Submission on the Green Paper on Pensions

1. SIPTU welcomes the debate on pension's policy. However the time to take action to address the issues facing our population has long since passed. Once this process has been completed we need to move to an action phase and we expect that Government will initiate programs to address the issues in a clear decisive and effective manner.

2. SIPTU is the largest Trade Union in Ireland representing close on a quarter of a million members employed in all sectors of the economy across all income brackets. We have been involved in the struggle to provide adequate income in retirement since the foundation of our constituent unions in 1909. Accordingly we have a long history of involvement in this issue and have been quite successful on behalf of our members in making progress over the last century.

3. Nevertheless the current level of pension provision in the state is wholly inadequate. Very few people can expect to retire without concerns about their financial security in old age. We believe this is unacceptable in a modern developed economy. We all share a responsibility to address this issue in a mature and responsible way that protects the financial interests of our pensioners at a most vulnerable time in their lives. No one in Irish society can opt out of this obligation and the state should not tolerate any foot dragging by any group or sector in our effort to address the issue.

4. We will keep our submission brief and concise and will not restate the research findings that have informed the many reports that have been published over the last decade. There is general agreement on the nature of the problem facing the Irish people and the Irish economy. What is not agreed is a general set of principles that should inform our approach to addressing the problem and how that cost of any solution should be shared. We will concentrate on these issues.

5. We set out below the broad principles that inform our approach to this problem. We also set out the problems our members have experienced in their struggle to secure adequate pension provision over the last half century. We finally outline our proposed solution to the crisis that confront the Irish people and deal with the issue of how the state and the citizen should finance these proposed solutions.

6. We believe there is an obligation on the state to ensure that all citizens have a sufficient income in their old age. This in our view is primarily a matter of social solidarity rather than of personal financial planning. The cost of meeting this obligation should be met by all social partners, employers, workers and the government. It should extend to people who through no fault of their own cannot participate in the workforce due to personal physical, social or intellectual

incapacity or to caring responsibilities and who consequently do not have the resources to contribute to a social insurance fund.

7. We believe this level of pension should be provided directly by the state through the social insurance system and should be universal in nature.

8. The level of such a universal pension should be linked to average industrial earnings so as to remove this issue from the political arena and so as to enable people plan with certainty for their own retirement.

9. A link to the consumer price index is inappropriate as it would deprive people who rely on the Old Age Pension of a share of economic growth. There is no reason to exclude pensioners from participating in and benefiting from a general improvement in the economy.

10. Currently the Old Age Pension stands at around 33% of Average Industrial Earnings. (This figure is somewhat questionable as it tends to link the current pension level to an historic average earnings figure. Consequently the comparison is not like with like. Nevertheless the 33% of AIE will suffice as a working figure.). There is a general consensus that this figure is too low. Some commentators have argued that the figure should rise to 40% of Average Industrial Earnings others have argued it should rise to 50%. SIPTU is of the view that it should be set at 50% of AIE and that it should rise progressively to 66% of average industrial earnings on a differential basis linked to earnings and should be the primary pensions pillar for people whose pre retirement income is clustered around this level.

11. Currently Average Industrial Earnings stand at close to 38,000 euro per annum. 50% of this figure amounts to 19,000 euro per annum which would guarantee a reasonable basic income in retirement. This amount should be progressively increased on an incomes related basis to 66% of AIE which would produce a pension of 25,080 euro per annum. This is the equivalent of 50% income replacement on a salary of 50,000 per annum.

12. This would roughly considerably increase the cost of financing the Old Age Pension system and would therefore require substantial changes in the level of social insurance rates for everyone.

13. The monies saved on employment based pension schemes could be transferred to additional social insurance contributions. In addition a combination of changes to the current salary cap on social insurance contributions and changes to the rate would offset the additional cost.

14. This also has the advantage of largely equalising the value of public and private sector pensions on salaries in and around average industrial earnings.

15. People on lower incomes would be relatively better off. However this is inevitable in any flat rate scheme.

16. The State Pension has the advantage that it addresses a significant number of the difficulties most working people have faced in their struggle for adequate pensions over the years.

17. The typical worker is:

    a. Not a member of any pension scheme
    b. If a member of a scheme it is likely underfunded if a DB scheme
    c. If not a Defined Benefit Scheme it is likely an inadequately funded Defined Contribution Scheme
    d. If a Defined Contribution Scheme the worker carries the entire risk with little knowledge or understanding of the nature of that risk or of the likely return the fund will provide
    e. They will be required to purchase an overpriced annuity at retirement and will have no understanding of their cost.
    f. In some cases they will discover at retirement age that though they were entitled to be a member of a scheme their employer did not register them in it and no contributions have been made on her behalf.
    g. No one will come to their aid or support at that stage and they will likely suffer the consequences and have no personal pension fund whatsoever.
    h. The state provides virtually no support to workers in this regard and employers know that legislation and enforcement is weak and they will suffer no penalties.
    i. Women are doubly disadvantaged as on average they earn significantly less than men and because of their longer life expectancy pensions are proportionately more expensive for them. This system would eliminate this additional cost by pooling risk for the entire group.
    j. A small and decreasing number of workers are members of a defined benefit scheme but they cannot be confident that the scheme will remain solvent
    k. The priority rules on a wind up of such a scheme means that active members are likely to have the lowest return on their contributions.
    l. The typical worker will change jobs several times during their working life without any assurance their pension fund can be transferred from one scheme to another in a financially efficient way.

