

## Ministers Speeches



## Seanad Eireann

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Address by

***Mr Seamus Brennan T.D.***

***Minister for Social and Family Affairs***

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## Ministers Speeches



### ***Introduction***

Pensions are an international issue and most countries in the developed world face the same challenges in the future - how to provide pensions that are both adequate and sustainable in a context where our populations are ageing fast. The combined effect of large numbers reaching retirement age and rising life expectancy will be a doubling of the old age dependency ratio. In 2000 the over 65s were equivalent to about one quarter of the working age population in the EU; by 2050 it is projected to be nearly 50%.

The situation in Ireland is somewhat unique. At about 11% we currently have the lowest proportion of older people in our population in the EU and things will remain relatively stable for the next 10 years or so. After that the old age dependency ratio will start to increase rapidly. In the circumstances, we face the same challenges as other countries; the only difference is that these appear later which means that we have more time to prepare for the demographic changes to come.

One of the miracles of the modern age has been the rapid improvement in life expectancy. Thankfully, we are all living longer, healthier and more active lives.

The number of older people in our society will increase in the years ahead and this is something which should be welcomed and celebrated and not in any way considered a burden.

The challenge we face is to provide a pensions system that will provide adequate resources for people to enjoy the type of retirement they would wish for, and which they have earned through a life-time of work. It is also important to ensure that the system is affordable in the future so that we do not place unsustainable costs on future generations and put the benefits we want for all older people, and for ourselves, in due course, at risk.

## Ministers Speeches



In addition, it is important to ensure that our pensions system is modern in its design; that ideally it does not create disincentives to work and that it complements the operation of a smooth labour market.

The pensions system in Ireland comprises two components, namely, a social welfare and a supplementary pension, both of which I will discuss.

### ***Social Welfare Pensions and other payments.***

Social welfare pensions play a very important part in the overall income of our older people. For many people, old age pensions and other social welfare benefits represent their only source of income. In the circumstances, it is important that our payments are set a level that will ensure that our older people do not live in poverty.

Social welfare provision for older people has been a priority for this Government since it first took office in 1997. The Action Programme for the Millennium set a target old age pension rate of €126.97 to be achieved by 2002. In the review of this Programme the Government extended it to other social welfare pensions and, in most cases, the target was achieved ahead of schedule. New targets were then set which will see pensions increase to at least €200 per week by 2007, and significant progress has already been made in this regard.

Since 1997 pensions have increased by 69%, some 43% above the rise in the cost of living over the same period, and I would hope to be able to continue this progress in the forthcoming budget. Ultimately, the aim is to reach a position where the old age (contributory) pension is set at a rate equivalent to 34% of the average industrial wage in line with the commitment in Sustaining Progress, at present it stands at about 31%.

## Ministers Speeches



At the same time as increasing rates of payment, the Government has also sought to ensure that as many as possible can qualify for contributory pensions and thereby reduce our reliance on means tested benefits. Already there is a decline in the importance of the old age (non-contributory) pension with a reduction of 20% over the last ten years in the numbers relying on this means tested payment.

This reflects improved social insurance coverage and increased labour force participation, particularly amongst women. In relation to the former there were a series of extensions to social insurance from the early 1970s through to the 1990s with part-time workers, self employed and public servants being some of the major groups brought into the system.

We have an almost comprehensive social insurance system and this improved coverage is manifesting itself in the increasing numbers now qualifying for contributory payments.

Today about 69% of our old age and retirement pensions are contributory based and it is expected that in 10 years time this will have increased to 85% of the pensions in payment, and I welcome this development.

As well as improving social insurance cover, the Government has also made changes in qualifying conditions to make contributory payments available to more people. The average number of contributions required for a minimum pension was reduced from 20 to 10 and special pensions introduced for those with pre-1953 insurance and for some self employed people. A range of pro-rata pensions is also available to allow those with insurance at different rates or from other countries to receive a payment. At this stage, I consider that the range of pro-rata and special pensions available is adequate to deal with most situations having regard to the need to ensure that the contributory principle underlying entitlement to social welfare contributory schemes, which requires a certain level and type of social insurance, is maintained.

