



**Speech By**

**Seamus Brennan T.D  
Minister For Social Affairs**

**On Receiving The  
Annual Report For 2005 Of  
The Pensions Board – An Bord Pinsean**

**14<sup>TH</sup> July 2006**

**Minister Says Confidence In Pensions  
Industry Is Critical If More People Are To Be  
Encouraged To Join Schemes**



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### **Introduction**

It is a pleasure to be here today to receive the annual report of the Pensions Board for 2005 from its Chairperson, Tiarnan O Mahoney. This is the 15<sup>th</sup> annual report of the Board and the first compiled by the current Board, which took office last December.

The Board has an extremely important role to play in monitoring and protecting the interests of well over 800,000 people who are members of pension schemes or who have Personal Retirement Savings Accounts.

If we are to lay the foundations for a lasting, affordable and sustainable pensions solution for Ireland then it is critically important that those in existing schemes, and many of those in the 900,000 without pensions who are considering joining schemes, have full confidence in the security that a good pension will provide in their later years.

It is an area that requires constant vigilance and close scrutiny and that is why the role of the Pensions Board is so pivotal to the building and maintaining of that confidence. It is important to stress that the value of pension funds has increased solidly in recent years.

Over the last 10 years the average managed pension fund increased by 10% per annum, well ahead of the corresponding inflation figure of about 3%.

In 2005, for instance, pension funds performed exceptionally well, with the average managed fund increasing by over 20% as a result of exceptional investment returns from global equity markets.

While recent months have seen a gradual slow down in this level of growth it has to be reiterated that the overall forecast is still quite healthy. Of course, while the value of pension funds has increased solidly in recent years it is also a reality that the liability side of funds has come under increasing pressure because of significantly improved longevity, historically low interest rates and regulatory requirements.



## **Department of Social and Family Affairs**

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So, the bottom line, is that the value of pensions remains still very healthy but maybe not as healthy as the 21% increase in assets last year might first indicate. Overall, the present pensions environment is much more fluid than in recent years.

A combination of factors is contributing to this. Funding problems, increasing costs, accounting standards requirements and our own desire to see a significant increase in pensions coverage have all contributed to creating this very fluid situation.

I appreciate that this places great demands on Board members and, indeed, on the Pensions Board executive and the contribution of all concerned is very much appreciated by both myself, and my Department. Of course, the Board could not operate effectively without the support and input of the Chief Executive, Anne Maher, and the staff of the Pensions Board.

Additional responsibilities, policy reviews and increased awareness of pensions issues, which is due in no small part to the work of the Board through the National Pensions Awareness Campaign, has led to increased pressure and a greater workload for all those working in the Board, and I would like to express my appreciation of the efforts of everyone concerned. From a policy perspective, The National Pensions Review was a major undertaking for the Board in 2005.

You may recall that I asked the Board to fast-track this review, which would not have been due until later this year, because I felt that at the rate progress was being made, there was little chance of achieving national targets in the area of pensions in any kind of reasonable timescale. The Board produced a very fine report containing a very in-depth examination of the costs and likely effects of various types of pension model which we could consider.

At the end of the day the majority of the Board considered that improving the incentives for people to participate in the existing voluntary system is the way to go, and put forward for consideration some innovative suggestions including changing tax incentives available to SSIA type matching contributions.

The Finance Act put in place arrangements along these lines to encourage the transfer of SSIA proceeds into pensions savings. The incentives on offer are very attractive and I would urge people with maturing SSIA's to consider availing of this



## **Department of Social and Family Affairs**

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worthwhile offer. It is particularly encouraging to see in recent days statistics from the CSO which indicates that up to half of those with SSIA's are thinking of saving or investing their savings windfall, with many saying they will opt for investment in pensions.

As regards future pensions policy, for my part, as I have said on many occasions, we may well have to take some tough decisions if we are to have a realistic chance of achieving our overall targets which must be to ensure that everybody in this country will have a decent income and security in retirement.

