are serious concerns for the long-term future of our pension system. Given our experience in the past ten years, it is entirely appropriate that we should now review our overall approach in order that we have in place a pension system which is sustainable in the long term and which will deliver an adequate retirement income to all retired people.

While the focus in this area is often on the future, we must not forget that we also have a duty to ensure that today's older retired people also have an adequate income in their retirement. The occupational pension system in this country is still relatively immature with only about one third of existing pensioners having an

income from that source. Accordingly, a large part of the existing retired population rely on social welfare pensions for the bulk of their income. It is important that we maintain, and where possible, improve on the value of social welfare pensions. The Government is committed to a pension of €300 per week by 2012, and I will be seeking to make progress towards this target in the forthcoming budget.

Let us be in no doubt that we face difficult challenges ahead. People's working lives are now shorter and we are living longer in retirement. At present men aged 65 can expect to live another 16 years and women 19 years, in round figures. By 2036 this will have increased to 21 and 24 years, and to 22 and 26 years by 2061. Those figures indicate to me that the men will never catch up with women in terms of longevity. This translates into an increase of up to 40% over the period which will be reflected in pension costs, as the longer a pension is paid the more expensive it becomes.

While longer life expectancy is something to be welcomed and celebrated, it poses challenges for us in terms of the sustainability of our pensions system. While we have one of the youngest populations in the EU with approximately 11% over 65 years of age, this will change in the decades ahead when those aged 65 and over will more than double to 28% of the population. In contrast, the share of the working age population is projected to gradually decline from 62% to 51%. In the decades ahead we will move from having almost six people of working age for every person of pension age to having fewer than two, a point well made by Senator O'Malley. Long before we reach that level, however, we will face the same challenges on pensions and other age related costs as many of our EU neighbours are facing at present. However, as a country we are fortunate that we have time before these changes will impact and we must use that window of opportunity to get things right. As we know major economies, such as the UK, Germany and France, are already in this difficult situation whereas at least we have a window of opportunity, albeit narrow, to get this right.

We know that progress has been slow in ensuring that those in employment have an occupational or private pension. The national pensions review target is to ensure that 70% of those aged over 30 in employment have such a pension. While progress is being made towards this target, with 62% of the workforce participating in a pension scheme, the rate of improvement does not suggest we will reach our target within an acceptable timeframe, which should form part of how we consider pensions structure in the course of this debate.

While improving pensions coverage is a priority, we also must be concerned about the quality of the arrangements already in place. There are concerns that the level of contributions being made to some schemes is not adequate to ensure a decent pension at retirement. Many defined contribution schemes were set up, and continue to operate, on the basis of quite a low level of contributions. The Irish Association of Pensions Funds recently found that this is improving but, nevertheless, it is something which continues to cause concern. As has been highlighted in this debate, women continue to have a lower coverage rate than men, although the gap is narrowing.

Certain sectors of the economy such as hotels and restaurants, agriculture and retail continue to be extremely difficult to reach. Despite the progress we are making there are still upwards of 1 million people who will rely exclusively on social welfare provision for their retirement incomes unless action is taken.

The Green Paper addresses all of these challenges and puts forward a number of options for dealing with them. Its preparation follows a period of increased activity in the development of pensions policy in which we have had the benefit of two major reports by the Pensions Board. The Green Paper takes account of these reports but it examines the situation in a much broader way to deal with other issues, such as the operation of the funding standard for defined benefit schemes, together with a comprehensive look at issues pertaining to social welfare pensions. Another important input to the Green Paper was the actuarial review of the social insurance fund, which I also published recently and which sets out the position of the fund at end of 2005 and updates the previous review undertaken five years ago, particularly in light of the impact of recent policy and demographic changes. This valuable work will contribute to the ongoing development of social insurance and pensions policy in Ireland. The review complements the Green Paper by providing another important reference point from which the emerging challenges to Ireland's social security and pensions system can be assessed.

Awareness of pensions issues is now extremely high. The Government was pleased at the focus on pensions in the partnership talks on Towards 2016 and was happy to commit to the publication of the Green Paper. We have a golden opportunity to hold a serious debate on the pensions system and its future structure to ensure that we meet the needs of those currently in retirement as well as future generations. The Green Paper sets out the key issues and challenges facing our pensions system for the future.

