Launch of the National Pensions Framework

Speech by the Minister for Social and Family Affairs

Introductory Remarks

First of all, I am also delighted to be launching the National Pensions Framework, with the Taoiseach and the Minister for Finance today. It has certainly been a long road since we published the Green Paper on Pensions in 2007.

However, as I've said on many occasions, given the complexity of the issues involved and the changing economic circumstances it was only right that we took sufficient time to consider all the elements of the framework in detail. Of course, in the interim we also introduced a range of measures to support the Irish pension system.

As the Taoiseach said, the consultation process which followed publication of the Green Paper was a very important one. A range of views were expressed on a whole host of pension issues and while no consensus emerged it certainly gave us plenty of food for thought.

National Pensions Framework - Aims and Principles

This framework is our plan for future pension reform and it encompasses all aspects of pensions, from social welfare to private occupational pensions and public sector pension reform.

The framework is set in a context in which people are living longer and the cost of financing pensions is falling to a diminishing share of our population. It is only 100 years since Ireland introduced the State pension– at a time when average life expectancy was 50, and you got your pension at 70! Now average life expectancy is 76 for men and 81 for women, and is expected to increase by another eight years over the longer term. Indeed, recent forecasts suggest that in the future we could spend almost a third of our lives in retirement, one third in employment and one third in childhood, education or between jobs. Clearly, this, together with a declining workforce and a growing older population, indicates the challenge facing us all.

However, regardless of the data, we must always remember, when we speak about pensions, that it is not just about hard economic facts or financial crises; we are talking about people's lives, the contribution of older people and the value we place on older people in society. For this reason, we cannot underestimate the importance of having a safe and secure pension in retirement.

Therefore, the aim of the framework is to deliver security, equity, choice and clarity for the individual, the employer and the State. It also aims to increase pension coverage, particularly among low to middle income groups and to ensure that state support for pensions is equitable and sustainable.

We have established a number of principles – seven - which underpin the Government's approach to pension reform in the framework. These cover areas such as the importance of the State Pension, the sustainability of the public finances, the need to increase pension coverage and income adequacy; and the commitment to achieve a balanced and equitable approach.

Achieving a balanced solution across all of these issues means that you must look at the framework as a whole, and not in a piecemeal fashion. We have listened to everyone, absorbed all the views and we consider this framework to present the best, overall solution for the future.

I don't intend to go through each element of the framework in detail, but there are three key elements which I would like to talk about. These are retirement age, the new auto-enrolment system and the suite of changes to the State pension.

Retirement Age

As I've mentioned above, we are living longer, and thankfully, much healthier lives. It is simply not sustainable that we can afford a pension system based on the current model which allows people to spend almost as long in retirement as they do in the workforce. Therefore, the Government has decided to increase State pension age in three separate stages:

- In 2014, the State Pension transition will be abolished. The effect of this will be to increase State pension age by one year to 66;
- In 2021, the State pension age will be set at 67; and
- Finally, in 2028, State pension age will be set at 68.

This reform will facilitate those who want to work longer and also help us to sustain the pension system for future generations.

Auto-enrolment

The introduction of a new auto-enrolment system is a major advancement in the Irish pension system. Increasing pension coverage for workers, and those on low to middle incomes in particular, has been a key objective of ours for many years. Many employers are already providing for their employees and some 850,000 people are already enrolled in an occupational pension. We have also had success with the increasing growth of PRSAs, with some 170,000 contracts worth some €2 billion in assets now in place. However, we know from our surveys that some 50% of workers still do not participate in an occupational pension scheme. Inertia and procrastination are among the main reasons cited by people for not taking out a pension: the auto-enrolment system provides a way of overcoming this problem.

Auto-enrolment enables the State, the employer and the employee to share responsibility for future pensions. People can opt out if they so wish but they will automatically be re-enrolled every two years.

In addition to the employee contribution, the scheme will include a State contribution and a mandatory employer contribution. The State contribution will equal 33% tax relief and the employer contributions will be set at the same level. The total contribution will only apply to those who earn over a certain minimum amount: a maximum threshold will also apply. This means that there will be no additional burden placed on those on the lowest incomes. For this group, the State pension will provide a sufficient replacement income. Employers will continue to benefit from tax and PRSI relief on contributions: so it should not be too onerous a requirement for employers. The exact upper and lower level of the thresholds will be decided closer to the implementation date; however it will be set to particularly focus on low and middle income earners, who are the group most at risk of having no occupational pension. While the Government cannot provide investment guarantees, there will be a range of funds available including a low risk option which will be the default for those who do not actively choose their fund.

As previously mentioned, it is intended that the scheme will be implemented in 2014 but this will depend on the prevailing economic conditions.

The State Pension

I want to stress that the State Pension will continue to be the fundamental basis for the pension system and that the Government will endeavour to maintain its value at 35% of average wages. Since 2005, the Government has increased the value of the State pension by some 30 per cent in real terms – we see this as a major achievement and are committed to working to ensure that this solid foundation is retained.

The framework includes a number of changes to the State Pension in order to make it more transparent, simple and equitable for those reaching retirement age. From 2020, the way in which eligibility for State Pension is calculated will be simplified. Specifically, there will be a switch from the way in which pensions are currently calculated over the average working life, which has particularly disadvantaged women who take time out for caring. Under the new system, the level of pension paid will be based on the total number of social insurance contributions made by a person over his or her working life. A person will need to make contributions for 30 years to qualify for a maximum pension.

We must always remember that the social insurance system is one which delivers benefits to those who contribute, similar to any insurance-type system. A State pension is a very valuable asset and we must ensure that those who benefit from it have made a sustained and adequate contribution over the course of their working life. In addition, we are introducing social insurance credits for people who take time out of the workforce for caring duties. This will replace the current homemakers disregard and will assist people – particularly women - to qualify for a contributory pension or a higher level of payment.

Other changes

There are a range of other changes in the framework too of course, dealing with the standardisation of tax relief, access to Approved Retirement Funds for members of all defined contribution scheme types, enhanced regulation and reforms to public service pensions as the Minister for Finance has just described.

As I said, I'm not going to talk about all of these as I know Orlaigh will cover them in her presentation. Suffice to say that it is the combination of all of these elements which makes the framework such an important document.

Concluding Remarks

To conclude, the National Pensions Framework will provide certainty for pension savers, pension schemes, employers and the industry on how pensions will be regulated and managed in the years ahead. It provides a clear statement on future reforms to state pensions, occupational and personal pensions, public sector pensions and the impact of demographic change.

We have been very clear throughout that the framework will be implemented over a number of years and take cognisance of the prevailing economic conditions. Now that we have published the framework, we can look forward to beginning the detailed implementation work of the next phase of the process. We will, of course, continue to consult with stakeholders on the detailed implementation arrangements.

I will hand you over to Orlaigh Quinn now, an Assistant Secretary in my Department, who will guide you through the various elements of the framework in more detail.

ENDS