ADDRESS BY

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TO THE

IRISH INSURANCE FEDERATION

PENSIONS CONFERENCE

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CONRAD HOTEL, DUBLIN

NB: Check Against Delivery

Like most countries in the developed world, Ireland is facing an increasingly serious pensions challenge. By now we all know the extent of that challenge and I know earlier presentations have spelled out the statistics for you in very stark terms.

However, let me condense all that into a few headline figures:

- Right now, some 900,000 people - almost half the country's workforce of 2 million - do not have any personal pensions.
- We now have over 4 people at work for every person over 65 - one of the best ratios in Europe.
- In 20 years time that will have dropped closer to 2 people for every pensioner
- In 50 years we are heading for a 1 to 1 situation.
- Outside of the public sector, only some 43% of private sector workers have personal pensions.
- The number of people aged over 65 will more than treble to 1.5 million over the next few decades.

And let's not forget that of all of this is set against the backdrop of increased life expectancy - men retiring today can expect to live on average a further 16 years, 23 years in the case of women. However, it must be said that in some ways we in Ireland are lucky. The demographics are for now in our favour. We have a pensions challenge and not, as yet, an impending crisis. We do not have the pensions time bomb that right now many other countries are confronted with.

As I have said many times, the pensions challenge Ireland faces is inter-generational and one that goes beyond the confines of day-to-day politics. It is not just for this Government to solve. It is a challenge that all of society must face up to. It is about what kind of country we want in the future. It is about

what kind of society we want to live in. And it is about what quality of life we want for ourselves and the generations that follow.
And while we work towards solutions, it is important that we ensure that the current pensions system is healthy and well led and regulated. There are difficulties that must be looked at on a number of fronts:

- The shift away from Defined Benefit towards Defined Contributions.
- The effect of the Funding Standard and the impact of new accounting standards.

These issues are under close scrutiny and I intend to monitor developments closely over the coming months.

I know, for example, there is growing anxiety over the speed at which many companies are moving to close off access to defined benefit schemes for new employees and switching instead to defined contribution schemes. There can be little doubt but that one of the most difficult and urgent challenges facing many companies is how to retain Defined Benefits, and to continue to give employees the benefits of such a scheme, at a time when there is a clear trend towards Defined Contributions. The Government have already urged companies to seek to meet that challenge and today I would like to reiterate the need for a measured approach.

When it comes to seeking long-term solutions to the pensions issue, it is important at the start to remind ourselves that the State, through the tax-payer, already makes a huge investment in pensions provision and security every year. We are spending some EUR2.8 billion each year on our main social welfare pension schemes. Over the past decade the State Pensions have increased by over 100%, or nearly 50% in real terms. We are just weeks away from delivering this Government's commitment to a State Pension of at least EUR200 per week in 2007. So, in less than a decade, the State pension has doubled. And let us remember that on top of that EUR2.8 billion investment each year in State pensions for well over 300,000 people, tax relief each year on pension contributions and investment returns is of the order of a further EUR2.5 billion.

Yet, despite the best efforts of all involved in promoting greater awareness and take-up of pensions, the overall coverage rate remains disappointing. Your own research on the “Savings Gap” published today confirms this. It appears to confirm that current pensions coverage is keeping pace with the growth in the size of the workforce. The downside is that we have made little progress towards expanding overall coverage targets. Your research finding that the shortfall in annual savings against the amount needed to provide a reasonable retirement income is of the order of EUR7 billion a year is certainly a timely reminder of the scale of the pensions challenge we face. Put simply, the reality is that a great many people have just not grasped what the State will deliver in terms of retirement income.

In this country, the State Pension amounts to about 33% of Gross Average Industrial Earnings. A pension of this size will meet basis day-to-day needs and allow for some comfort in retirement. But lets all be honest and realistic. It will not maintain the lifestyles, dignity and security all those retiring aspire to, and rightly feel they have earned through a lifetime of work. So unless we now confront the pensions issue, more and more of our workers will be retiring on incomes that will fall well short of a decent pension in their later years.

I think all of you here this morning would agree when I say that, thanks to all of our efforts, pensions are now firmly established on the national agenda. A clear example of this is that pensions were at the very heart of negotiations on the new Partnership Agreement, *Towards 2016.* Of course there are differing views on how we should achieve our objectives in the pensions area. Indeed, the agenda for your conference today, and the contributions to the National Pensions Forum last May, reflect the diversity of options and choices available. These include Defined Benefit or Defined Contribution schemes, hybrid schemes based on elements of both, mandatory or voluntary provision, personal pensions and an enhanced state provision.