The major topics include the demographic challenge, sustainability of the pensions system, work flexibility in older age, the roles and relationships of social welfare, private occupational and public service pensions in the future, the role of tax incentives in the current system and their efficiency and effectiveness in supporting Government objectives in the area, the role of annuities and the operation of that market, the role of regulation, including the charges levied by pension providers, and pensioner incomes and the contribution various elements of the pension system, including the social welfare system, can make to the adequacy of this income. The Green Paper includes a comprehensive review of social welfare pensions and the issues which are raised from time to time in representations and parliamentary questions, together with the implications of making provision for those affected.

In regard to the role of annuities and the operation of the market, Senators may be aware that a report on the annuity market was recently published by the Department of the Taoiseach in conjunction with the launch of the Green Paper. In terms of solutions the Green Paper puts forward a number of ideas for consideration. I am open to other proposals because I do not believe the Green Paper has to be totally prescriptive. This is a worldwide issue and new methods will probably emerge. I see no reason why Ireland should not be part of any new and

innovative approaches that emerge in the coming years. I would like the Government, unions, employers and the pensions and financial markets to start collectively thinking outside the box because the challenge is to move away from simplistic vested interest positions. By meeting that challenge, we have some chance of finding a path on which we can agree but we will otherwise have to go down the road of an imposed solution. I would like to build consensus at least on the core issues. Employers and employees have to consider the issue with a view to finding a solution which benefits the entire society so that everybody can win as we approach 2050.

The options set out in the Green Paper include maintaining the status quo, which with the wider coverage levels we have seen in recent years will bring some measure of improvement to this area; delivering improved adequacy through an enhanced social welfare pension; improving the incentives to encourage pension take up by using SSIA-type matching contributions instead of tax relief; introducing a mandatory supplementary pension system funded by employers, employees and the Exchequer to cover a certain level of earnings; and the use of soft mandatory approaches like the Kiwi save system introduced in New Zealand, where people are automatically enrolled in a pension scheme when they start work but are allowed to opt out. The latter is a psychological way of approaching the issue because, as we know from human nature, people generally will not take the decision to opt out. It is an interesting solution. In an EU context the pension challenge is being approached using a number of basic principles, including support for longer working lives and active aging, balancing contributions and benefits in an appropriate and socially fair manner and promoting the affordability and security of funded and private schemes. In an Irish context some or all of these principles can be applied.

Although the Green Paper sets out some ideas on an approach for the future, it would not be appropriate for me or the Government to champion any particular approach at this stage as this would focus the debate in one direction and diminish the consultation process which is being undertaken. I stress that the purpose of the Green Paper is not to recommend any particular course of action but rather to set out clearly the current situation and the implications from an economic and social perspective of various courses of action. However, we must be clear that good pension provision is expensive, whether it is done through personal contributions to private pension schemes or through the State by way of PRSI contributions or taxes. The tension that exists between the two key challenges facing us in this area, namely, the provision of adequate retirement incomes and the cost of providing that system, is apparent in the Green Paper. Pensions is one of the major issues the country must address and any decisions we take at this stage will impact on society for decades to come.

Given the importance of the issue I am anxious to hear the views of as many people as possible on how they would like to see the system developed. The Seanad has a great tradition of leading societal debates. It is not a good idea at this stage to divide the House because doing so would send the wrong signal to the various stakeholders. I have no doubt, however, that once we reach the point at which decisions must be made, people's perspectives will differ. As politicians and

leaders in this area, we need to be careful and that is why I commend Senator O'Malley on the care she took in crafting her party's motion, which embraces the issues in a general way rather than begging an amendment.

With the publication of the Green Paper, I have initiated a consultation process which I want to be as inclusive as possible. Given the complex nature of the subject, I want to ensure people have ample time to consider the issues and formulate their ideas and comments. The consultation process will remain open until mid-2008, an appropriate period given the nature of the issue. This approach may pay dividends when it comes to developing our final proposals.

