Irish Association of Pension Funds

Annual Conference

Dublin Castle

26th September 2006

Address by Séamus Brennan T.D.,

Minister for Social Affairs

I would like to thank your Chairman, Joe Byrne, for inviting me here this morning to address your Annual Conference.

At the outset, I want to acknowledge and salute the Irish Pensions Industry for the very valuable contribution it has made, and is making, to the Irish economy, as well as helping people to enjoy a secure and comfortable retirement. Your own Association (IAPF) can be justly proud of over 30 years representing the interests of pension scheme members, trustees and employers. Right now the IAPF are involved in pension schemes with some EUR78 billion in assets. To put that figure in context- it is the equivalent of about 58% of our Gross National Product. These assets are managed on behalf 200,000 employees and pays pensions to 70,000 people who are already retired.

Apart from advising and supporting members in relation to the day-to-day operation of pension schemes, the IAPF also has an important role in the area of pensions policy. It has been very effective in raising awareness in relation to pensions and in putting forward the views of its members on the future direction of policy in this very important area. I can assure you this input is highly valued, and very much appreciated by my officials and myself.

The coming year will, I think, be a defining period for pensions policy in Ireland and I would welcome the continued input of the IAPF into the process of developing that policy. While future policy on pensions is our major focus at present, I would like to deal for a moment with some of the difficulties that the current pensions system faces on a number of fronts. In particular, there is the effect of the Funding Standard and also the impact of new accounting standards. While a major review of the Funding Standard took place 3 years ago, and changes were made as a result, I am aware that the IAPF and others are still concerned at the way the Funding Standard operates. I am also aware that some employers have found it necessary to commit very significant additional resources to their schemes to satisfy the requirements of the standard.

Because of the ongoing concerns in relation to the Funding Standard and the continuing pressures on defined benefit provision, I have asked the Pensions Board to have another look at the situation to see if there is anything further which can be done to ease the pressure on schemes. Obviously, in considering what might be possible in relation to the Funding Standard we have to be conscious of the balance that must be drawn between the interests of employers, who fund schemes, and the expectations of employees in relation to the security of their benefits.

I would also be anxious as part of this review to establish the effects in relative terms of new accounting standards and which standard, accounting or funding, is causing most concern – or if it is both. I urge the IAPF to bring forward whatever data it has on this issue as it will help the analysis.

The theme of today's conference is the Pensions Crisis: What future for Irish business and Employees?

Certainly in Ireland we are facing an increasingly serious pensions challenge.
We are lucky in that, for now, we are not faced with the impending crisis that many of our European neighbours must confront. But, of course, there is no room for complacency on our part. By now we all know the statistics for Ireland and how stark some of them are:

- 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.
- Right now, almost half the country's workforce of 2 million does not have any personal pensions.
- Well over half of these are women who are particularly vulnerable.
- 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.
- The cost of our social welfare and State pension system will spiral from just over 4% of GNP at present to almost 14% in less than 50 years.

All of this is against the backdrop of increased life expectancy - men retiring today at age 65 can expect to live on average a further 16 years, 23 years longer in the case of women. Let's be honest, none of us are getting any younger so these advances in longevity are good news. But, of course, from the point of view of pensions and retirement incomes, a population living longer throws up new challenges that did not exist a decade or two ago.

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.

In seeking long-term solutions to the pensions issue, it is important to remind ourselves that the State, through the tax-payer already makes a huge investment in pensions every year. In 2005 spending on our main social welfare pension schemes amounted to some EUR2.8 billion. On top of that, tax relief on pension contributions and investment returns was of the order of EUR2.5 billion. With expenditure of that order being invested in the pensions system it is incumbent on the Government to ensure that it is receiving good value for the investment.

The success of our overall strategy can be measured in a number of ways.
Firstly, our system must be affordable and sustainable for the future.
We are all aware of the demographic pressures the country faces in the years ahead. With that in mind we cannot allow a situation to develop where future generations of workers are faced with an unsustainable tax burden to support this generation in retirement. That can only be achieved if today's generation are prepared to put

something aside for its future retirement. As a society we are doing this through the National Pensions Reserve Fund. However, that is only part of the answer and will only deal with a proportion of the extra costs we face.

