



**Irish Association of Pension Funds**

**Annual Dinner**

**Burlington Hotel, Dublin**

**23rd February 2006**

**Speech by Séamus Brennan T.D,**

**Minister for Social Affairs**

***PENSIONS BOARD ASKED TO EXAMINE OPTIONS FOR MANDATORY  
PENSIONS***

***MINISTER SAYS ADDITIONAL POWERS OF INVESTIGATION FOR  
PENSIONS OMBUDSMAN***

**Check against delivery**

## Ministers Speeches



### Introduction

I am delighted to be here tonight to address your annual dinner which gives me the opportunity to salute the valued contribution that the members of the IAPF make to the pensions industry in this country.

Your Association can be justly proud of over 30 years representing the interests of pension scheme members, trustees, and employers. The facts speak for themselves.

Right now your members provide-

- retirement security to over 200,000 employees,
- pay pensions to nearly 70,000 people who are already enjoying their retirement,
- and are responsible for €62 billion in savings which represents almost 50% of GNP.

I know that the Association has a strong interest in policy issues and I welcome this.

I think it is clear to all of us that we have reached an important crossroads in the debate about the impact of the demographic and social changes facing Ireland. As a nation we need to understand how the impact of these challenges can be best managed in ways that support security and dignity for everyone in their later years. This is, without doubt, one of the most important social, economic and political challenges facing this country.

While Ireland faces a growing pensions problem we are lucky in that, for now, we are not faced with the impending crisis that many of our European neighbours must confront. But there is no room for complacency.

By now we all know the statistics for Ireland and how stark many of them are. We now have over 4 people at work for every person over 65, which is one of the best ratios in Europe.

In 20 years time that will have dropped closer to 2 people for every pensioner and in 50 years we are heading for a 1 to 1 situation. Right now, almost half the country's

## Ministers Speeches



workforce of 2 million does not have any private pensions. Well over half of these are women. Outside of the public sector, only some 43% of private sector workers have personal pensions.

The cost of our social welfare and State pension system will spiral from just over 4% at present to almost 14% in less than 50 years. In the face of these statistics, maybe we should pause and reassure ourselves that, first and foremost, greater longevity and longer retirement is in fact good news, not bad. Life expectancy for men retiring today in this country at age 65 is a further 16 years, 23 years for women. Fast forward and that life expectancy climbs dramatically, increasing by at least an extra year for every decade.

One fascinating statistic, and I have to thank Ann Maher for this one, is that a baby girl born today in Ireland stands a 50-50 chance of reaching the age of 100. It looks like whoever is President by then will have a full time trying to keep up with making presentations to centenarians.

As with any problem that confronts a country and a Government, the first tendency is always to find somebody to blame. I saw a headline on an article in an international magazine recently on pensions that said – “Blame It On Bismark”. Now, in fairness to Otto von Bismarck, all he did in the 1880’s, soon after becoming the first Chancellor of Germany, was to establish the first structured pension scheme and set the retirement age at 65. Otto may sound like a hero of the old and infirm. But Otto was also very pragmatic. The story goes that when he was asked to set the pension age for government clerks, his response by all accounts was to inquire by what age most of them were dead. “65” came the reply, and thus the pension age was set.

*One would like to think that Otto’s intentions when it came to looking after the older generation were well intentioned and honourable. A little doubt creeps in when you find that he argued, and I quote, ‘anybody who has before him the prospect of a pension, be it ever so small, in old age and infirmity is much happier and more contented in his lot, much more tractable and easy to manage’. Its a pity that in the end he could not manage the Germans.*

## Ministers Speeches



For what its worth, we can thank, or at least acknowledge, that a certain David Lloyd George, British Prime Minister, was responsible in 1908 for introducing the old age pension in Ireland. Maybe, like Otto, he thought this might make us in Ireland easier to manage. But, as they say, the rest is history, and Lloyd George had a rude awakening in store just a few years later when he found out that the Irish were not so easy to manage.

Closer to home and in more modern times, one of our own leaders will long be remembered for reminding the Irish public, at a time when his retirement was being speculated on, that leaders in China were known to continue in office well into their 80's. But all that is the past.

Many decades from now, the historians, economists and sociologists of the future will begin to chronicle Ireland at the start of this 21<sup>st</sup> century. There may well be a certain David McWilliams in that group as he then continues working away in semi retirement. They will have to assess how we, standing in the doorway of the 21<sup>st</sup> century, dealt with a booming economy on the one hand and, on the other, the challenge of changing demographics and a looming pensions problem.