It is important that we receive the views not only of representative organisations but also those of the public and I hope as many people as possible will take the time to contribute. We accept submissions by way of e-mail, letter or fax. Copies of the Green Paper are available from my Department or via the dedicated website, www.pensionsgreenpaper.ie, and submissions can also be made via that route. I am pleased with the level of interest shown thus far by the public. We have had in the order of 2,500 hits on our website since the site was launched. The website also includes copies of the related documents mentioned earlier, the actuarial review of the social insurance fund and the study on the annuity market. The public fora convened to discuss the issue have been well attended and people have been positive about the timeframe of six months for engagement in the debate.

I am aware of the diverse views that exist on how the pensions system should develop and there is no doubt that building a consensus on any approach will not be easy. However, in the interests of those who are already retired and of future generations of older people, it is a challenge to which the Government and I will have to respond. I intend to meet the timelines I have set out. Next year will be an important milestone for pensions policy in Ireland. As a society we need to consider and debate the type of retirement we want for our older people and how we might pay for it.

I am pleased we have embarked on that debate. I hope that by this time next year we will have a clear vision, which will command broad acceptance, on how our pensions system should be developed for the future. I wish to make some points which might help to clarify one or two issues which arose in the debate. The pensions system in Ireland comprises two main elements. The first is the social welfare system and the second is voluntary supplementary pensions provided through the private sector. The function of the social welfare element is to provide a basic income with the earnings related part of the pension provided by way of occupational and private pension provision. The structure of the Irish system is unique in contrast with those in many other countries where the state system performs both functions, that is, basic income and earnings related pensions.

Given the way our pensions system is organised, some surveys can provide a distorted picture of the economic position of our older people. These often focus on the cash income provided through state pensions systems, as highlighted this evening, but in our case they make no allowance for the role of the private sector or the additional supports provided such as household benefits, medical cards, free

telephone rental and free television licences. All of these form part of it. I am not trying to present it as the solution but when one looks at some of the comparisons made on a simple cash basis, one is really only looking at a snapshot of a pure cash payment. That is not relative. We should take everything into account. I do not believe we should base our argument on the fact that somebody else gets this or that because, in most cases, we are not comparing like with like. I hope we take a much more holistic approach to the debate.

There is a very high level of home ownership in Ireland, especially among older people, which is not the case in many other countries. That is not reflected in surveys. This impacts on the disposable income levels available in retirement. While such surveys are useful to compare aspects of the pensions systems across countries for the reasons outlined, they are not a true indication of the economic position of older people. I say that not to be argumentative but so we can have a much rounder debate. Our State pensions system provides flat rate payments to older people. Combined with the fact that the proportion of older people in the Irish population remains low when compared with EU countries — 11% against the EU average of more than 16.5% — this means that by international standards State spending on pensions is low. We are spending less because we have a smaller older population. It is blindingly obvious why that figure is there. Saying we are paying less is not making the full comparison. Since we probably have the youngest population in Europe, of course we are paying less.

These surveys make no allowance for the fact we have about €2.5 billion, which the Green Paper highlights, in tax forgone by the State in terms of incentives to people to have private pensions. The people involved in the Green Paper said the figure is approximately €2.5 billion in tax which we, as a society, have forgone annually through incentives to allow people to get into private pensions. That is also very much part of how the mix has come about in our pensions scheme. I make those points which are important in the round. I commend the motion and hope to come back to the Seanad as this debate progresses and as issues become clearer in terms of the direction we may take. I am sure Senators will have a very good input into that debate as we move forward. I thank Senators for inviting me to the House.

Senator Shane Ross: I welcome this very timely debate. It is a bit of an old chestnut which comes up from time to time but nothing ever seems to happen. We debate pensions every few years but there does not seem to be any dramatic movement. We seem to say the same things and be somewhat impatient. I welcome the Minister's speech because he has an understanding of, and perhaps even a sense of urgency about, this issue about which we should be almost alarmist at this stage. It is not one which will particularly bother my generation but it will be very serious for the next generation if we do nothing about it.

It is very difficult for politicians to tackle this problem because it involves issues which do not result in any immediate dividends for them. They do not get votes out of it because they are looking after future generations. They are, in effect, taking money from present generations, who are the voting population, to give to future generations, who probably are not. It is a difficult issue. Although there are flaws in

it, I applaud the initiative taken by the previous Minister for Finance in setting up the National Pensions Reserve Fund under the auspices of the National Treasury Management Agency and in taking a percentage of gross national product out of the Exchequer to fund that. That was a very courageous political move for which he and the Government at the time received no benefit. It is the sort of foresight politicians should be encouraged to have even if they do not get immediate applause.