A second measure of success will be the extent to which we can encourage or ensure that all workers are entitled to a supplementary pension and will not be totally reliant on the social welfare pension.

Just to repeat, in that context, that some 900,000 people who are at present in employment are currently making no provision for a pension in the future.

Finally, we will measure success by the level of income available to older people in retirement. There is no doubt that, based on the supplementary coverage levels achieved to date, future pensioners will be better off than the current generation. It is estimated that only about 35% of existing pensioners have a supplementary pension. While about 52% of the current workforce is participating in a scheme, that it not enough, and we must make improvements and make them quickly. As is to be expected, much of the focus in the pensions debate is in relation to the future.

However, we must also not forget the current cohort of pensioners. The Government has made great strides in improving social welfare pensions over the last 10 years. For example, since 1996 pensions have increased by almost 104%, or nearly 50% in real terms. We are fully committed to achieving a target rate of EUR200 per week for social welfare pensions by 2007 and I will be aiming to at least reach this target in the forthcoming Budget. While we will continue to make significant improvements in the State pension, it must be said that for most people it is not the full answer to the level of retirement income they aspire to.

I think it is fair to say that, thanks to all of our efforts, pensions are now firmly established on the national agenda, and were at the heart of the recent 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 in 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.

When it comes to the mandatory pensions route, I know several people have spoken out and advised me that a mandatory system is not the answer. Mind you, I generally find that the people strongly opposed to mandatory pensions have more than adequate pensions themselves. I believe we should debate, investigate and consider all options, including 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 give serious consideration to the Pensions Board proposal that we tap into the success of the SSIA scheme and build on the savings habit that has been created. This could mean offering, in the future, by way of a matching contribution rather than tax relief, a pensions package that would be attractive and that could possibly certain access to funds.

I think you will all agree with me that, as regards pensions policy and debate, the last year has been exciting and eventful. The National Pensions Review, which I asked to be brought forward by a year, was published in January. As you know, the report recommended a continuation of the existing voluntary system of pensions provision with improved incentives in the form of SSIA type contributions from the State instead of the existing tax relief arrangements.

The incentives introduced by the Minister for Finance to encourage people to invest some of their SSIA savings in pensions are consistent with the approach recommended by the Pensions Board and I would encourage people to give them very serious consideration as their SSIA nest eggs mature.

I have no doubt that, if implemented, the suggestions made by the Pensions Board could improve matters but international experience suggests that no truly voluntary system can deliver the sort of coverage rates we are aiming for. For that reason I asked the Pensions Board to build on the work it did on mandatory provision in the National Pensions Review and to suggest a model which might be considered. The Board developed a model targeted at low to middle earners which entails mandatory contributions of 15%, shared between employers, employees and the Exchequer, on earnings between EUR15,000 and EUR60,000.

This would be backed up by an improved social welfare pension, which would increase from a current level of 33% of Gross Average Industrial Earnings to 40%. Overall, a timescale of 10 years was suggested for full implementation.

So, in less than a year we have had two major reports on future pensions policy, a National Pensions Forum, Cabinet discussions, Oireachtas debates and greatly increased funding for an extensive National Pensions Awareness Campaign. 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.

There is now a clear momentum to the pensions issue that I am determined to maintain. Our next steps will take us further on and much closer to putting shape and substance to future pensions policy. As part of the Partnership Agreement *Towards 2016*, 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, including the social partners.

The reality is 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.

Therefore, the Green Paper will consider all aspects of the system including, increases in longevity, current retirement ages and innovative measures to encourage, facilitate and offer choices to people to remain part of the workforce for a longer period if that is what they want. A group of senior officials in my Department has already begun work on the Green Paper and it is my intention to produce it inside the coming months. It is important to stress that compiling this Green Paper does not mean starting from scratch.

A lot has already been done. So now it is really a matter of 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 and the views from the Partnership talks, and other views. 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.

In conclusion, let me say that in Government, and through the Pensions Board, the pensions industry itself and the social partners, 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. This is a solution that in time will allow all of our people to have a decent pension in their later years and to have lives that have security and dignity. I think it is no exaggeration to say that how well we all respond to the challenges and opportunities posed by the rapid social, economic and demographic change will influence the future shape of Irish society for many decades to come.

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