



Launch of the Government Green Paper on Pensions

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Speech by the Minister for Social and Family Affairs, Martin Cullen TD

Check against delivery.

I am delighted to be here today on this important occasion in the history of pensions in Ireland. The launch of this Green Paper marks the culmination of an intensive review of our pension system, but more importantly, the start of a major consultation process to decide how we, as a Government, and as a society, plan and secure the future of those currently in retirement and those of younger generations.

Pensions has been an important issue on the Government agenda for a number of years and we are proud of our achievements for older people. Over the last 10 years there have been a number of major initiatives, following the three-pronged policy approach we have pursued since 1998:

- We introduced the National Pensions Reserve Fund in 2001 to pre-fund part of future pension liabilities through the National Pensions Reserve Fund. At the end of June, the Fund is just over €21 billion and is continuing to grow;
- We have increased social welfare pensions significantly, by 56% since 2001 - higher than both earnings and prices - the rate is now in excess of 34% of Gross Average Industrial Earnings; and



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- We have promoted an increase in the number of people contributing to a private or occupational pension – more than one million people now have a personal or occupational pension.

Despite these major improvements, we have concerns for the long-term future of our pension system. Given our experience over the last 10 years, it is entirely appropriate that we should now review our overall approach so that we have in place a pension system which is sustainable in the long-term and which will deliver an adequate retirement income to all retired people. While the focus in this area is often on the future, we must not forget that we also have a duty to ensure that today's older retired people also have an adequate income in their retirement.

Let us be in no doubt that we face difficult challenges ahead. People's working lives are now shorter and we are living longer in retirement. At present men aged 65 can expect to live another 16 years and women 19 years, in round figures. By 2036 this will have increased to 21 and 24 years, and to 22 and 26 years by 2061. That translates into an increase of up to 40% over the period and this will be reflected in pension costs, as the longer a pension is paid the more expensive it becomes. Longer life expectancy is something to be welcomed and celebrated, as the Tánaiste has said, but it does pose challenges for us in terms of the sustainability of our pensions system.

While we have one of the youngest populations in the EU with about 11% over 65 years of age, this will change in the decades ahead when those aged 65 and over will more than double to 28% of the population. In contrast, the share of the working age population is projected to gradually decline from 62% to 51%. As the Tánaiste has pointed out, and I think that it should be repeated, this will see us in the decades ahead moving from the current situation of having almost six



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people of working age to every person of pension age to one where we have fewer than two. Long before we reach that level, however, we will face the same challenges in relation to pensions and other age related costs as many of our EU neighbours are facing at present. However, as a country we are fortunate that we have time before these changes will impact and we must use that window of opportunity to get things right.

We know that progress has been slow in ensuring that those in employment have an occupational or private pension. The National Pensions Review target is to ensure that 70% of those aged over 30 in employment have such a pension, but we are still at 62%. Also there are concerns that the contributions being made by individuals into their pension schemes may be too low.

Women continue to have a lower coverage rate than men, although the gap is narrowing, and certain sectors of the economy such as hotels and restaurants, agriculture and retail continue to be extremely difficult to reach. Despite the progress we are making, there are still upwards of one million people who will rely exclusively on social welfare provision for their retirement income unless action is taken.

The Green Paper addresses all of these challenges and puts forward a number of options for tackling them. Its preparation follows a period of increased activity in the development of pensions policy, and we have had the benefit of two major reports by the Pensions Board. The Green Paper takes account of these reports, but it examines the situation in a much broader way to deal with other issues, such as the operation of the funding standard for defined benefit schemes, together with a comprehensive look at issues in relation to social welfare pensions.



Another important input was the *Actuarial Review of the Social Insurance Fund*. I am pleased to also launch today this recently completed Review, which sets out the position of the Fund at end 2005 and updates the previous Review undertaken five years ago – particularly in relation to the impact of recent policy and demographic changes. This is a valuable piece of work which will contribute to the ongoing development of social insurance policy in Ireland. I would like to take this opportunity to thank Mercer Human Resource Consulting and Jim Power who conducted the review on our behalf. The review complements the Green Paper by providing another important reference point from which the emerging challenges to Ireland’s social security and pensions system can be assessed.

The level of awareness in relation to pensions issues is now extremely high and, as the Taoiseach, has pointed out, the Government was pleased at the focus on pensions in the partnership talks on *Towards 2016* and was happy to commit to the publication of this Green Paper. We have a golden opportunity to have a very serious debate on the pensions system and its future structure to ensure that we meet the needs of those currently in retirement and also future generations.

The Green Paper sets out the key issues and challenges. Major topics include;

- The demographic challenge which I referred to earlier;
- Issues in relation to the sustainability of the pensions system as mentioned by my colleague Minister Cowen;
- Pensioner incomes and the contribution various elements of the pension system, including the social welfare system, can make to the adequacy of this income;
- Work flexibility in older age;
- The roles and relationships of social welfare, private occupational and public service pensions in the future;



- The role of tax incentives in the current system and their efficiency and effectiveness in supporting Government objectives in the area;
- The role of annuities and the operation of that market. In this regard I welcome the report on the Annuities Market as mentioned by the Taoiseach;
- And finally, the role of regulation including the charges levied by pension providers forms an important element.

We have choices, as set out in the Green Paper, on how we can address the many issues arising. In an EU context the pension challenge is being approached using a number of basic principles including - supporting longer working lives and active ageing; by balancing contributions and benefits in an appropriate and socially fair manner; and by promoting the affordability and the security of funded and private schemes.

In an Irish context some or all of these same principles can be applied. However, it would not be appropriate for me, or the Government, to champion any particular approach at this stage as this would focus the debate in one direction and diminish the consultation process which is being undertaken. Therefore, I would stress 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 that have been suggested. However, we must be clear that good pension provision costs, whether it is done through personal contributions to private pension schemes or through the State by way of PRSI contributions or taxes.

Today, I am initiating a major consultation process aimed at building consensus following the publication of this Green Paper. This process will culminate in the



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Government publishing a framework for long-term pensions policy towards the end of next year.

I am well aware of the very diverse views which are out there in relation to how the pensions system should develop, and there is no doubt that building a consensus on any approach will not be easy. However, in the interests of those who are already retired, and of future generations of older people, it is a challenge the Government is determined to face and overcome.

Pensions is one of the major issues the country must tackle for the future and any decisions we take at this stage will impact on society for decades to come. 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. Therefore, I intend to leave it open until mid-2008.

It is important that we receive the views of not only representative organisations but also those of the general public, and I hope that as many people as possible will take the time to contribute. We will accept submissions by way of email, letter or fax. Copies of the Green Paper will be available from my Department or via the dedicated website; pensionsgreenpaper.ie and submissions can also be made via that route. The website also includes copies of related documents such as the *Actuarial Review* and the *Study on the Annuity Market* which are also being launched here today.

Before concluding, I must extend my thanks to the many individuals who helped in the preparation of this document. These include the social partners, particularly those involved in the Partnership Pensions Review Group, the officials in the Departments of the Taoiseach, Finance, and Enterprise, Trade and Employment. I



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would like to say a special thank you to the officials in my own Department and the Pensions Board for their commitment and work to date, and I look forward to working with them in this area over the coming year.

Next year will be an important milestone for pensions policy in Ireland. We need as a 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 encourage all of you to play your part and make your contribution. I hope that by this time next year we will have a clear vision, which will command broad acceptance, on how our pensions system should be developed for the future.

Thank you all very much.

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