There are two elements to this motion. To some extent, the Minister concentrated on the first one, namely, the actuarial difficulties, the benefits between defined contributions and defined benefits and the way it will be approached because of the demographic problems we have. I do not wish to address that specifically in the time I have but wish to say something about the pensions industry. We should ask how and why we are in such difficulty. We have a small older population and a very large younger one. We face a real problem with pensions deficits not only in private sector bodies but in semi-State ones as well. The Minister will be aware of that. The ESB and many other bodies have serious problems which will have to be tackled. Otherwise people will be left without pensions or with much lower pensions in the years to come.

It is very easy to make broad sweeping statements about actuarial presumptions into the future and to make predictions, which actuaries do, about funding deficits which are accurate in as much as they can be, although they are based on certain assumptions. In a debate of this nature, I suggest to the Minister that he look at the pensions industry in a different light, and I was in the financial world for many years, although I have been out of it for many years too. It is a kind of honey pot for the financial world. As the Minister knows, in the pensions industry vast sums — billions of euro — are being played with by people who supposedly know a great deal about investment. It basically supports stockbrokers, bankers, lawyers, actuaries and fund managers. They all have their greasy hands in this very large pot and are all taking an awful lot out of it. At the end of the day, they are all doing very little for the pensioner.

The most bogus profession in the world is fund management. These people are entrusted with our pensions and charge vast sums of money for giving us advice on where we should put it. They almost inevitably get it wrong. It is quite staggering that any study of almost any group of pension funds over a period and the way they are managed will come up with the same result, namely, that it would have been far better if the original investments had been left alone and not meddled with by these particular experts. This makes me wonder whether we should ask not so much about the actuarial predictions and the demographic changes which will take place but about who the hell these people are who have this money and what they are doing with it.

Pension fund managers all charge approximately 1% for churning one's money around and producing pretty similar results. This is particularly the case in Ireland and especially so among pension fund managers with household names. They all charge the same amounts and over a long period there is no difference in their performances. They are paid huge sums of money but once a benchmark is applied, it shows they have not done anything for the pensioner. I have studied this subject

in some detail. Most managers of pension funds benchmark themselves against each other, not against any index known to man, and they all come in together and very close to each other because they all invest in the same things. This may be a slight use of a broad brush generalisation but they all invest in the same asset allocation and the same type of proportions in property, equities, gilts and cash. They show similar annual rates of return over a long period and it does not matter very much which pension fund one chooses because the result will be the same. The people who benefit most are the pension fund managers, the stockbrokers and the bankers whereas the pensioner will get very little. There will be no bang for one's buck from these guys because this is a honey pot for them. They do not have to do very much and the business is a mystery to the layman who thinks that these guys have some sort of magic which will increase his pension. They are what is known in the industry as index huggers. They put investors' money into various leading shares in various leading indices and markets and they all achieve very similar results. The result is partly the reason for the enormous pension fund deficits.

I am concerned about the Irish Pensions Board, not because it is a politically appointed board but because I query whether it does anything to regulate pensions. When the Irish airline pilots bought Aer Lingus shares, they bought at a very heavy price. It was patently obvious to everybody they were using their pension funds for strategic reasons in the battle for control of Aer Lingus and in the battle between Ryanair and Aer Lingus, and for other reasons. It was quite obvious the shares were not being bought for investment purposes. I cannot understand how the Pensions Board can stand behind pensioners' money being used for strategic instead of investment purposes. The trustees and others should have been down their necks about it. The Pensions Board has failed the ordinary airline pensioner as a result. I hope there will be no more cases of this nature.

Senator John Hanafin: I welcome the Minister to the House. A debate on pensions is a perennial occurrence because we must all give thought to our pensions. History records pensions as deferred consumption or deferred pay. Even the Pharaohs of Egypt relied on Joseph to remind them that there would be seven good years followed by seven bad years. The Pharaoh took Joseph's advice and provided for the seven bad years.

