

Submission from UNITE the union on the Government Green Paper on Pensions

Two of the key issues, in our view, at that time of the launch of the Green Paper were the continuing attacks on defined benefit pensions schemes and the need for mandatory supplementary pensions for those without anything other than State pensions to look forward to in their retirement.



Most recent statistics show pension coverage at around 52% of the working population and that of 50% of those currently in receipt of pension, 80% of those rely on State Pension only.

There is therefore a need to address in particular this 50% of the population which have an endemic reliance on State Pension only.

Unite as a union has been persistent in its defence of defined benefit schemes and indeed pioneered the DB/DC hybrid arrangement for new entrants in the Finance Sector. This Paper means we will have to soldier on for another two years at least if things stay the way they are.

There are also many aspects of pension's schemes which need updating and addressing in the meantime, and remain as potential threats to DB schemes, including FRS17, MFRs, and the absence of adequate Pension Protection Funds. There is a recent ECJ in this regard where both the Irish and UK Governments were found to have inadequate provision.

The UK Government has made substantial funds available to address this Judgement. To date the Irish Government has not responded in any material way.

Additionally, the absence of any form of mandatory pension arrangements means that a million workers or half the workforce will depend on State pension only when they retire. Is it a coincidence that in answer to a Dail Question from Ciaran Lynch, Labour TD in recent months, we learn that a similar number in the workforce, i.e. One million earn less than €30,000 per annum.

The Green Paper

The Green Paper itself identifies the key challenges we are facing into, in relation to providing an adequate income for those in retirement. We set out in this submission our resume of the Green Paper under the main headings and our response as well as a particular approach to the Funding of Mandatory Pensions at Appendix 1.

- The demographic challenge
- Mandatory Pensions
- Pension Protection

- Defined Contribution Schemes
- Flexible retirement options
- Retirement age
- Integrated pensions schemes
- MFRs
- Annuities
- Regulation
- Commutation
- Public Service pensions

Demographics

This is the well-rehearsed argument in relation to the pensions 'time bomb' on dependency ratios, e.g. 5.6 workers to every pensioner at present as compared to an expected 1.9 workers to every pensioner in 2051 and projections thereto. This type of projection is fraught with uncertainty and is really 'guesstimates'. However, the most critical issue remains as to what is being put in place now rather than prophecies. In other words, if we know there is going to be a 'pension's time bomb' what are we doing about it in the here and now?

Mandatory Pensions

This is a key issue raised by the unions and Unite in particular. We believe that only through a system of mandatory pension planning with equal contributions from the employer, employee and State support as in an SSIA style arrangement, can supplementary pension coverage be achieved for the one million workers without supplementary pensions and who don't or can't avail of tax relief's and who don't have adequate occupational pension coverage. We attach a proposal for consideration in this regard which has been tested as to its delivery potential. See Appendix 1.

Pension Protection

There is no obligation on employers to fund a deficit if a defined benefit scheme winds up. There is a recent ECJ ruling on this matter and as a result the UK Government has had to significantly improve funding in this area.

The Irish Government is still seriously behind and this needs to be addressed.

Defined Contribution Schemes

The Green Paper acknowledges that the rates of contribution into DC Schemes remain low and the level of potential benefits inadequate.

This needs to be addressed as the cost for pensions is being shifted to employees. It is our view that in the absence of adequate defined benefit schemes there needs to be a mandatory regime to address this issue.

Flexible Retirement Options

This relates to the ability for self-employed to purchase ARFs as opposed to employees in general who are confined to annuities which are more expensive, less flexible and don't have the same rate of return. This facility should be extended.

Retirement Age

This relates to longevity and the proposal to remove the mandatory retirement age to allow for a voluntary approach to working longer. This does merit further consideration on a voluntary basis.

Integration with State Pension

Rising rates in Social Welfare pensions can result in a member in an integrated scheme receiving less. This needs to be prohibited or modified. We have argued for this change. This is already taken into account in public service pensions.

Minimum Funding Standard

There have been calls to modify the MFRs due to the undue pressure on DB Schemes. Currently, DB schemes are funded on the basis of immediate closedown. This is not necessary and could be made less penal and ease pressure on DB Schemes without jeopardising security.

State Annuity Fund

While ICTU has called for a cheaper source of funding for annuities through a State funded scheme, the Paper does not appear supportive of this idea. Please see our earlier comments on the ARF. There is a need to examine this matter further and become supportive.

Regulation

The Paper is seeking views on the amount and adequacy of current regulations. We have addressed this in the course of our submission.

Commutation

Commutation terms are usually more favourable to the Fund as opposed to the member. The Paper suggests that members should be made aware of the 'value for money' issue and that this could create pressure for more favourable commutation rates. We support this.

Public Service Pensions

There are a number of proposals for 'reforms' including, raising the minimum retirement age, increasing the rates of contribution, removal of past accrual terms, modifying the pay parity for post-retirement increases, moving to career average earnings. This can be considered as attempts to degrade the existing arrangements and will have to be responded to accordingly.

In our review of the Paper we have clearly stated that there are a number of issues that need immediate attention by Government. These could be included in a 'short' Pensions Bill to include, mandatory pensions and protection of DB schemes and these should be an immediate priority.

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