That challenge is inter-generational. It is not just for this Government to solve. It is a challenge that all of society must face up to.

This Government is confronting the challenge and responding by seeking solutions that will, at least, lay the stepping stones towards a lasting pensions solution. A solution that in time will allow all of our people to end their later years with a decent pension and to have lives that have security and dignity.

And rather like the individual who can't afford to put off saving for retirement until tomorrow, we as a society, and those of us in Government and in the pensions industry, can not afford to put off working together to lay the foundations for the future retirement security that all of us wish to enjoy. The need to act today to build solutions for tomorrow has never been clearer. And we have made a solid start on the long road towards achieving those solutions.

## Ministers Speeches



When I spoke to you this time last year I had just asked the Pensions Board to commence work on the National Pensions Review. At that time I felt that the progress we were making towards our overall targets in relation to pensions would not be achieved in any kind of reasonable timescale. I must say that I am still disappointed. Coverage figures for supplementary pensions have moved very little and are still hovering around the 52% mark. While 68,000 PRSA accounts had been opened to the end of 2005 the reality is that the growth in sales is slowing. I think it is clear that without further reform we are going nowhere quickly.

In the National Pensions Review, which was published last month, the Pensions Board has produced a very comprehensive report that will be a valuable contribution to the future design and delivery of pension reforms. That report is now out for debate and consideration and I would welcome the views of your Association, and all other interested parties as to the way we should proceed. As the Review makes clear, our choices are limited and, at times, stark. We can reduce benefits, increase taxation, work longer or increase the advance provision we make through the National Pensions Reserve Fund or through personal savings.

The first two options are very unpalatable and not something any Government would consider lightly. The National Pensions Reserve Fund now stands at over €15 billion but this is only part of the solution to the difficulties we face in the years ahead. The State pensions continue to increase significantly.

These pensions are a vitally important contribution to security in retirement but they were never intended to bring people up to their pre-retirement level of income or standard of living. As regards retirement ages, I have spoken a number of times of the need to allow older people to have choices when it comes to retiring or remaining at work.

For example, I am examining closely the Pensions Board proposal to allow people to defer taking social welfare pension at age 65 in favour of having it increased on an actuarial basis at a later date. The new incentives announced recently by the Minister for Finance on SSIA's is a very positive development and will help us to capture some of the savings in these accounts and consolidate them into long-term

## Ministers Speeches



pensions savings. The SSIA system has started a savings habit for many thousands of people and, hopefully, the incentives being offered will see this maintained.

However, we need a long-term solution to our problems. Over the last two years I have continually drawn attention to the challenges we face and pensions are now firmly established on the national agenda and at the Partnership Talks. I can assure that the Government is giving serious consideration to the need for pensions reform and has held a number of Cabinet discussions. Overall, the Government is of the view that this is an issue that is, as I said earlier, inter-generational and one that goes beyond the confines of day to day politics. It is about what kind of country we want in the future, about what kind of society we want to live in and about what quality of life we want for ourselves and the generations that follow.

In the Review a majority of the Pensions Board considered that the existing voluntary system has, with the right incentives, the potential to deliver the increase in supplementary pensions coverage we require. I have no doubt that improved incentives should deliver increased coverage.

However, international experience suggests that no fully voluntary system will deliver the level of pension cover we must aspire to. If we are serious about achieving this goal then we must also be prepared to consider a more radical approach and I am encouraged that this was the view of some Board members.

There is a view that some form of mandatory or quasi mandatory provision is the only way of ensuring that people make adequate provision for their retirement. While we have a tradition of providing retirement income through both the State and private sector and there is, I believe, no reason why we should not further explore the implementation of a mandatory or quasi mandatory system using that structure. I have now asked the Chairman, Tiarnan O Mahony and incoming Pensions Board to look urgently at the option in this area.

At the end of the day if we want a good pensions system it will cost everyone, no matter what the solution and how it is delivered. In the near future I will be convening a national forum to debate the central issues and to hear the views of all

## Ministers Speeches



stakeholders on the way forward. Again, I look forward to hearing your Associations views.

### ***Funding Standard***

The Funding Standard is obviously an issue which is of prime importance to your Association and its members. As you know a full review of the situation was undertaken by the Pensions Board in 2003 and changes were made which provides some breathing space, in terms of restoring full funding, to schemes experiencing difficulties.