In the same way a Government and a people must provide for pensions. The Government has committed to providing a pension of €300 per person per week by the end of its term. It is a great credit to the Government that it met its objectives in the last term. The House can have full confidence that it will meet its objectives in this term. I would welcome provision for a mandatory pension modelled on the New Zealand system which is known as a Kiwi save pension. This seems to be a very sensible proposal. I suggest the opt-out clause would only be available once a person has been paying for ten years because the first ten years are the most productive over a 40-year contribution period. I refer to the Government's great work in providing for the future through the National Treasury Management Agency. The proceeds of the sale of Eircom amounted to €5 billion and has now grown to €16 billion, making all our futures more secure.

The provision of adequate pensions is a critical national issue for the future of the people. Pensions, whether provided through the social welfare system or through supplementary pensions, will have a significant impact on the quality of life of all. While I am impressed by some of the advertisements for pensions which seem to indicate there is a place in the Caribbean waiting for me, Senator Ross has pointed out that I need not become too optimistic because such pensions are all the same, for which I thank him. He has provided a dose of reality.

It is appropriate that pensions should now be an important issue on the national agenda. Decisions about pensions are long-term decisions with a long lead-in before they become fully effective. For companies which can afford it, a defined benefit pension is more beneficial as skilled workers will be attracted by such an option. However, the number of those in defined contribution pension schemes continues to increase. A total of 255,000 people were in such schemes at the end of 2006, with 95,000 PRSAs in existence. The issue of increasing longevity, lower investment returns and investment risk affects these savers just as much as members of defined benefit schemes. However, the effect of these issues will be borne solely by the individual and many will not become aware of the effect on their retirement savings until closer to their retirement. It could also go the other way, with a number of years of strong growth in the market which would see those with defined contributions doing well.

It is clear from the data provided by the national pensions review and other sources that the typical contribution to a defined contribution scheme, PRSA or retirement annuity contract will not be enough to maintain the contributor's standard of living in retirement. We must be aware of the significance of pension adequacy.

I thank the Minister for facilitating this debate on pensions. It is projected that by midcentury there will be approximately 1.7 million people over 65, compared with 500,000 today. From the point of view of funding pensions, it is projected that we will move from a ratio of six people of working age for every older person to a ratio of two to one by 2050 or 2060. This is a reminder that foreign workers are providing for the people of this country and this should be taken into account when assessing their contribution. The Green Paper covers the background to the Irish pensions system and a broad range of issues relating to social welfare, occupational, personal and public service arrangements. It sets out a number of questions which require responses from the pensions industry, social partners, the public and all individual stakeholders.

The demographic and sustainability challenges facing Ireland in the decades ahead are outlined and a number of scenarios and options are discussed. These include measures to address the sustainability challenge, maintaining the status quo, universal provision, increasing social welfare pensions, SSIA-type tax incentives and mandatory approaches. Other elements covered include annuities, the role of regulation and issues relating to work flexibility in older age.

It is not the purpose of the Green Paper to recommend any particular course of action but rather to set out the challenges our pension system faces in the future and to seek views on a number of suggested ways in which we might proceed. In

that light, the Minister was correct to say it would be divisive to divide on this motion. The purpose of the Green Paper is to promote the debate, discuss various issues involved and make proposals, possibly even on a consensual basis. The Minister and the Government are determined to meet this challenge so that current and future generations will have in place a pension system that will deliver a secure and fulfilling retirement for all. The work of the past ten years, which included increasing the old age pension to more than €200 per week and making provision through the National Pensions Reserve Fund, is a credit to the Government parties concerned.

Senator Liam Twomey: Whenever Ministers want to give everyone a big hug so that we will all work together on an issue, one knows it must be incredibly difficult or the Government is afraid to deal with it because it does not want to take the blame for what is happening. The only people guaranteed to be on a yacht in the Caribbean are the fund managers to whom Senator Ross referred and Ministers. Last week, legislation was rushed through the House to ensure a former Minister will enjoy the perks of the Caribbean. Sadly, the same speed has not been demonstrated by the Government in looking after a sizeable proportion of our people who do not have pensions or whose pensions are inadequate.

