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Firstly, I would like to thank your chairperson Marie Collins and your director of policy Jerry Moriarty for inviting me here this morning to address your annual conference.

I would like to acknowledge, once again, the work that the IAPF and your members do in relation to managing the retirement incomes of many people as well your continued contribution to the debate on the future of pension policy in this country.

Your contributions are always greatly valued.

The theme for your conference today "*The Defined Benefit Challenge*" reflects an issue which is of continued importance.

The Government is well aware of the challenges faced by defined benefit, and indeed all pension schemes at present.

We appreciate the difficulties involved for trustees and, indeed, employers in trying to keep their schemes afloat while members are concerned about their future benefits.

Members of defined contribution schemes have also seen the value of their funds eroded in recent times. There are no easy answers to these problems.

While I was pleased to read this week that the performance of Irish managed funds improved for a seventh month in a row we all know that these recent increases have not been sufficient to offset the losses of the previous 12 to 18 months.

The defined benefit challenge is one which the Government has been grappling with both in the development of the long-term national pensions framework and in the short term by introducing a range of measures which we hope will ease pressures on members of defined benefit schemes.

Measures to ease Pressure on the Funding Standard

We began this process last December by introducing a number of short-term measures aimed at reducing the pressure on under-funded DB schemes by allowing greater flexibility and time to recover funding positions.

Specifically these measures mean that the Pensions Board can now:

Grant additional time for the preparation of funding proposals aimed at restoring pension funds;

Deal as flexibly as possible with applications for approval of funding plans;

Allow longer periods for recovery plans, that is, greater than ten years in appropriate circumstances;

Allow the term of a replacement recovery plan to extend beyond the end date of the original plan where the scheme is part-way through a previous recovery plan but is off track due to investment losses; and

Take into account voluntary employer guarantees in approving recovery plans.

It is very important for us to ensure that these extensions are not seen as a weakening of supervision and for that reason the Pensions Board will reject recovery plans which fail to demonstrate an appropriate investment approach.

These measures have been broadly welcomed but we all recognise that these are only short-term solutions to ease the immediate and significant pressures currently facing defined benefit schemes and that more is needed to ensure the long term sustainability of pension provision in Ireland.

Changes to the Priority Order on Wind-Up

More recently, I made a number of amendments to the Pensions Act in an effort to assist trustees of defined benefit schemes.

In order to achieve a greater equity in the distribution of scheme assets on wind-up of a scheme, I re-ordered the wind-up priorities by moving the provision for post retirement increase to a lower priority.

As I am sure you are all aware, with increases in pension costs, the liability for post retirement increases can be substantial and, in a situation where a severely under-funded scheme is wound up, the allocation of assets for pensioners in payment can significantly reduce the assets available for other scheme members.

This was particularly true under the old arrangements where post retirement increases were allocated a higher priority than the liabilities due to active and deferred members.

Under the new arrangements, once the basic pension entitlements of all scheme members are covered, the distribution of scheme assets for post retirement increases will then be applied.

This is an important change in the priority order and will, without impacting on the pensions of those already retired, improve the situation of other scheme members.

Greater Flexibility in Scheme Restructuring

It is important for us to ensure that current pension legislation supports the viability of current pension schemes and that nothing in current legislation would be considered restrictive in the ongoing maintenance and sustainability of a pension scheme.

For that reason I introduced greater flexibility for schemes to restructure benefits in the event of under-funding.

Previously, legislation provided for the restructuring of a DB pension scheme but only to the extent that it affects the benefits of those currently employed by the sponsoring employer. This restructuring did not extend to the accrued benefits of scheme members who are no longer employed in the company or to post-retirement increases in benefits. This limitation in restructuring a scheme could give the trustee no option but to wind-up the scheme.

I amended the Pensions Act to broaden the scope of a scheme restructuring to include those currently in employment, those who have ceased employment with the current employer, and the provision of post retirement increases for all scheme members including pensioners.

It is important to stress that this change will not impact on the pension currently in payment to pensioners.

The purpose of this change is to help trustees secure the viability of the pension scheme by extending the elements of the scheme which may be considered in any restructuring of a scheme.

This will help the trustees to maintain the ongoing viability of the pension scheme and hopefully avoid the scenario of a scheme wind-up.

In introducing changes to the priority order and the restructuring arrangements the Government was very careful to ensure that the current benefits of existing pensioners would not be reduced.

Strengthened role for the Pensions Board

In addition, I have strengthened the role of the Pension Regulator to assist him in bringing successful prosecutions against employers who fail to remit employee contributions to the trustees of a pension scheme.

Specifically, the admissibility of documentary evidence has been enhanced in proceedings for an offence in this regard so as to avoid the need for oral evidence, which as you can appreciate employees may be reluctant to give.

In addition, a separate offence for failure to remit pension contributions to the trustees of a pension scheme has been created.