## **Ministers Speeches**



I am aware of further demands to deal with other situations which some people perceive as anomalies. However, in considering any further enhancements or improvements I must be conscious of the need to ensure adherence to the contributory social insurance principle to which I have already referred. In this regard, my Department is at present reviewing the qualifying conditions for old age (contributory) and retirement pensions and I would hope to publish a report in this regard early in the New Year.

### ***Free Schemes***

As well as providing pensions the Government also invests heavily in the non-cash benefits paid through the Household Benefits package which provide telephone rental, free electricity and TV licence. Free travel is also available to all those aged over 66.

These benefits are very highly valued by those who receive them and the Government has also taken measures to ensure that they are available to as many people as possible. All those over 70 years of age are now eligible for the benefits, regardless of their income or household composition. The qualifying conditions have also been eased to allow those without qualifying social welfare payments to receive these highly valued benefits, which are equivalent to about €16.50 per week.

As I already indicated, the support we provide through the social welfare system is an important part of the overall income of older people and complements other services provided by other government agencies. We will continue to seek appropriate opportunities to improve on the support we provide so that older people can enjoy a good level of support generally in older age.

### ***Supplementary Pensions***

Occupational and private pension provision is an important element in the overall pensions system. As you probably all know at this stage, an increase in the number

## Ministers Speeches



of people participating in occupational pension schemes, or providing for their retirement through personal arrangements such as Personal Retirement Savings Accounts is a priority issue for Government.

This extended coverage is important for ensuring the effectiveness of the income replacement function of our pensions system. As I have already outlined, the social welfare system will provide a good basic payment but if people want to enjoy the retirement they would hope for they must make extra provision by joining employer sponsored schemes or by making their own provision through a private scheme, both of which are highly tax advantaged.

The Pensions Board in its report on the National Pensions Policy Initiative estimated that up to 70% of people over age 30 need such cover, and I am aware that this is an ambitious target we are aiming to achieve. Recent figures released by the CSO suggest that the coverage rate for this important target group stands at just over 59%. So there is plenty of room for improvement.

The introduction of Personal Retirement Savings Accounts last year is an important element of this policy and the results to date have been reasonable with just over 37,000 accounts opened with a total asset value €106.6 million at September. We have also seen an increase of 2% in numbers covered by occupational schemes in 2003, which now stands at 724,000. Progress is being made but we will need to see a more substantial increase in coverage over the next two years if our strategy is to be considered a success.

For our part we will continue to provide resources for the very successful National Pensions Awareness Campaign being run by the Pensions Board on behalf of my Department. This is designed to highlight pensions issues and to encourage people to consider joining occupational and private schemes. I would also urge employers, trade unions and representative organisations to play their part in selling the pensions message to their employees and members. It is in everyone's interest to ensure that people have an adequate income when they retire.

## Ministers Speeches



As I stated earlier, Ireland has more time than many other countries to prepare for the demographic changes that are coming. But we can not become complacent. The facts speak for themselves.

Currently Ireland has the lowest proportion of older people in the EU-just over 11% aged 65 or over against a European average of 16%.

This proportion will remain at roughly the same level for the next 10 years after which it is projected to increase steeply to 15% in 2021, 19% in 2031 and 28% in 2056. At present there are 5 persons in the active age groups-those aged 20 to 64-for every pensioner. This ratio is projected to decline steeply over the period to 2056 when there will be just 2 active people for every pensioner.

These statistics, coupled with the current inadequate level of private pension coverage, are the early warning signals that Ireland faces major challenges in the area of pensions. We are working extremely hard to address this problem through initiatives to increase pension coverage by the voluntary route. Our overall strategy in this area will be reviewed in 2006. However, even before 2006, if we find that the voluntary approach has not delivered the increase in coverage we require, then other measures will have to be considered in our drive for an adequate sustainable pension for all.

There are a variety of pension models, and indeed, other EU countries are currently examining them at present. That said, in my view, no one pensions hat fits all. We need to ensure that our systems suit Ireland and, ideally, that we can build on our current approach.

As I said at the outset, we are in a relatively stable situation at present which leaves us some room for manoeuvre to get our pensions system right. However, that window of opportunity will not remain open forever.

## Ministers Speeches



### ***Funding Standard***

There is no doubt that occupational pension schemes went through a very difficult period from about 2000 to 2003 when many sustained very significant losses. Thankfully the position has improved somewhat over the last 12 months but there is still some way to go before schemes get back to the position they were in prior to recent difficulties.

