



Green Paper on Pensions:

Learning from international experience

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Minister for Social and Family Affairs

Check against delivery

I would like to welcome you all here today to this conference on international pension reform. The objective of the day is to hear about reforms which have taken place in other countries, or are planned, and the lessons that we here in Ireland can learn from the decisions and experiences of others in this area. I would like to offer a special welcome to our international speakers, some of whom have travelled a very long way to be with us today, and to thank them for agreeing to share their experiences of pension reform and the manner in which their countries have approached this issue.

This conference marks the end of the consultation period on the Pensions Green Paper which began last October when the Green Paper was launched. The time allowed for the consultation has been long but given the very complex nature of the issues involved I know that people really appreciated the fact that they had ample time to study the Green Paper and to formulate their ideas and comments.

Orlaigh Quinn, in my own Department, will speak to you later about the consultation process and the sort of issues and concerns that have been raised by

Minister's Speech

29/05/08



people and organisations. However, at this stage, I would just like to say how pleased we are at the response we have received to the request for submissions on the Green Paper and the level of interest in the public seminars which were held in February and March this year. The extent to which the general public engaged in the process has been particularly heartening and I would like to thank all those who took the time to make a submission or who attended one of our seminars. It is my view, and that of the Government, that the consultation process in which we have been engaged in over the past number of months has been well worthwhile and has added greatly to our understanding of the issues and the implications of various approaches. I think the success of the public consultation process proves that when people are asked for their views, they are delighted to get involved. I am also heartened by the number of commentators who strongly welcomed the public discussion and stated that pensions policy in the past may have been decided in a 'closed shop' manner. The submissions and views expressed, including our discussion here today, will be distilled into an overall report and this will be an important resource in helping the Government to decide on the way forward.

Pensions are often talked about in a technical way. We use language that is complicated and definitely not 'plain English'; ARFs, DB, DC, demography, longevity, sustainability etc. I could go on. Sometimes it's no wonder that people say it's boring, don't understand it and as a result don't engage. However, behind all the technicalities and complex language, it's important to remember that pensions are ultimately about our lives, as individuals and as a society. We are talking about our futures, how long will we live, how comfortable will we be in retirement, and what prospects will our children and grandchildren have in the Ireland of the future. The decisions we make today will affect both us and our future generations. Therefore, all of us here today have an interest and a stake in



Department of Social and Family Affairs

that decision-making process. Ultimately, we all want a pension system that is financially, socially and economically sustainable as we face into the future. I know this is a difficult challenge and we must take some difficult decisions if we are to realise this ambition.

When it comes to pensions, Ireland is in a better position than most of our European neighbours as our population is still quite young. However, we should 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. In less than 30 years, by 2036, this will have increased to 21 and 24 years. It will increase further 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 clearly the longer a pension is paid the more expensive it becomes. Longer life expectancy is something to be welcomed and celebrated, but it does pose challenges for us in terms of the affordability of our pensions system. Government spending on public pensions, which includes social welfare and public service occupational pensions, is projected to increase from roughly 6% of GNP at present, to 13% by 2050. The rise is the equivalent of €8 billion in 2007 terms.

While, as I said, we have one of the youngest populations in the EU with only 11% of our population aged over 65, this will change in the decades ahead when older people will more than double to make up 28% of the population. In contrast, the share of the working age population is projected to gradually decline from 62% to 51%.



This will see us in the decades ahead moving from the current situation of having almost six 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.

Much of the debate around pensions focuses on the issue of affordability and sustainability, but in considering this we must not forget that the reason pensions were introduced in the first place was to provide a decent income for people when their working days are over. In the circumstances, our considerations of affordability must be balanced by the needs of older people in retirement.

Also, while a lot of the discussion relates to our future, we must not forget that our existing pensioners have concerns too and these will have to be considered in deciding on the overall policy. Only about a third of our existing pensioners have an occupational or private pension which means that social welfare pensions comprise the bulk of their income. I am also aware that there are issues arising from the impact that societal norms in 1950s and 60s have had on the pension entitlements of retired people today, particularly women. Accordingly, we are dealing with a very wide agenda covering not only the future, but also the present situation and, to some extent the past.

