

Irish Life Conference

“Pension Tension: What does the future hold?”

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SPEECH

BY

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Introductory Remarks

- Good morning everyone.
- Thank you Gerry, for inviting me here to address your conference
- You have a number of very important issues listed in your conference brochure and your agenda for the morning. I know that you have a number of very eminent speakers lined up to talk about these in some detail during the morning.
- Unfortunately, I can't stay for the conference as I have a prior engagement but I will be interested in hearing about your discussions at a later stage.
- I thought I would take the opportunity to outline the Government's position on some of the issues that you are focussing on today.
- The issue of very generous retirement packages for senior public servants and the top brass in the private sector has become an issue of serious political and public concern both at home and abroad in recent months.
- The government cannot countenance a situation where such packages continue to be paid in circumstances where the very countries that are contributing to our bailout pay their own senior people substantially less.

Government Commitment to Pensions

- I want begin by assuring you that the Government does support retirement and pensions planning and that we will continue to do that.
- The conference invitation asks the question whether it continues to be worth saving for retirement. The answer to that question is partly in my hands; but it is also in yours. Your industry has been asked to contribute to the cost of this government's Jobs Initiative through the pensions levy. I am on record as having objected to the levy. But you also have to understand that at a time of economic crisis, everybody must play their part. And I would urge you to look at your own cost base, in particular the charges levied on your own

customers, in order to recoup some of the damage that those customers have suffered as a result of the levy.

- My Department is in the process of conducting a study of comparative pension charges between Ireland and other countries with similar pension systems. I hope this study will contribute to a more informed debate on the sensitive subject of pension charges.
- We want more people to save for their retirement and we want people to save more. In fact, the Government is committed to progressively achieving universal coverage, with a particular focus on lower-paid workers. That is why we are currently working on the development of an auto-enrolment scheme.
- We must also aim to protect the individual pension rights of members who have paid into schemes with an expectation that a reasonable return will be made to support them in their older years.
- Your theme this morning asks what the future holds. Well, it holds a society where people are living longer and that is something to be welcomed. To support this we need a sustainable, fair and adequate pension system and I hope that this is something else the future holds. In order to achieve this, a number of reforms are necessary. So, change, is another thing the future holds when it comes to pensions.

The Pensions Timebomb

- The strategic context in which pension policy is developed and implemented is hugely important, not least because of the long term nature of pensions.
- There is no doubt that the Irish pension system is facing significant challenges at present. There are a number of reasons for this, including our economic and financial difficulties as well as the so-called pensions time bomb.

- We are lucky in Ireland in that we have a younger population profile than many of our European neighbours but even so the population share of those aged 65 and over is expected to more than double between now and 2050, from 11% to about 26%.
- In contrast, the share of the working age population is projected to decline gradually from 68% to 58%. There are currently six people of working age for every person of pension age and this ratio is expected to decrease to less than two to one by mid-century.
- Therefore, the task of financing increasing pension spending will fall to a diminishing share of the population and so we have to look at what we can do to enhance the sustainability of the system.

The Future of State Pensions

- With regard to the State pension specifically, as you all know, a few months ago I introduced legislation to provide for increases in the State pension age. This was one of the commitments in the Memorandum of Understanding with the EU and the IMF.
- As a result, the State pension (transition) will be abolished from 2014 and this will standardise State pension age at 66 for all. Thereafter, state pension age will increase to 67 in 2021 and to 68 in 2028.
- For the future, arrangements are being examined which would enable people to postpone receipt of State pension and receive an actuarially increased pension at a later date.
- In addition, changes are also being considered which would allow people with a shortfall in their PRSI contribution record at pension age to continue to make contributions beyond State pension age, if they continue in employment or self-employment.

- Some of these reforms have knock-on effects for other social welfare payments and we are examining all of those issues at present.
- The State pension is and will continue to be the bedrock of the Irish pension system.

The Future for Private Sector Pensions

- I am well aware that pension provision in the private sector has been under enormous pressure in recent years. Over the past couple of years, a number of measures were introduced to try to ease the pressure on defined benefit pensions in particular.
- However, given the extreme difficulties that most defined benefit schemes have faced in recent years, and indeed that many are still facing, we must recognise that changes to the current system are required if this type of provision is to survive.
- My Department has been giving a lot of attention to the development of a new defined benefit model, with a particular emphasis on enhanced sustainability.
- As you are aware during the summer we concluded a consultation process on this issue. We received a number of submissions, including from Irish Life, and held several meetings. That process gave us plenty more food for thought.
- This is a very complex and important area and we are continuing to consider the various options and how best to proceed.
- I just want to mention the sovereign annuity initiative briefly. This is another area where a lot of work has been done over the past year or so. This work is ongoing but I expect the final details to be concluded shortly.

- Linked to all of this of course, is the minimum funding standard. I know that the Pensions Boards is anxious to announce new dates for the submission of funding proposals. I am also keen to see that happen.

