Tesco Ireland – submission to the Green Paper on Pension

Re: Submission on Pensions Green Paper

To whom it may concern,

Thank you for giving us the opportunity to comment on the Government's Green Paper on Pensions.

Background to Tesco's current pension arrangements

Our Scheme (the Tesco Ireland Pension Scheme) still remains open to new employees - with around 3000 employed members in total. We are now one of just 40% of companies to continue to offer defined benefit pension to both new and existing employees.

We recently completed a comprehensive review of our Pensions Scheme. We maintained our current defined benefit final salary scheme for existing staff and we introduced a new defined benefit career average scheme for all new starters. This shows our commitment to offering our staff, now and in the future, a defined benefit pension.

Our view of pensions is governed by a number of key principles. We believe that employees should have access to viable pension schemes and should be encouraged to save for their retirement. We also recognise that individuals have varying needs and preferences and believe that they should have the freedom and flexibility to choose their own benefits and mix of savings options at the appropriate time for them. As an employer, we believe that any reforms should be simple to implement and not counter-productive in effect. We also believe that reforms should not hinder the recruitment and retention of staff.

General comments

We welcome the review that the Government has carried out and the fact that it encompasses not just employee and employer provision but also focuses on how this interacts with the State's own benefit system. All of these areas need to be considered in combination to create a successful pension system.

We acknowledge the need to encourage people to save more for retirement. At Tesco we not only provide a highly attractive and comprehensive package of benefits but also encourage saving for retirement by shouldering a large proportion of the risk of pension provision and by working hard at increasing our people's understanding of pensions.

However, current conditions for pension provision are very difficult with lower expected future investment returns, greater volatility and increased life expectancy all resulting in higher costs and greater uncertainty. As a consequence some employers and individuals are being discouraged from making adequate provision for retirement and there has already been a significant move from defined benefit to defined contribution schemes.

Given these conditions, this is a timely opportunity for the Government to take measures to encourage an increasing and sustainable level of saving for retirement. But this cannot be achieved if the effect would be positively to discourage people from saving for their retirement through existing personal and company pension schemes.

It is imperative that the commercial implications of re-shaping pension provision are fully considered and acted upon to prevent a structure being put in place that fails to achieve the objective of encouraging greater and wider pension provision. From a long term strategic perspective, we believe you should first support the sustainability of existing good defined benefit schemes through greater simplification and allowing greater risk sharing. Only then, you should look at introducing a mandatory requirement to provide minimum defined contribution provision. This approach should help encourage the sustainability of defined benefit schemes and not accelerate its death with companies levelling down to lower cost based defined contribution schemes. We have commented on specific areas of your paper below and would welcome the opportunity to discuss these issues with you.

Specific comments

1. Availability of Approved Retirement Funds (ARFs)

We are supportive of the proposal that ARFs should be made available to the members of all defined contribution (DC) pension arrangements. We see this addition of flexibility and choice as being attractive to a workforce who no longer has a fixed age in mind for retirement.

However we don't think that these products are suitable for people on very low income as they carry a reasonable degree of risk. If a wrong decision is made, or if the member doesn't fully understand the implications of selecting an option available to them, then they could lose part of their retirement funds just at the time of life where they are least likely to be able to recover it. For this reason we suggest that ARFs should be subject to a significantly higher minimum pension requirement than the current €12,700 per annum.

We also believe that ARFs should not be extended to members of defined benefit (DB) arrangements. This is because exchanging a defined benefit promise for a defined contribution "gamble" is an extremely risky course of action and the implications may not be fully considered (or even understood) by the member.

2. Tax Incentives

We believe that an SSIA type incentive structure is preferable to the current tax relief structure and that it should operate as a simple ratio (e.g. 1 for 1 or 1 for 2) for all regardless of the marginal tax rate. We accept that this would involve some redistribution of tax relief away from those on the higher income tax rate but believe that the benefits of simplicity outweigh this.

We also support the principle of all members receiving the same incentive regardless of their marginal tax rate. The watchout here is that there is not a gradual levelling down of the tax relief for all.

