Minister Says Ireland's Response to Pensions Problem Will Influence Shape of Society For Decades to Come

Seamus Brennan—National Aim Should be to Ensure That Every Citizen Has a Decent Pension

The Minister for Social Affairs, Séamus Brennan T.D. today described the pension's dilemma Ireland is facing, particularly the level and adequacy of pension coverage, as one of the most important challenges facing society and this generation.

Minister Brennan was speaking in Dublin when officially launching the National Pensions Review from The Pensions Board. The statutory Review, the most comprehensive analysis of the €62 billion pensions industry undertaken for several years, was brought forward by more than one year at the request of the Minister because of the urgent need to address reforms of the pension's system. The Minister said The Pensions Board has produced a very comprehensive report that would be a valuable contribution to the future design and delivery of pension reforms.

Minister Brennan said: "One of the most important policy challenges facing this country, and this generation, is the urgent need to reform our pensions system so that it lays the foundations for the future retirement in security, and with dignity, of all of our people. There are no quick-fix, magic wand solutions to the fact that right now almost half the country's current workforce of 2 million people do not have any personal pensions. Ireland is not unique in having a looming pensions problem. All around the world governments and societies are grappling with the impending crisis of a lopsided population structure in which older people far outnumber younger workers. Ireland's response to the challenges and opportunities posed by this rapid social, economic and demographic change will influence the future shape of our society for decades to come."

Minister Brennan said the scale and depth of the pension's problem Ireland faces can not be overstated. The figures are stark and revealing:
At present over 900,000 people, almost half the country's entire workforce, do not have any private pensions and, as of now, are facing into a retirement in which their

main source of income will be the State welfare pension. At least half of these are women.

While there have been substantial improvements in welfare pensions in recent years, the reality is that many of those relying exclusively on these pensions will continue to have a high risk of poverty.

- The number of people aged over 65 will more than treble from a current level of about 464,000 to 1,500,000 by 2056.
- At present there are over 4 workers contributing to the support of every pensioner. This will fall to 2.7 in 2026 and to less than 1.5 workers per pensioner in 50 years time.
- The cost of our social welfare and state pension system will increase over the same period from 4.3% of GNP to 13.8%. This forecast of spiraling costs is far ahead of any estimates done to date and will come as a major surprise to those who would play down the challenge faced.
- Just over 43% of self employed have a supplementary pension against 54% for employees. Indeed, when you take out the public sector it emerges that only some 43% of private sector workers have personal pensions.
- Just 33% of existing pensioners have income from an occupational or private pensions
- At present the pensions system replaces 51% of pre-retirement income for couples and 43% for single pensioners.
- 40% of occupational pension schemes who reported to the Pensions Board last year failed to meet the Funding Standard required under legislation.

Minister Brennan said that in the face of these statistics it is obvious that doing nothing is not an option. It must be accepted that some solutions may be painful but necessary.

"These figures pose serious questions for our society and the decisions we make at this time will impact on almost everyone, whether they are already pensioners or are just starting work", Minister Brennan said.

"Our choices are limited and at times stark. We can, as the Board's report states, reduce benefits, increase taxation, work longer or increase the advance provision we make through the National Pensions Reserve Fund or through personal savings. The

first two options are very unpalatable and not something any Government would consider lightly.
As regards retirement ages, while I am not contemplating any compulsory increase in retirement ages I do support allowing people choices when it comes to retiring or remaining at work. I will examine closely the Pensions Board proposal to allow people to defer taking social welfare pension at age 65 in favour of having it increased on an actuarial basis at a later date."

The Minister said, however, there is only so much any Government can do in this area in increasing flexibility and creating incentives. "We also need a radical change in attitudes to retirement both from employees and employers. Employers have a huge role to play in creating the conditions which will encourage people to work longer, especially given that people now tend to start work at an older age and at the other end there have been significant and welcome improvements in longevity. Empowering older people in the workplace and enabling them to work longer if they wish must be a key part of any response to the ageing challenge".