The Pension Fund Levy

- It's fair to say that the introduction of the pension fund levy a few months ago received a pretty negative reaction from many people within the pensions industry and I am very aware of your concerns.
- So, I want to acknowledge, as the Minister for Finance did on announcing the levy, that it does represent a very significant contribution by the pensions industry and the many individual savers who are your clients.
- The Jobs Initiative is a set of measures that represent the first steps of the new Government on the road to improving the economy's international competitiveness and promoting job creation.
- The Government had to find the revenue necessary to fund the measures announced in the Jobs Initiative, which include for example, Job Bridge the new National Internship Scheme which will create 5,000 work experience placements in the private, public and voluntary sectors.
- We chose to fund the Jobs Initiative through the levy because we believe that the alternatives for increases in taxation elsewhere at this time would be more damaging to the economy.
- I want to stress that the imposition of the levy is for a relatively short period, 4 years, and its purpose is to improve the environment in which you are operating by providing the means to encourage job creation in those areas of our economy most likely to deliver that employment quickly.

Pension Tax Relief

- I know there have been a number of different signals in relation to the tax relief on pension contributions over the past year or so. I also know how frustrating that can be, particularly when trying to plan for the future.
- I am very aware too of the concerns that many people have about the potential impact that any changes in this regard might have on pension savings.
- The Memorandum of Understanding with the EU and the IMF mentions beginning to standardise the rate of relief in 2012 resulting in a 20 per cent rate in 2014 and commits the Government to significant savings in this regard.
- In Budget 2011, the previous Government took the first steps by removing PRSI and health levy relief from pension contributions.
- As I am sure you all know the Minister for Public Expenditure and Reform is currently undertaking a Comprehensive Review of Expenditure in which all Departments are participating.
- On announcing the pension fund levy, the Minister for Finance did say that the issue of tax relief will be examined in the context of the results of that comprehensive review and any resulting scope for fiscally neutral changes to the EU/IMF agreement. So, we are committed to that examination.
- However, I must stress that significant savings must be found in this area. While there may be some flexibility on the mechanisms we use to achieve those savings there is, unfortunately, absolutely no room for manoeuvre on the level of savings needed.
- In the Programme for Government, we have committed to capping taxpayers' subsidies for all future pension schemes for politicians, and indeed for everybody, that deliver income in retirement of more than €60,000. This reform will have an impact on high earners whether in the public or the private sector.

Public Sector Pensions

- The reform of public sector pensions is a key element of the wider public sector reform agenda.
- Minister Howlin and his Department have been working on the development of a new single pension scheme for new entrants to the public sector.
- The introduction of the single scheme will provide a more straightforward and efficient structure for the management of public service pensions. As a result, in time, all civil and public servants will have the same basic pension scheme, with whatever appropriate accommodation might be required in particular areas, such as the Defence Forces.
- In the new scheme, pensions will be based on “career average” earnings rather than final salary. A specific pension accrual rate will be applied to pensionable pay so that each year public servants will earn or accrue a certain amount of pension which will be payable on retirement.
- This will be linked to the CPI as will increases in pensions for those who have retired. Up to now pension increases have been linked to the pay increases in the last job held by the pensioner before retirement.
- The use of a career average rather than a final salary to calculate pensions means a fairer, more equitable system overall and will be progressive in character compared with current arrangements.
- There will also be a maximum retirement age of 70 and a new minimum public service pension age of 66 years which will be linked to the state pension age.
- The introduction of this new scheme, will provide a major opportunity for improvements in the management of public sector pensions, particularly in the development of shared services, which the Government is determined to pursue.

- I expect that the legislation needed to introduce these reforms will be introduced shortly.
- With regard to the pensions paid to politicians we want to ensure that no political pensions will be paid to sitting TDs. So, our Programme for Government includes a commitment to restrict the payment of pensions to politicians so that in future a member can only qualify for a pension at State pension age upon leaving public life.
- As I mentioned a few moments ago the cap on tax subsidies which we intend to introduce will also apply to high earners in the public sector.

Specialist Pension Advice

- We all know that pensions are a very complex business at the best of times. The economic and financial crisis has made things even more difficult in the pensions arena.
- The legislative requirements are changing constantly as a result of our own domestic requirements, and because of developments at EU level.
- This complexity and change represents an ongoing challenge for the Government, those working in the pensions industry and not least, scheme members and sponsors.
- So, of course advisors such as yourselves have a very important role to play.
- In that regard it is extremely important that all pension practitioners are equipped with the technical, evaluation and communication skills needed to serve employers and employees in their understanding of pension schemes. So that, ultimately, people can be better prepared for their retirement financially and Ireland can be better prepared for the opportunities on our doorstep.

- Actually, just last week I launched a strategic partnership between the National College of Ireland and the Irish Institute of Pensions Management and a new Diploma in Pensions Management and Policy which they have developed jointly.
- I think these types of programmes are very beneficial in terms of enhancing the skills and professionalism of those working in the pensions sector and that they ultimately benefits your clients.

Concluding Remarks

- Thank you again for inviting me here this morning.
- I wish you all the best with your conference. You certainly have a very full agenda.
- I am sure that all the speakers will be very interesting and that there will be a very lively debate during the panel discussion. As I said at the beginning I look forward to hearing the outcomes of your deliberations.

ENDS