The National Pensions Reserve Fund is in place to cover the Government's liability on public sector and Civil Service pensions in the years to come. A contribution of 1% of gross domestic product annually will reduce the cost of those pensions to future generations and it is good to plan for them now, otherwise the entire apparatus of State could collapse in 20 years if allowance is not made for this. The pensions paid to civil and public servants, including Oireachtas Members, are defined benefits. We are all guaranteed good pensions which will be index linked. Private sector workers are affected by the shortfall in pension cover but they are paying our pensions now because the contribution from the NPRF to our pensions is paid by every private sector worker who receives nothing in return. The people who will be in trouble in the future work in the private sector and are not making adequate pension provision. The Green Paper is a little late in the day. If the Government moved to look after private sector workers with the same speed it did when dealing with its own pensions, this debate would not be the subject of a lackadaisical stroll through the Dáil and Seanad. We are only having a discussion because the Government is not concerned about coming up with solutions. Private sector workers will be in trouble unless they are given a benefit and looked after. A total of 1 million people have no pension and we need something more than a Green Paper and a discussion lasting into 2008. The State is a decade behind and nobody should believe the Exchequer is protected because only 11% of the population require a pension currently.

A ratio of six workers per pensioner is bandied about and it is suggested that by 2030, when many of us will retire, that will reduce to two workers per pensioner. However, 20% of the workforce is engaged by the public and Civil Service, which is higher than in other European countries. Even though a smaller percentage of the population is aged over 65, a higher percentage of the workforce is employed in the public and Civil Service and they will receive defined pensions. As a result, the cost

of pensions will increase down the line and the former Minister for Finance, Charlie McCreevy, recognised in 2003 that this would be a major burden on the State by 2025 unless something urgent was done. This was also acknowledged by Opposition Members at the time but we do not believe there is time to stroll through the park on this issue. It is time to look after people in the private sector who do not have pensions and to ensure provision is made for them or mechanisms are put in place to protect them. I have a private pension which I have paid into since 1999. My contributions equal the monetary value of the pension and, therefore, I will gain nothing even after eight years. A significant number of people face the same scenario but they are not stupid. The Government should not talk to them about mandatory pensions. Senator Hanafin typified the arrogance and ignorance of Government Members. It is easy to lecture people about mandatory private pensions when one's own pension is so bloody well protected.

When a worker is forced to invest his pension in a fund, however, he or she is subject to a 1.5% administration charge annually. The reason PRSAs do not work is because they involve a 3% set up charge and a 1.5% administration charge on the entire fund annually and not only the profit. Workers will not throw away their hard-earned money stupidly on the basis that somehow, somewhere somebody might make more money for them than they could make themselves. That is why they invest in property or stocks and shares. The reason the PRSA initiative did not work is the Government did not trust the people to make decisions on their own future. The Government could begin to treat them like adults and give them the opportunity to invest in their future and make the decisions themselves without tying them into institutions with vested interests.

The Opposition should not be lectured about agreeing with the Government. Fianna Fáil and the Progressive Democrats did nothing about this problem over the past decade and they will do nothing over the next three or four years. Having published the Green Paper, they should show a little balls and publish proposals they might implement so that the Opposition can agree or disagree. They should stop the silliness because our pensions are well protected and they are too good. That is why we are forgetting what is happening to the rest of the workforce.

The Minister for Social and Family Affairs lectured us earlier about agreeing with him but he will retire on a pension that is a multiple of the social welfare pension. Members on the Government side should not boast about the increase in that pension to €300 per week over the next five years. The current pension of €208 per week is a fraction of what the Minister's pension will be. It is time for him to be serious about what he is doing and to bring forward proposals we can genuinely debate. He should not try to hug the Opposition into agreeing with his proposals or mock us for causing the problem. The problem is on the Government's desk and it is time to deal with it urgently.

Senator Mary M. White: I am an action woman. Dr. Twomey has called for action on the issue of pensions. I would like to achieve over the next two years the abolition of mandatory retirement at 65 years. In my document, *A New Approach to Ageing and Ageism*, I made 28 recommendations on which I would like action to improve the quality of life of older people in Ireland, the first two of which concern

compulsory retirement at 65 years. Mandatory retirement in the public sector for people who entered their posts before April 2004 is 65 years. This age limit was fixed at a time life expectancy was 65 years. In 2007 the retirement age of 65 is out of date. I put a valiant effort into including this proposal in the Fianna Fáil manifesto for the general election. It took a considerable effort because it was not the sexiest item around, but I am pleased that in An Agreed Programme for Government 2007 the abolition of mandatory and phased retirement has been agreed.