Although the numbers of cases where employers fail to remit contributions are quite small it is important that there are serious implications for employers when the situation does arise.

Increased Protection for Trustees

I have also provided the Court with the power to relieve a trustee from liability for a breach of trust where the Court is satisfied that the trustee acted honestly and reasonably.

Pensions Insolvency Payments Scheme

When a pension scheme is in deficit and the sponsoring employer is also insolvent there is really no possibility of saving the scheme.

This may mean that some pension scheme members who have yet to retire, will face a shortfall in their pension.

This is of particular concern for those close to retirement who have few options in terms of making alternative provision for their future.

For this reason, the Social Welfare and Pensions Act 2009 included a power to enable the Minister for Finance to provide for a Pensions Insolvency Payment Scheme, or PIPS.

At the moment, if a defined benefit scheme is being wound up in deficit and the sponsoring employer becomes insolvent, the trustees must first provide pensions for the retired members of the scheme, usually by buying annuities. Whatever is left is apportioned among the active and deferred members of the scheme. The more expensive the annuities the less money is available for those yet to retire.

Annuities provided on the open market are priced to include certain costs such as commissions and expenses as well as a profit margin.

Crucially, annuity providers must hold reserves to back up their annuity commitments, a cost which can add significantly to the final annuity price.

The PIPS will provide an alternative for trustees of defined benefit schemes in deficit with an insolvent employer.

Simply put, trustees of participating schemes will pay to the Exchequer the amount necessary to cover the cost of providing pensions for their schemes retired members.
With commissions, expenses, and the cost of capital distilled from the equation, PIPS should be able to provide these payments at less expense to the trustees. This should then free up extra money to go towards the pensions of the active and deferred members.

We must be careful that our attempt to assist those in need is not misrepresented.

Let me be clear: PIPS is not a bail-out of pension schemes in deficit and has been carefully designed to ensure that it will be cost-neutral from an Exchequer point of view.

Neither does PIPS represent the Government competing in the annuities market – that is not our business.

PIPS was quite deliberately designed so that it will only be available to a limited number of pension schemes.

Our reasons for introducing PIPS are social not commercial.

PIPS is effectively a scheme of last resort to try and salvage as much as possible for the active and deferred members of schemes winding up in deficit where the sponsoring employer is also insolvent, in other words, people who are likely to receive a lot less than they expected from their pension scheme.

Of course, many people will want to know the bottom line on this and the amount of difference it will make to their pension but the simple answer is that it depends.

Each scheme involved will have to be actuarially assessed and so the costs and savings will depend on for example, the interest rate used as well as other relevant factors.

The intention is that this technical calculation will be carried out by the National Treasury Management Agency so as to make PIPS cost neutral to the Exchequer. PIPS will operate on a pilot basis and will be reviewed within three years of its establishment.

I know the IAPF was keen for the State to take an active role in the provision of an alternative to commercial annuities in limited circumstances.

As I'm sure you can appreciate the operation of PIPS requires a lot of detail much of which must be set out in regulations.

As you may know, these regulations are currently being drafted by the Minister for Finance in consultation with me. The PIPS can commence once those regulations are in place.

Green Paper on Pensions

I know you are all aware of the Green Paper on Pensions which the Government published in October 2007 and the consultation process which followed but I'd like to refer to it briefly here.

The Green Paper outlined the challenges facing the Irish pensions system in the years ahead, including the sustainability of the system over the longer term in light of demographic change and the adequacy of contribution levels and benefits.

Specific issues in relation to State pensions were also set out, as well as considerations in relation to key aspects of the system including tax treatment, security of pension provision, the regulatory regime, public service pensions and work flexibility in retirement. It also set out key questions to be addressed in formulating the Government's response to these challenges.

Publication of the Green Paper was followed by an extensive period of consultation. Written submissions were received from over 320 individuals and 62 organisations including your own of course. Regional seminars were attended by some 300 people and an international conference took place in May 2008.

The response to the consultation process reflected the wide range of views and interests held by individuals and organisations throughout the country. While there was no consensus on ways to respond to the challenges facing the pension system, it was clear that there were significant issues and problems that people wanted addressed.

We have been working since on developing responses to the issues raised during that process and completing the National Pensions Framework.

National Pensions Framework

When I spoke to you on previous occasions I had expected that the National Pensions Framework would have been published by now.

However, we must all acknowledge that we live in very different times to when the Green Paper was published in October 2007. The assumptions we made then are now very different, for example;

GNP growth was at 5.7 per cent in 2007 – it is now at minus 8 per cent
Employment growth was at 4.4 per cent – it is now at minus 7.8 per cent

Unemployment was at 4.6 per cent – it is now at some 12 per cent.

The Social Insurance Fund, from which we pay the contributory State pensions, is now in deficit and the current surplus will be exhausted next year. This will require the Government to subvent this Fund some five years earlier than planned.