Minister Brennan said that The Pensions Board, having looked at the pension systems internationally, had narrowed these down to 5 main models, including a continuation of the current voluntary system with enhanced incentives to participate; various types of mandatory provision; a central role for the State in supplementary pension provision; and greatly improved social welfare pensions with a much stronger link to average earnings.

The Minister said that while the Review has come down in favour of a continuation of the existing voluntary system for supplementary pensions, it had, however, recommended enhancements and incentives to make schemes more attractive and transparent to would be savers.

"The main thrust of the proposals is to try and tap into the success of the SSIA scheme and to build on the savings habit that has been created by offering, in the future, by way of a matching contribution rather than tax relief, a pensions package that would be attractive and would allow limited access to funds. While I consider such innovative ideas have a lot of merit, they will have to be carefully examined and fully costed by officials. While both I and the Minister for Finance agree that SSIAs was a once off scheme, there are lessons to be learned from the successful savings habit demonstrated by the SSIA's and these lessons have been clearly learned by The Pensions Board in identifying how savings can be captured and an extension of the savings habit encouraged. For example, the proposal that people should have some access to their pension funds up to age 45 is very creative and might make investment in a pension much more attractive for younger people."

The Minister said there is no doubt that improved incentives should deliver increased pensions coverage.

"However, international experience suggests that no fully voluntary system will deliver the level of pension cover we must aspire to if all older people are to have dignity and security in retirement. If we are serious about achieving this aspiration then we must also be prepared to consider a more radical approach and I am encouraged that this was the view of some Board members. There is a view that some form of mandatory provision is the only way of ensuring that people make adequate provision for their retirement. We have a tradition of providing retirement income through both the State and private sector and there is, I believe, no reason why we should not further explore the implementation of a mandatory or quasi mandatory system using that structure. I welcome the fact that The Pensions Board has kept open the mandatory option and has suggested in a general way a number of mechanisms which could be used including mandatory and "soft mandatory" systems. I will be asking the incoming Pensions Board to build on the work of the National Pensions Review in this area and to recommend the most appropriate system for Ireland at a practical level and to cost this. This will give rise to a number of very fundamental questions, not least of which is cost and also the extent to which the State can, or indeed should, guarantee returns for people when it requires them to contribute to a pension scheme".

The Minister expressed particular concern that that despite the significant flexibilities that were introduced in recent pensions legislation, there continues to be serious funding difficulties for some schemes. For example, pension consultants Mercer have estimated that the total pension fund deficit for the top 20 listed Irish companies was €2.6 billion at the beginning of 2005.

"I will be asking the incoming Board to review the situation again as a matter of urgency and to build on their earlier work. The present funding standard under the Pensions Act is based on a wind-up on discontinuance basis. While I know that there are strong arguments to support a standard set on an ongoing basis, it is questionable if this would be in everybody's interests".

Minister Brennan said that Ireland faces a pensions problem at the moment. Unlike other countries this problem has not yet grown into a crisis. "It is incumbent on this generation of Irish leaders to square up to and to address the issues and to chart a way forward. The Government is giving serious consideration to the need for pensions reform and has held a number of Cabinet discussions. The Government is also of the view that this is an issue that is inter-generational and goes beyond the confines of day to day politics. It is about what kind of country we want in the future, about what kind of society we want to live in and what quality of life we want for ourselves and the generations that follow.
For all these reasons I want this report to be considered and debated throughout Irish society. In the weeks ahead I will be calling together all interested parties to a national forum to debate the central issues. The next round of Partnership talks also affords the opportunity to have pensions on the agenda. The Government and I will continue to show leadership and to keep pensions firmly on the national agenda. In time, the Government will reach some conclusions on the various proposals and will seek to achieve consensus on how best to lay down the foundations for the future retirement security that we want all to enjoy".

Minister Brennan concluded: "The reality is that we need to act decisively today to build solutions for tomorrow. The pensions problem is no longer some vague threat, but is now one of the biggest issues facing an entire generation. Pensions are now firmly on the national agenda and out of all the analysis, reports and debates must come reform proposals that will pass the tests of personal responsibility, fairness, affordability, simplicity and sustainability. Today, as we start into the 21st century, I and the Government have the clear objective of ensuring that every citizen has a decent pension to look forward to in retirement.

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