I would not like the Green Paper on pensions to introduce a measure whereby people would have to stay on in work until the age of 65 or 70. There should be choice in terms of when a person retires. A person should not be required to retire from his or her job when he or she reaches the age of 65. New entrants to the public sector after April 2004 can continue to work after the age of 65. Anybody who joined the Civil Service post-2004, therefore, can remain working for as long as he or she wishes. There is no mandatory retirement in the private sector but a contract is drawn up for people starting out requiring them to retire at 60 or 65.

As my colleagues who were Members with me in the previous Seanad are aware, the recommendations in my document are based on public meetings I held in this city over a period of two years. People came to my meetings who were in desperation. They told me they would have to retire in two years and were psychologically distressed, at 63, that they had to retire at the age of 65. They did not want to retire. Many women who attended my meetings told me that this was the second time they were being discriminated against. I include myself in that category. I had to give up my job when I married but I was fortunate in that I had a skill that I was able to use to earn an income. Many women approaching the age of 65, however, had to give up their jobs in the Civil Service when they married and now they are being discriminated against for a second time.

I want to outline four key reasons for abolishing the obligatory retirement ages. As the population ages, people who continue in employment longer will remain financial contributors to the economy, something the OECD argues will be of significant benefit to the economy. During the last session of the Seanad I attended a day conference in Paris on Ireland and pensions, and allowing people in this country to remain in their jobs was a key issue because of the pensions situation.

The second reason is the availability of more experienced and senior staff to help people taking up jobs. Why would a person be let go when he or she is coming into the peak of his or her experience and skill? I remind Members who were not in the House on the previous occasion that politicians do not have to retire at the age of 65. The people who make the regulations for the people who work in the public and private sectors can continue working for as long as they wish. Eamon de Valera was 76 and still working in the Oireachtas.

Senator Liam Twomey: He was there for too long.

Senator Rónán Mullen: That is an ageist comment

Senator Mary White: I will not say any more; I might agree with the Senator. Boston College's research has shown that people who remain in employment past the determined age of 65 are healthier and happier as a result of their continued employment. It is not just about money but the social interaction. With modern medicine, nutrition and housing conditions people are flying, so to speak, at 65 and 70.

Forced retirement is a clear example of ageist discrimination and a violation of the spirit of the European Union directive 2000/78 which clearly states that direct discrimination shall be deemed to occur when one person is treated less favourably than another. It is ultimate discrimination if a person must retire because they are 65. That is a regulation introduced when average life expectancy was 65. It is about time we got rid of it. I am on a mission to abolish it but there should not be any hint from the Pensions Board that people must stay on in work. I am talking about giving people a choice similar to that given to married women. If they wanted to stay in work, they could do so but if they wished to retire they could do that. I am talking about choice to stay on in employment after the age of 65, not only for financial reasons but for intellectual and social reasons.

Acting Chairman (Senator Paul Coghlan): Time is against us but with the permission of the House I would like to allow a minute each for Senators Mullen and Doherty. Is that agreed? Agreed.

Senator Rónán Mullen: Solidarity between generations is what this debate is all about and it is essential for our well-being as a society. Eamon de Valera, who received some less than flattering comment in the last few minutes, had a vision of Ireland where he spoke of our firesides being forums for the wisdom of old age. That vision has not just been undermined by the disappearance of firesides but also by the disappearance of that interaction between children, young people and older people. That is a sad downside of modern living.

We must have a visionary approach to the future in regard to the pensions debate. We have had much discussion about it. It seems the Green Paper does no more than restate discussions that have been taking place since the national pension policy initiative in 1996. It is time for action and proposals and for politicians to start taking decisions. It is easy to pursue the discussion when one is afraid of taking decisions at which people might balk. However, the fact is, as Senator Quinn said, we need to examine mandatory provision of pensions. We need to examine employers making a generous contribution to that. We also need to give leeway to young people to give them a few years in the workforce before such mandatory pension provision would kick in.

Senator Pearse Doherty: I thank the Acting Chairman for this opportunity to record my view and that of my party on this matter. We disagree with this motion because we believe the Government is not serious about tackling the issue of pensions. It hopes the individual will provide for his or her own pension, saving the State from dealing with this crisis. It is just another example of an abdication of responsibility from this Fianna Fáil-led Administration.