This uncertain economic climate increases the complexity of the decisions we must make but, let me stress that it does not cancel or deviate the Government from making these vitally necessary decisions. However, it does require us to give very careful consideration, and it is precisely because the development of the framework involves decisions on such a wide range of future and complex issues that we have been spending a considerable amount of time developing the framework.

In the interim of course we have, as I have already outlined, introduced a range of measures to ease the problems facing defined benefit schemes in the short term.

While I am not yet in a position to announce what will be included in the Framework, I can confirm what I believe are the key issues that it should address. It is worth stating now some of the many issues that face us in preparing a sustainable pensions policy:

The population aged 65 and over is estimated to increase by 59% by 2021 and by a further 142% to 2061. This means that we will move from our current society where we have some 470,000 older people to one where we could have some 1.8 million people aged over 65.

There will be a relatively rapid and severe decline in the Pensioner Support Ratio – the ratio of the number of people of working age to the number of people over pension age – from about 6 to 1 at present to less than 2 to 1 in 2061. In fact if we use the lower fertility and migration figures set out in the Green Paper, the ratio falls even further to less than 1 and a half people working for every pensioner;

State expenditure on public pensions will increase from 5 per cent of GDP to 13 per cent of GDP. To put that in real money terms, this amounts to an increase of some €12 billion.

The pension coverage rate for people at work has been hovering between 50 and 55%, despite vastly improved awareness of pension issues and the need for people to provide for their retirement;

Even where people are contributing to pension schemes, the adequacy of those contributions may not be enough to meet their expectations in retirement.

These figures are real and they allow us to see the scale of the challenge ahead. But they tell us little about the very real human impact of pension problems on the people of this country.

I can also tell you what Government sees as the key issues for long-term reform.

Ensuring that more people have a pension is essential

Addressing the adequacy of contribution levels so that people can have a comfortable retirement.

Focusing on those in the workforce, some 50 per cent, who still do not have supplementary pension cover.

While taking out a pension may not be the priority for many people at the moment, we must remember that pension saving is a long-term issue and will help to ensure that people do not experience a significant drop in their incomes upon retirement.

Of course, it will not be possible for the Government to address all people's concerns, particularly given that there was no clear consensus on the way forward.

However, I, and the Government are determined that the actions we take will be aimed at ensuring that we reform on a basis that is fair, transparent and sustainable.

McCarthy Report and the Report of the Commission on Taxation

We have also recently seen the publication of the McCarthy Report and the Report of the Commission on Taxation.

The McCarthy Report considered that an increase in the retirement age for all State pension schemes will have to be considered as an element of any policy proposals to address these problems.

As was pointed out in the Green Paper, people are now living longer and healthier lives, with the time spent in retirement now much longer than was previously the case.

This creates sustainability pressures for both occupational schemes as well as state pensions.

Other countries have already announced increases in state pension age.

While Ireland has a relatively younger population than other countries, it is expected that by mid century, as I said earlier, we will have only two people of working age to every pensioner compared to six people of working age at present.

The McCarthy report is being considered in the context of the estimates and budgetary process for 2010.

Certainly, an increase in retirement age is an option we must consider and we will make any final decision in this regard as part of the entire package of pension reform to be announced in the long-term framework.

It would not be appropriate for me to comment further at this stage pending the outcome of the deliberative process. The decisions on all of the issues arising will be a matter for Government.

The Commission on Taxation Report also includes a range of proposals in relation to the tax treatment of pensions.

For example, it proposes that the Government introduce a matching State contribution for pension contributions as well as what it describes as an "SSIA type" pension scheme.

The report rightly acknowledges that the tax system alone will not address the pension problem and states that a comprehensive examination of a range and mix of options is needed. Of course, that is what I and my Government colleagues are determined to achieve.

Conclusion

To conclude, the changes to the pensions system which I have made recently are aimed at supporting workers in defined benefit schemes and assisting trustees in securing the future of those schemes.

I am also aware that there are many other challenges facing pension policy and provision in Ireland. These include issues such as pensions coverage and the adequacy and sustainability of our pensions system generally, all of which were set out and discussed in the Green Paper on Pensions.

Pension reform is an extremely complex issue and the Government must ensure that it has considered all of the issues involved before making decisions which have such a strong impact on people's livelihoods.

A good, robust pensions system is costly no matter how it is organised. The challenge faced by Government is to strike the appropriate balance between those involved, including employers, people in employment and the State.

Our system must provide surety so that everyone can look forward to retirement, confident that their pensions are safe.

Our objective must be a pension system which will deliver an adequate retirement income for all which is, at the same time affordable and sustainable for the State, and those who sponsor and provide occupational pensions systems.

Discussions with my Government colleagues on the final framework are ongoing, and I expect that the framework will be published in the near future.

Thank you again for inviting me here to-day.

I hope you have a good conference and I look forward to the outcome of your deliberations.

ENDS