18. A scheme administered by the state addresses most of these issues. The typical worker can be certain of the level of income they will have in retirement. Enforcement is actively pursued by the state and the worker can expect some

protection in the event that contributions are not made on his behalf. Social Welfare compliance levels are quite high. The scheme is less likely to become insolvent. The scheme can be financed out of a combination of the social insurance fund and general taxation. And women suffer no premium penalty as all risks are pooled. Furthermore the additional administrative and enforcement cost of such a scheme would be minimal as the relevant infrastructure is already in place. Finally a disincentive to labour mobility would be removed as pension transferability would no longer be an issue for people changing jobs within the state.

19. SIPTU believes that the state should continue to support, through the tax system, additional personal pension provision to a maximum of four times average industrial earnings. However current tax arrangements favour the wealthy and disadvantage workers on lower incomes. Accordingly the state should adjust the tax treatment of savings for retirement to correct this imbalance. All savings for retirement should be taxed relieved at a set marginal rate. Those who are not in the tax net or who pay tax below that rate should receive credits or direct payments by the state into their savings funds to address this imbalance. This should be capped at four times average industrial earnings.

20. We contend that savings above that level should be a matter for the individual and are not matters for subsidy by the state. There is no justification for relieving such high earners of their obligation to contribute to the general cost of running the state to facilitate personal retirement income planning. There is no justification for such a subsidy of the rich by those who are relatively poor.

21. The general experience of our union is that mandatory pension schemes are the only ones that work with any degree of success. Currently where membership of schemes is voluntary take up rates are relatively low. Where schemes are voluntary and are funded on a back to back basis by employers, worker contributions tend to be relatively low also. Furthermore few workers make personal pension provisions where no matching employer contributions are made and or where such schemes are optional. Accordingly we have no faith in voluntary or soft mandatory schemes. They have little to no chance of success irrespective of how innovatively designed the products are.

22. That is why we favour the social insurance system as the primary vehicle for addressing this issue for people on average industrial earnings. Furthermore we are of the view that the evidence of the take up of PRSA’s confirms our view that no matter how such schemes are redesigned there is little likelihood that they will be taken up on a large scale.

23. Consequently we favour a third mandatory tier of personal pension provision through joint employer employee schemes up to four times average industrial earnings. This should be driven through tax relief on contributions made by both employers and employees and should be collected through the social welfare

system. This would have the effect of ensuring that all workers had the possibility of securing at least 50% income replacement in retirement and employers would know that they were not at a competitive disadvantage relative to anyone else in the industry. Furthermore workers in industries where compliance with existing mandatory schemes has been problematic would be assured that they would receive their entitlements on reaching retirement age.

24. It is clear the current market in annuities is not working efficiently and that pensioners are disadvantaged as a result. Furthermore current requirements can result in pensioners being forced to buy annuities when financial markets do not favour such a decision. Accordingly pension legislation should be changed to introduce flexibility around the date at which annuities are bought and the state should offer an annuity product that would provide better value for money.

25. A further issue of concern to workers is the high cost of winding up a pension scheme. In some cases a significant proportion of the scheme funds have been lost to pensioners in this way. We propose that the NTMA carry out this function in future on the state’s behalf in the event of a wind up.

26. A further issue of concern to workers is the ease with which employers can close Defined Benefit Schemes. We contend that strict criteria be introduced limiting the circumstances in which a company can abandon existing defined benefit schemes in future.

27. SIPTU recognises that increasing longevity is a very welcome development that will place strains on pension schemes. However we do not support a general increase in the retirement age as not all workers are equally well positioned to meet the physical demands of working beyond 65 years of age. Accordingly we recommend that the retirement age be maintained at 65 and that flexible options be developed that would enable people to continue working longer with proportionate adjustments in their pension entitlements. Furthermore we support the view that tax and entitlement rules be adjusted to accommodate part time,seasonal and project work without totally compromising pension income.

28. The Construction Industry Pension Scheme – a multi-employer fund unique in the state in terms of it’s scale should be administered through the social insurance, PRSI/PAYE system, at least for the purpose of contribution collection.

29. SIPTU contends that current public service pension schemes, including the revised pension accrual of low paid workers and professional added years, are working well and produce pensions of the order of 50% replacement income in retirement. The SIPTU proposals above would substantially narrow the gap between public and private pensions for people earning in and around Average

Industrial Earnings. Consequently we recommend no major changes to the current system of public service pensions as they have now been largely offset against pay differentials with the private sector by the Public Sector Benchmarking Body.

30. <u>Conclusion:</u>

a. SIPTU believes that financial security in retirement is the entitlement of every Irish citizen.

b. Pension provision is as much a matter of social solidarity as of personal financial planning.

c. Accordingly the issue cannot be dealt with in that context only. It must viewed as part of a wider social debate about our obligations to older people and be recognised as a matter for both general taxation and the social insurance fund on the one hand and for personal financial planning on the other.

d. SIPTU also recognises that the cost of meeting these proposals will be considerable and will pose a challenge for our society and our economy. However it is important that financial security in retirement is not the preserve of the wealthy, is subsidised by the general taxpayer and that workers on average industrial earnings are not left behind or are asked to carry the cost of such tax reliefs.

e. The issue has now been debated for decades. Meanwhile the size of the problem mounts, the poor suffer and the crisis draws ever closer. We believe the time for firm decision has now arrived and we expect that a clear program that will guarantee financial security in old age will now be developed and implemented.

We are available to further elaborate on any issues raised in this submission.

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