The funding position of defined benefit schemes is monitored closely by the Pensions Board through the Funding Standard which, basically, requires pension funds to assess their ability to meet accrued liabilities in the event of an actual wind-up. There are strong views that the standard is too onerous and is contributing to the difficulties in which many schemes find themselves. On foot of this, some flexibility was introduced in the Standard pending a full review of the system and this succeeded in easing the pressure on schemes.

The Pensions Board is, following a wide consultation exercise, finalising a review of the Funding Standard and I expect to receive their report in the near future. I will consider this carefully and will bring forward changes, if, having considered the report I feel it is appropriate. In considering the funding standard it is, of course, necessary to strike a reasonable balance between the interests of scheme members, pensioners and the sponsoring employers.

Clearly, the burden of regulation must be such that it does not discourage employers from playing an active role in ensuring good pension provision for their employees.

I am aware, however, that there is a dilemma in that pension provision is, by definition, a long term investment while, on the other hand, a wind-up standard implies some requirement for a more short-term investment portfolio. In addition, presumably the investment strategy of a pension fund should reflect the trustees' informed judgement following a comprehensive review of the projected assets and liabilities of the fund, which will, of course, differ from scheme to scheme.

## **Ministers Speeches**



These are indeed challenging times for trustees and sponsoring employers and, no doubt, the Pensions Board will address this in their report.

### ***Pensions Reserve Fund***

As I said at the beginning we must be careful in developing our pensions system that we do not place unreasonable demands on future generations. The financial sustainability of pension systems is a necessary precondition for the provision of adequate pensions in the future.

Ireland was one of the first countries to put in place a National Pensions Reserve Fund in 2001, as a way of ensuring that future generations of workers are not overburdened with tax and social insurance contributions when the increased pension costs arising from increased longevity and the retirement of the baby boom generation start to bite. At the end of September the fund stood at €10.8 billion. The Government is committed to maintaining its contribution to the fund at 1% of GNP each year.

### ***Employment Participation of Older People***

When considering questions relating to financial sustainability of pensions much of the focus is on questions of cost and funding arrangements. However, an equally important factor to be considered is the ratio of the active population to inactive persons, the so called economic dependency ratio.

In an Irish context there are at present 5 persons in the active age groups for every pensioner and this will decline over the years until we reach a position when there will be just 2 active people for every pensioner. In the circumstances, it is clear that focusing on improving the work force participation of older people, and other groups with a low participation rate at present, can make a significant contribution to the sustainability of our pensions system.

## Ministers Speeches



In terms of workforce participation for older people Ireland has one of the higher levels in the EU and we are very close to achieving EU targets in this regard.

In this regard actions have been taken in the context of public service pensions which, for new entrants, have raised the age at which full pension can be paid and eliminated the requirement to retire at 65.

I am aware of suggestions that a general rise in retirement age will be required in the future in order to ensure the adequacy and sustainability of the pensions system. This is not something which is being contemplated, though we need to ensure that people are, as with the new arrangements in the public sector, facilitated if they wish to work beyond what we regard as normal retirement age.

While we need to ensure that there are no financial disincentives to someone continuing in work I think the attitude of employers to the retention of older workers will be an important factor in developments in this area.

### ***Pensions and the EU***

The future of national pensions systems has been the focus of an in-depth analysis at EU level through what is known as the "open method of co-ordination." Under this process agreed objectives in the area of adequacy, financial sustainability and modernisation were set out. The aim is that Member States learn from each other while remaining free to develop their pensions systems in accordance with their own traditions, values and priorities.

As part of this EU process we presented a clear strategy to achieve the common goals in relation to pensions of adequacy, sustainability and modernisation. Our overall strategy for the future in the area of adequacy includes a continuation of our policy of significant increases in State pensions and increasing the number of people with occupational or private pensions. Overall the EU considered that Ireland had

## **Ministers Speeches**



made good progress in ensuring the financial sustainability of our pensions system while at the same time increasing the adequacy of our pensions.

### ***Conclusion***

Provision for older people remains a priority for this Government. Adequate pensions are essential to ensure that people can enjoy a long, active and productive retirement. The Government has a clear strategy in place covering all aspects of pensions to ensure that it can deliver an acceptable income in retirement for existing and future pensioners. We are determined to achieve the ambitious targets we have set for ourselves in this very important area.

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