



Irish Association of Pension Funds

Annual Conference

Dublin Castle

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Address by Martin Cullen T.D.,

Minister for Social and Family Affairs



Department of Social and Family Affairs

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I would like to thank your Chairman, Patrick Burke, for inviting me here this morning to address your Annual Conference.

At the outset I want to acknowledge the tremendous work the IAPF and its members do in the pensions area in terms of managing and securing the retirement incomes of many people, and in raising awareness in relation to pensions and putting forward its views on the future direction of policy in this very important area.

The importance of the organisation and the impact it has on society can be gauged by the fact that IAPF members manage almost €90 billion in pension assets on behalf of 200,000 scheme members and pay pensions to 70,000 people who are already retired.

Accordingly, the IAPF is well regarded as an authoritative voice on pensions and its input to the policy and legislative process is very much appreciated by all concerned.

Before saying a few words on the theme of today's conference I would like to update you on the current position in relation to the Green Paper on Pensions.

This process is now complete and arrangements are being made to get the Green Paper ready for publication. I expect to be in a position to confirm a publication date in the very near future.



As you know the preparation of the Green Paper follows a period of increased activity in the development of pensions policy, which has seen the publication of two major reports by the Pensions Board - the 'National Pensions Review' and 'Special Savings for Retirement'. These two reports built on the earlier report of the Board on the National Pensions Policy Initiative, published in 1998.

The Green Paper will take account of these reports but will examine the situation in a much broader way as it sets out the key issues and challenges now facing the Irish pensions system.

I would like to make it clear 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 which have been suggested.

Pensions is one of the major issues the country faces for the future and any decisions we take at this stage will impact on society for decades to come.

A major consultation process aimed at building consensus on pension reforms will follow the publication of the Green Paper.

Given the importance of the issue I am anxious to ensure that the consultation process is as inclusive as possible and that people have ample time to study the Green Paper and to formulate their ideas and comments. It is important that we receive the views of representative organisations like the IAPF as well as those of the general public, and I hope that as many people as possible will take the time to contribute.



Full details of the process and the manner in which people can make their views known on the future of pensions will be announced when the Green Paper is launched.

Today's conference deals with the question of alternative scheme designs and rebalancing of risks and reflects the changing nature of the pensions system and the environment it operates in.

Traditionally, our occupational pension system has been based around the defined benefit model.

From the employees point of view, and indeed from the point of view of the Government, this is the most favoured model as it gives employees a degree of certainty in relation to the benefits they can expect when they retire, and it does not expose them to the investment risk associated with pension schemes, as this is largely borne by the employer.

However, as we all know, nationally and internationally, this model of provision has been under pressure for a number of years because of increased costs arising from demographic changes, improved longevity, funding standards, wage improvements, volatility in the markets and additional regulatory requirements. Accountancy standards are also playing a role here as pension liabilities are now very apparent on the balance sheets of sponsoring firms.



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The number of people contributing to a pension is improving with 55% of the work-force with a supplementary pension at the end of 2005 against 52% in 2002. At the same time the size of the workforce has grown by about 350,000 over the last 5 years so, not only is the percentage of people with pensions growing, but the actual number involved is also increasing significantly.

While the growing participation rate is very welcome, most of this growth is happening in the defined contribution area, with numbers in defined benefit schemes remaining largely unchanged in recent years.

More worrying is the fact that some 40% of defined benefit schemes are closed to new members and there is an expectation that the closure rate will continue to grow over the next few years. The move to defined contribution provision provides a degree of certainty for employers in relation to their pension liabilities but it does mean that the investment risk is transferred in total to the employee.

Average employer contribution rates to defined benefit schemes have more than doubled in the past 6 years and I can understand that this, combined with the volatility of these costs, can pose problems for some employers. However, I do think that it is unfortunate that some highly profitable enterprises do not feel able to maintain their defined benefit schemes.



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That said, we must be realistic and accept that there is a move away from defined benefit provision and this must be managed to try and balance the interests of employers and employees.

Too often when changes to schemes are being contemplated people think in terms of either defined benefit or defined contribution schemes. However, there is a range of options between these two poles and, although different pension models are common enough in other countries, they are only recently being explored in an Irish context.

While, as I said, the preference is to see defined benefit schemes maintained, where this is not possible, some sharing of the investment risk between employers or employees through a hybrid scheme is a better option than converting completely to a defined contribution scheme.

The financial pressures associated with maintaining adequate funding of Defined Benefit Schemes were acknowledged in Towards 2016 and the parties committed to protecting the viability of pension schemes on a sustainable basis.

As part of the agreement the Pensions Board was asked to research benefit design options in the occupational pensions area and to examine current design issues in both Defined Benefit and Defined Contribution arrangements with a view



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to producing guidance as to designs which encompass the positive elements of each arrangement while adjusting the costs and risks to the parties involved.

In this regard the Pensions Board has produced, and recently launched, a very helpful booklet on hybrid pension designs. The booklet is intended to help employers, employees, union representatives and others involved with pensions to understand what different types of scheme designs there are available. It does not advocate any particular scheme design but tries to explain the features of different scheme designs and provide enough information for those involved to understand the important features and to make informed decisions.

We have already seen some developments in this area with new arrangements being negotiated by a number of large concerns and I understand you will be hearing details of at least one of them later this morning.

While, as I said, my preference is to see defined benefit schemes maintained, clearly there is much which can be done to achieve a balance between the interests of employees and employers when people are prepared to approach the process of change with an open mind. In this regard the presentations you will hear on the employer and union perspectives on the process should be very informative.



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I think the coming year will be an important milestone for pensions policy in Ireland. There is need for our society to consider and debate the type of retirement we want for our older people and how we might pay for it. I am pleased that we are about to embark on that debate and I hope that by this time next year the way forward will be much clearer.

Thank You.

SPEECH ENDS