The truth can be seen in the Government's plan to cut the rates of PRSI - a preelection promise - which contribute directly to the fund from which State pensions are sourced at a time when we are bombarded with information about the pension crisis. Members will note that the Government has failed to seize the opportunity to increase the rate of revenue going into the social insurance fund by eradicating the ceiling on PRSI over certain income levels. The current system sees those in the lower end of the payscale pay disproportionately more into the fund. There are proposals and I agree with the previous speakers that there is a time when the talking must end and the action must begin. We want to see a basic non-means tested pension for all people above a certain age, a second tier of pensions related to social insurance contribution, reform of the PRSI system by removing the employee PRSI ceiling, insisting that the defined benefit schemes are fully retained and a significant curtailment of the tax incentives for occupational pensions.

Senator Fiona O'Malley: I thank all the Senators who contributed to this debate. As I pointed out, the purpose of our motion was to begin the debate. We had a high level of debate until it got rather partisan just towards the end. I am somewhat disappointed by the contributions of members of Fine Gael in particular. I was also disappointed by the contribution of the member of Sinn Féin. His contribution indicated that he did not listen to the other contributions or he had made up his mind about the motion because it was put forward by the Progressive Democrats and therefore he had decided he would not like it. Had he listened---

Senator Pearse Doherty: The reason I said we opposed the motion was because we do not believe the Government, of which the Senator's party is a part, is serious about tackling the issue of pensions.

Senator Fiona O'Malley: --- he would have heard --- I will give him a copy my speech if he would like it --- that we are saying the Government should deal with pension provision, especially for low and middle income earners. Certainly the wealthy are well able to look after themselves. I return to my disappointment with the contributions by Fine Gael Members. My good manners prevented me from heckling Senator Twomey while he was speaking but my blood began to boil because ---

Senator Liam Twomey: I should have been delighted if the Senator had interrupted me.

Senator Fiona O'Malley: I shall make my points now, if the Senator does not mind not interrupting me.

Senator Liam Twomey: My apologies.

Senator Fiona O'Malley: Senator Twomey gave out about every time the Government sought co-operation from the Opposition or for a consensus to develop. Prior to his contributions, a consensus had established itself within this House, a recognition-

Senator Nicky McFadden: No.

Senator Liam Twomey: No.

Senator Fiona O'Malley: Will the Senators please forgive me and not interrupt?

Senator Liam Twomey: All right.

Senator Fiona O'Malley: There was a recognition that the purpose of the Green Paper is to highlight and prepare for a White Paper that will outline policy. As the Minister said in his speech, it is at that point that some opposition might be expected. I made the point that this is an issue which is going to be dealt with by successive Governments. It is not partisan. As a political establishment, I would have thought we would be united on what confronts the country. We are required to look, and this is good planning.

That is why I was amused to hear Senator Twomey say the Government had done nothing for ten years and then quote the former Minister for Finance, Mr. Charlie McCreevy, who made changes in 2003. Senator Ross mentioned that he got no credit for doing it, as no politician ever will for tackling the pensions issue. That may be part of the reason there is no tendency towards long-term planning. To my mind the reason and purpose of politics is to prepare for the next generation so that it is not left with a burden and a legacy. In saying that, because it is an issue that will be dealt with by successive Governments, I would have thought-

Senator Nicky McFadden: If we are in Government-

Senator Fiona O'Malley: Fine Gael hopes one day to get into Government and be responsible.

Senator Nicky McFadden: We have an amendment.

Senator Fiona O'Malley: The purpose of the motion was that together, as a political force in the country, we should present, not necessarily in detail but for discussion at this point, a consensus that proper and sustainable pensions need to be provided which the economy can afford because we cannot burden future workers with the cost of our pension provisions. On that note I ask and hope that Fine Gael will withdraw its amendment and allow the House not to vote on this issue.

Senator Liam Twomey: It is unlikely that, while in Opposition, we will be rolled over and tickled by the Government parties.

Senator Frances Fitzgerald: It is a motion, not a statement.

Amendment put.

The Seanad divided: Tá, 22; Níl, 28. Amendment declared lost.

Motion put and declared carried.