



The Pensions Green Paper

Pensions Forum, 4 December 2007

Philip Shier

Background



- Green Paper published on 17 October 2007, along with review of Social Insurance Fund (Mercer) and Report on Annuity Market (Life Strategies/Indecon).
- All on www.pensionsgreenpaper.ie
- Green Paper has 254 pages, covering 14 chapters and asks 44 questions.
- Consultation period to mid - 2008.
- My initial reaction
 - *The Green Paper covers a great deal of ground, most of which has previously been considered, and poses a number of questions for consultation, and again many of these have already been addressed.*



Society's response

- **Immediate press release (on our website) welcomed the publication and noted**
 - **Recognition of reasons for increases in pension costs**
 - **Funding standard issues already stated**
 - **Our view that increased State pension more efficient than mandatory second pillar provision**
 - **The acceptance of our previous suggestion of increasing retirement age....**

- *“Reacting to a proposal to relax funding rules for defined-benefit occupational schemes, the Society of Actuaries said it believed the existing funding standard helped safeguard the entitlements of pension scheme members.” – Irish Times, 18 October 2007*

- **Asked to provide comment on public service pensions for the Week in Politics 25 November 2007**

Proposed approach



- **Develop Society position on relevant issues**
 - **Pensions Committee, Actuarial Matters Committee, Council**
 - **Evening meetings, Forum**
- **Some of the questions not relevant to Society**
- **Some issues already discussed in detail, e.g. funding standard, and position already established – revisit the communication of this**
- **Submit responses on issues as our position is determined and also use these as PR opportunities**
- **Participate in consultation process as opportunities arise**



Plan for today

- **3 questions selected for brief consideration and discussion at tables**
 - **15 minutes discussion on all 3 topics**
 - **15 minute feedback**
- **Initial flavour of views on these topics – feed into the process of preparing the submissions**
- **Plenty of opportunity to add more comment later**



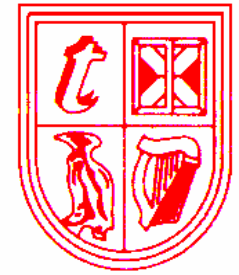
Extension of ARF facility

- **Question 7.3**
- **“Should pension arrangements (e.g. the ARF option) differentiate between individuals or be open to all on the same basis? Where is the proper balance to be struck between the competing calls for equitable treatment of all pensioners, appropriate protection for vulnerable pensioners and the costs involved?”**



Extension of ARF facility – pros and cons

- Arguments in favour
 - Equity, Simplicity, Flexibility
 - Annuities are expensive
 - Capital passes on early death
- Arguments against
 - Tax loss to Exchequer
 - Bombing out – strain on welfare system
 - Increased costs – reviews, advice
 - Damage to annuity market
- No impact on coverage or pension provision



Issues

- Relationship between minimum income of €12,700 and AMRF of €63,500. Currently €12,700 level single life pension for a male at 65 costs about €180,000.
- The limits haven't been increased since 1999 in any event (CPI increase over period about 35%). Income limit will soon be below State pension.
- DB as well as DC? How to capitalise DB pensions? Impaired lives? Discretionary increases? Spouse's pensions? Impact on funding standard?
- Consumer protection concerns?



Protection for pensions scheme members

■ Question 9.6

- **“In some countries, there are arrangements to meet at least part of a shortfall in the event of a scheme shortfall....These arrangements can run into considerable difficulties, with the experience of the PBGC [in the USA], which is currently experiencing large deficits, being a particular case in point. ..Would you be in favour of any of these arrangements...?”**



Protection for pensions scheme members – issues

- Improved protection for members (especially actives/deferreds)
- Only makes sense if there is a requirement on a solvent employer to fund on wind up
- Financing
 - Advance funding by levy on schemes (possibly risk based)?
 - Post event “dig-out” from schemes?
 - General taxation?
- Would inevitably lead to greater regulation of schemes and employers to protect the fund/taxpayer – experience with Pensions Regulator in UK.
- Technical difficulties in operating a protection scheme
- State may need to take action following Robins ECJ judgment

Raising State Retirement Age



■ Question 14.5

- **“In order to contain costs and reflect increased life expectancy, should a change be made to the retirement age for Social Welfare pensions? How should such a change be implemented?”**



Raising State Retirement Age

- Financially driven – but savings may be offset by other welfare payments
- Can argue that it is fair i.e. the current workforce can reasonably be expected to spend the same proportion of their life retired as previous generations
- Counter argument – there is a contract between State and PRSI payer which cannot be unilaterally changed
- Discriminates against low paid manual workers
 - May not physically be able to continue with current work
 - State pension may be their only retirement income
 - Probably have lower life expectancy
- Impact on labour market?



Raising State Retirement Age

■ Options listed

- No change
- Remove barriers to working longer
- Incentivise those who wish to continue working
- Increase retirement age incrementally or for younger people only
- Reduce level of State pension

■ Costings of possible changes set out in review of Social Insurance Fund

- e.g. Increase by 1 year per decade to 70 by 2056
- If no changes to benefits/contributions, this reduces projected deficit in Fund at 2051 from 6.3% to 5.1% of GNP i.e. a 20% saving



Questions

- **“Should pension arrangements (e.g. the ARF option) differentiate between individuals or be open to all on the same basis? Where is the proper balance to be struck between the competing calls for equitable treatment of all pensioners, appropriate protection for vulnerable pensioners and the costs involved?”**
- **“In some countries, there are arrangements to meet at least part of a shortfall in the event of a scheme shortfall....These arrangements can run into considerable difficulties, with the experience of the PBGC [in the USA], which is currently experiencing large deficits, being a particular case in point. ..Would you be in favour of any of these arrangements...?”**
- **“In order to contain costs and reflect increased life expectancy, should a change be made to the retirement age for Social Welfare pensions? How should such a change be implemented?”**



The Pensions Green Paper

Pensions Forum, 4 December 2007

Philip Shier