For that reason, I asked the Pensions Board to explore in more detail the mandatory or quasi mandatory models it outlined in the National Pensions Review. I have now received that report and I will be bringing it to the Government for consideration shortly.

I think it, and the National Pensions Review, which I published in January, will make a significant contribution to the development of the Government Green Paper on pensions, which has been agreed as part of the new social partnership agreement "Towards 2016". It is fair to say that pensions are now firmly and prominently on the national agenda.

For example, pensions were at the very heart of the recent discussions on the national partnership agreement-another very encouraging indicator of how pensions have moved up the social and economic agenda.

### **Funding Issues**

The funding of defined benefit pension schemes continues to cause concern. However, as we can see from the annual report, the position in this regard has improved, with 68% of schemes complying with the funding standard at the end of 2005. That said, pensions are a costly overhead for employers and a drift from defined benefit to defined contribution schemes is now very apparent, even in cases where firms are very profitable.



## **Department of Social and Family Affairs**

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This is, in my view, a regrettable development. The Funding Standard and accounting requirements (FRS17), which make the cost of pensions very apparent on balance sheets, are put forward as the two main reasons for these developments. With regard to the Funding Standard, my predecessor introduced short term measures designed to alleviate the funding crisis in pension schemes, which resulted from a major fall in equity values from 2000. These were retained following a Pensions Board review of the Funding Standard completed in 2004.

However, what has emerged clearly since, as I said earlier, is that the liability side of pension funds is also under severe pressure because people are living longer, lower interest rates and the various regulations that must be met.

In the Social Welfare and Pensions Act 2005, I provided that an extended funding period may also be granted in relation to difficulties which defined benefit schemes were experiencing on the liability side. I believe these measures, which were introduced after extensive consultation, achieve the required balance between member protection and encouraging continued defined benefit pension provision.

The Pensions Board, in consultation with key stakeholders, including officials from my Department, is continuing to review the funding standard for defined benefit schemes in the light of experience here and abroad over the last number of years, taking account of the issues raised in the partnership talks and also keeping in mind the original objective and intent of that standard.

They will report to me later this year in this regard.

### **Regulation**

The primary function of the Pensions Board is to ensure that pension schemes are complying with the various provisions of the Pensions Act. Overall the results of the work undertaken in this area were generally satisfactory.

However, I note that the Board continues to have concerns that the standard of administration varies considerably across schemes



## **Department of Social and Family Affairs**

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A high standard of compliance with the Pensions Act is required and I am pleased to see a willingness on the part of the Board to use its powers to the full where necessary. Prosecutions were taken against the trustees of 6 occupational pension schemes while 4 employers were prosecuted for failing to honour their obligations in relation to access to PRSAs for their employees. In relation to PRSAs, I am pleased to see the role being played by the inspectorate of my Department in highlighting cases for further investigation by the Pensions Board that they come across in the course of their normal employer inspections.

### **National Pensions Awareness Campaign.**

The National Pensions Awareness Campaign continued during 2005 and it has been extremely effective in raising the general standard of awareness amongst the public in relation to pensions issues. I was pleased to be able to increase the allocation for the campaign in the current year, as it is important that we maintain a very high profile at present, particularly now that the SSIA's have started maturing.

The Board's website, [www.pensionsboard.ie](http://www.pensionsboard.ie), features a very good calculator which shows the benefits which a person transferring SSIA funds to pensions can expect on retirement. It also shows the benefits which can accrue at retirement from continuing the savings habit started through the SSIA system.

Overall, there are many incentives to help people start or improve pensions.

Let's not forget that the taxpayer is each year funding tax relief on private pensions to the tune of some €2.7 billion.

At the end of the day the reality is that we need long term solutions to our pension problem. Over the past two years, along with many other people, I have dedicated a considerable amount of time to probing the best ways to respond to the pensions challenge. The Government's Green Paper will further advance that search for real solutions to a real challenge and bring us closer to putting in place proposals which will pass the tests of personal responsibility, fairness, affordability, simplicity and sustainability.

**Ends**