There is now a clear momentum to the pensions issue. I can assure you today that I am determined to maintain that level of momentum. We have pushed the pensions issue a good way up the hill. If we let it slide back again then it may well be years, even decades, before we again reach the stage we are now at.

In less than a year we have had two major reports on future pensions policy, a National Pensions Forum, several Cabinet discussions, Oireachtas debates, greatly increased funding for an extensive Pensions Awareness Campaign, new incentives for SSIA savers, and many thought provoking conferences like we have here today. As I said, in a relatively short time we have travelled some distance along the road towards finding ways forward and possible solutions to the pensions challenge. But there is still a long and challenging road ahead.

As part of the Partnership Agreement, the Government committed itself to publishing a Green Paper on pensions outlining the major policy choices, the challenges in this area and the views of all involved. At all times along the way we must remember that our pensions system will only be able to serve our pensioners, both current and future, if it is financially, economically and socially sustainable in the medium to long term. I am determined that the Green Paper will consider all aspects of the system and all of the options and proposals. A group of senior Government officials has already begun work on the Green Paper and it is my intention to produce it by next March.

I want to stress here today that the Green Paper is not a finger lengthening exercise. And it is certainly not the beginning of a process. In many ways it is more the beginning of the end of a process of examination, consideration and national debate. In essence, the Green Paper is about drawing together all the strands that have already been produced, including the two reports from the Pensions Board, the inputs from the National Pensions Forum, the views from the Partnership talks, and opinions and views from conferences such as this one.

The Green Paper will formalise in a comprehensive policy document the progress that has been made and, more important, set out all of the options that need to be considered as we move towards making hard decisions on future pensions policy. It will look closely at the proposals from the Pensions Board, both for improved SSIA type contribution incentives from the State instead of existing tax relief arrangements, and for a mandatory or quasi-mandatory system targeted at lower to middle income earners built around contributions of 15% shared between employers, employees and the Exchequer.

I am very interested in taking on board international experiences. For example, our system and that of the UK are different but not that different. The pensions challenges we both face have much in common. That is why I believe that the UK proposals for a Savings Scheme, in which employees would be automatically enrolled into a pension when they start a new job but also be given an opt out clause, should be given very careful consideration in the preparation of our Green Paper. We should also look at the progress of the pensions experience in Australia, where a mandatory savings system was introduced, and New Zealand where the Kiwi Saver plan is about to be introduced. I was interested to read a few weeks ago a Financial Times assessment of the Australian scheme which concluded that the Australians now have a retirement savings system that is quickly becoming the envy of most developed countries. We can also learn lessons from the Kiwi Saver, which is a retirement savings scheme that never once uses the word "pensions" in its promotional literature and advertising.

When it comes to the possible mandatory pensions route, I know several people have spoken out and advised me that such a system is not the way to go. Mind you, I find that the people strongly opposed to mandatory pensions generally have more than adequate retirement pensions themselves. From my point of view, I am determined that everyone should have a decent pension and security and dignity in retirement. That is why I believe we should debate, investigate and consider all options, including mandatory or quasi mandatory. At the end of the day we have a responsibility to find some way of ensuring that those 900,000 out there without pensions will have decent incomes in retirement and well-earned security in old age.

On the road to making decisions on whether or not mandatory is the best route to take; we should also look at the idea of taping into the success of the SSIA scheme and build on the savings habit that has been created. There can be no doubt but that a pensions or retirement savings scheme that offers a matching contribution rather than tax relief, has a lot of merit. Also, its attraction could be increased if a system was devised that allowed limited access to funds along the way.

In conclusion, let me say that in Government, and through the Pensions Board, the pensions industry itself, the social partners and Federations like your own, we are identifying the challenges ahead. We are responding by seeking solutions that will, at the very least, lay the stepping-stones towards a lasting pensions solution. Together we have to achieve a solution. A solution that this country can afford. A solution that is financially, economically and socially sustainable in the medium to long term. A solution that in time will allow all of our people to have a decent pension in their later years.

A solution that means all of our people can live out their lives with the security, the dignity and the respect that they have earned and that they so richly deserve.

ENDS