In the normal course of events I would be reluctant to reopen such a fundamental issue so soon after a review. However, despite the fact that markets are performing very well, and have done so for the last few years, the situation in relation to the Funding Standard is still very problematic. Taking a broad look at the situation we find that overall, 32% of the 1,258 schemes subject to the Funding Standard failed the standard when they last submitted a certificate.

I share your concerns that the existing system may well force companies to set aside assets within their pension scheme which may not be required in the long-term. However, equally we must be concerned to offer scheme members the maximum amount of security possible for their retirement benefits.

There is considerable discussion and concern about the cost of funding defined benefit arrangements and, in particular, the impact of both the minimum funding requirements under the Pensions Act, and more significantly, I think, accounting standards. Some employers are of the view that they would not now take the risk of having a defined benefit arrangement for staff.

Some professionals tell me that defined benefit arrangements are just not sustainable in the future while others argue that defined contribution arrangements are just as good. I have now asked the Pensions Board, as a matter of priority, to examine again the operation of the Funding Standard to see to what extent we can ease the burden on employers while at the same time offering employees the security they need for their benefits.

## Ministers Speeches



I look forward to the Board's further report which needs to address again the issues of adequate provision, sustainability and risk taking. It strikes me that if employers are risk averse in the defined benefit area, what safeguards are in place to protect the individuals who take the risk in defined contribution arrangements. Perhaps we need to look at a combination of both types of provision and not see it as one or the other.

### ***Social Welfare Law Reform and Pensions Bill 2006***

The Social Welfare Law Reform and Pensions Bill 2006 which I published on Monday gives legislative effect to a range of significant reforms, including a number of measures to reinforce protection and extend investigative powers in the pensions area.

From a social welfare pensions point of view the most notable features of the Bill include the creation of a single non-contributory pension scheme for those over 66 years of age, significant improvements in the means test, including for the first time a specific earnings disregard of €100 per week for non-contributory pensioners. As part of a welfare modernisation programme, I am also changing the names of schemes and this will remove the term Old Age from the social welfare vocabulary and replace it with the State Pension. The Old Age pension reflected a time when life expectancy barely crept past retirement age, if you were lucky. Today, the vast majority of people reaching 65 or 66 do not consider themselves old and look on the term 'old age' as outdated.

The Bill also features a number of measures designed to enhance the regulatory regime governing supplementary pensions. I am introducing an alternative to prosecutions for breaches of the Pensions Act similar to that set out in the Company Law Enforcement Act. Under the new provision, the Pensions Board may notify a person in writing that it is alleged that an offence has been committed and that if, within 21 days of the notice, the person has remedied the offence to the satisfaction of the Board and paid the appropriate fine, a prosecution will not be instituted.

In his annual report, the Pensions Ombudsman highlighted areas of concern relating to the operation of the Internal Dispute resolution procedure. In particular, he was

## **Ministers Speeches**



concerned at his inability to progress complaints where these procedures were not completed.

The Bill addresses these concerns by providing that the Ombudsman may now bypass the Internal Dispute Resolution procedure and investigate complaints in such cases where there is clearly nothing to be gained from the process.

I am also making provision to allow for regulations to be made requiring a scheme actuary to have his or her work reviewed to ensure that it complies with the provisions of the Pensions Act and any professional guidance issued by the Society of Actuaries in Ireland. I have recently met with representatives of the Society to discuss this issue. The type of matters to be prescribed in the regulations are the appointment of a reviewing actuary, the frequency of reviews, and the timescale for reviews.

### ***Conclusion***

Finally, I would again like to acknowledge the tremendous contribution your Association and your members make in ensuring that many thousands of people enjoy a comfortable and secure retirement. The contribution your representatives make to the work of the Pensions Board is also highly valued.

In this regard, I would like to offer a special word of thanks to Tom Finlay who gave tremendous service to the Pensions Board over the last five years. I have no doubt that the contribution of his replacement, Gerry Ryan, will be equally as effective.

Finally, let me say that these are exciting and challenging times for pensions. All around the world countries are confronted by the same challenge. That is to design and deliver a pension system that is in touch with and responsive to rapid changes in society and the aspirations of its people. I think it is no exaggeration to say that our response to the challenges and opportunities posed by rapid social, economic and demographic change will influence the future shape of our society for decades to come.

**ENDS**