The Green Paper encompasses all the issues relating to pensions in Ireland today. It takes account of earlier reports prepared by the Pensions Board, but it examines the entire pensions system in a much broader way, including a comprehensive look at social welfare pensions, together with other issues raised in the social partnership talks and other fora. It sets out clearly the current situation and the implications, from an economic and social perspective, of various courses of action which have been suggested.



Our objective must be a pensions system which will deliver an adequate retirement income to all our people, which is at the same time affordable in the long term. However, there are clear tensions between these two objectives and this is evident in the Green Paper.

Clearly, whether it is delivered through the State system or through the private sector, a good pension system will involve additional costs for our society now, and into the future. The Government has made some provision for the future through the National Pensions Reserve Fund but this is only part of the answer to the challenges we face. Other adjustments will be needed if we are to meet our objectives.

At the outset of the consultation process the general view was that there were very divergent views out there on how we can achieve our objectives and this has been confirmed in the many submissions we have received. While there is a general acceptance that action is required in relation to our pensions system, there is no clear consensus on the extent of the reform required, or the manner in which any reforms should be delivered.

Accordingly, the Government is faced with difficult decisions but I, and my fellow Ministers, are determined to bring this process to a conclusion by the end of the year by announcing a framework for future policy on all aspects of our pensions system.

The current system of social welfare pensions and tax incentives for occupational and private provision indicates that the Government's role is more than simply the provision of a minimum income, but rather one where we wish to encourage people to make provision for replacing their pre-retirement income.



We would all agree that a pension system should provide an adequate income in retirement. However, there are many views on what constitutes an appropriate adequate income. Some people would consider that a pension should replace a significant amount of their pre-retirement income, others would focus on a relationship with average earnings or household incomes; poverty measures and indicators are also benchmarks which can be considered.

Since the publication of the National Pensions Policy Initiative in 1998, our focus has been on a target of 50% of pre-retirement earnings and the Government Programme includes a commitment to “aim to secure this from all sources including social welfare supports, private and occupational pensions, and savings and investments”.

For the future we have a number of choices and the approach depends to some extent on the extent to which the State intends to be involved in the pensions area. At one end of the scale is an improved social welfare pension designed to provide an acceptable standard of living for most people, while at the other end is a mandatory pension scheme to which everyone would contribute and which would be designed to replace a certain percentage of pre-retirement income.

In between these two extremes there are variations of the existing system, ranging from maintaining the status quo, to soft-mandatory arrangements which still allow people varying degrees of choice in how they address their retirement needs.



As I said earlier, good pension provision is costly and a key consideration for the future will be how that cost is shared. At the moment we have a tripartite approach with employers, workers and the State contributing to the pension system to varying degrees in both the private and social welfare sectors. It is hard to see how this arrangement would not continue into the future, but the key question is how we will share the additional costs of the extra pension provision we want to build into the system.

Different approaches have been taken in different countries and we will get some sense of this diversity in the presentations you will hear later from our international presenters. In some respects this again comes back to points I have already made in relation to the level of the State's involvement in pension provision. Where does the balance lie between the responsibilities of the State, the individual and employer?

Finally, another question is how any reformed pension system will be delivered? In considering any reform my objective must be to maximize the benefits to the individual at retirement by ensuring that any new system we put in place is efficient and cost effective.

At this stage of the process, I have not ruled in, or out, any particular approach to the future of pensions. Once the consultation process has been finalized, my work on the framework for future policy will commence. This will involve decisions on some very fundamental principles on the design and implementation of our pensions system to arrive at an appropriate balance between the State, the individual and the employer. We must also not forget the needs of the wider economy and the impact any changes might have there. Striking the appropriate balance between all the competing interests will, I have no doubt, be a difficult



task, particularly given the fact that there is no apparent consensus emerging from the consultation process.

However, the Government is determined to bring this process to a successful conclusion by the end of the year by publishing a framework for pensions policy which will deliver a pension income for all our people which will allow for the type of retirement we all aspire to.

As you may know, this is the 100th anniversary of the introduction of State pensions to Ireland and the UK in 1908. A postage stamp will be launched in the Autumn to mark this event. However, a much more effective way of commemorating this 100th anniversary is to ensure a good pension system that can meet the needs of those currently in retirement, and those of future generations. I will be working hard over the coming months to deliver on that aim.

Go raibh míle maith agaibh go léir.

SPEECH ENDS