However, we cannot support the concept of allowing members access to their funds before retirement as this would not materially improve (and may even reduce) coverage and is likely to create a significant administrative burden. Instead of this, a new SSIA arrangement to encourage individuals to start making pension provision could be introduced. We envisage that this could operate for a limited period of, for example, five years with a requirement at the end of the savings term to "roll over" a significant proportion of the accumulated fund into a pension's vehicle. The balance could then be available for immediate consumption (or possibly rolled over with additional incentive). If an individual does not roll over the required minimum proportion the amounts contributed by the Exchequer would be clawed back.

3. Flexibility in Old Age

We support the suggestion that Inland Revenue practice should be amended to allow a phased commencement of pension. However we are strongly of the view that this should not be a mandatory requirement for individual schemes.

The complexity of administering a phased retirement pension should not be underestimated and not all schemes will have the resources to be able to manage this, nor could afford the additional costs of doing so. This will therefore act as a deterrent to employers keeping existing, or setting up new, pension arrangements. In these instances an employer should be allowed to set a fixed retirement age.

4. Mandatory Pensions

We believe that the most efficient way to deal with coverage/adequacy issues is to improve the existing State pension (taking the opportunity to simplify at the same time).
This may involve increases in employer and employee PRSI, but consider this preferable to the establishment of a completely new structure requiring separate contributions from employer, company and Exchequer.

Indeed the costs could be managed by increasing the payment age of the State pension - and this is discussed later.

We do not support the introduction of a mandatory scheme as this could be resented by many people who may at different stages in their lives have different and competing demands such as new mortgages, child care, business and education costs. It would also raise significant concerns of the impact on existing provision, e.g. in relation to the risk of levelling down towards the mandatory level. Instead, we believe the better approach would be to enhance the current voluntary system to support the state pension scheme. The success of SSIAs has already demonstrated the Government'9s ability to make long term savings attractive.

5. Funding Standard

We do not believe that the funding standard should be a discontinuance standard, as at present. As an ongoing scheme then the discontinuance level is not of relevance. Therefore we believe the funding standard should require a realistic reserve to be held on an ongoing basis which takes into account the actual investment strategy of the scheme.

If the buyout approach were to remain, however, there should be an alternative standard available for larger schemes because buy out would not be practical in the event of their winding-up. In practice large schemes are likely to have to be self-sufficient and run off the schemes by themselves. They should therefore be able to fund on a "self-sufficiency" basis. We support removing pension increases from the liabilities to be assessed for funding standard purposes as it is lower in the priority order.

We believe strongly that the current priority order is inequitable and unsustainable and should be reordered to achieve a more equitable outcome for non retired members. We agree, in particular, with the concept that employed and deferred members receive their benefits (without pension increases) before pension increases are given to retired members.

6. Security

We do not believe that the Irish market is sufficiently large to support a Pension Protection Fund - the insolvency of a single large employer, for example, could undermine such a system.

In addition, we do not agree with the proposals for introducing a "debt on the employer" as it would act as a deterrent for company's to maintain their defined benefit scheme (or for setting up a new one).

7. Coverage

We are concerned that broad coverage percentages, as quoted at present, may not provide an accurate view of the problem. We would like to see more sophisticated analysis before any changes are decided upon. To the extent that coverage needs to be improved, measures could then be focused on the specific areas of concern rather than the entire workforce and are therefore more likely to be successful.

8. Review of State Pension

Our preferred approach to the escalating cost of state pensions is to increase the state pension age and believe could be done more quickly then is suggested in the Green Paper.

To help this transition we think it would be useful to allow phased retirement over a number of years – with the phasing withdrawn after a date in the future when people have become to used to receiving (part of) their pension at the higher phasing age

9. Cost of Public Sector Pensions

Whilst Government is clearly reviewing private sector pension policies, we think that it is also important to consider, simultaneously, the pension provided by the Public Sector - for example, the granting of pension increases at the same level as pay is unique. This will ensure that there is a level of consistency between Public and Private sector pension provision, preventing the development of a two-tier system.

As mentioned above, we would be pleased to discuss any of these points with you further.

Yours sincerely

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Tesco Ireland