Pensions Green Paper
SAI Submission

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Discussion on some issues at Pensions Forum in December 2007

Presentations and Discussion at Evening Meeting on 2 April 2008

Prepared by working group – primarily Roz Briggs, Aisling Kennedy, Gerry O'Carroll, Yvonne Lynch

Considered in draft by Council, Actuarial Matters Committee and other Practice Committees

Draft almost finalised

To be submitted on 28 May and also press release/briefing on that day

Outline of key points being made – we would welcome your feedback

Key messages

Focus on adequacy, security and sustainability

Adequacy – if it is considered that the State pension at its current level does not provide adequate retirement income, then it should be increased to the appropriate level (expressed as % of GAIE), rather than requiring the extra to be provided by a DC vehicle with mandatory (or soft mandatory) contributions

Sustainability – given continuing improvements in longevity and the projected increase in State pension costs (even before any increase), the State pension age should be increased

Security – the current defined benefit regulatory regime over-promises and under-provides – we propose a more flexible approach

Increase the State Pension

We are not saying by how much – but we agree with OECD that there should be a long-term policy linked to GAIE rather than short-term political promises

Most efficient way of providing extra pension

DB – no requirement for individuals to bear risk

Pools mortality experience

Would benefit current pensioners and those close to retirement who do not have time to save anything meaningful

Redistributive – would help those who don't have any spare income to save

We recognise there will be extra cost to be met by the general public through the PRSI/tax system – but there would be extra costs to be met whatever approach is adopted

Increase State Pension Age

Reiterate our previously stated (and much derided) position

Extra life expectancy generally healthy

Similar to other EU countries

Enable occupational schemes to do likewise (for accrued benefits) especially if integrated

Reduces State pension costs (or mitigates cost of increase in State pension) but not a panacea

Need to give 15+ years notice

Early payment/deferral options

Wider societal issues – retraining, education etc

Security

Light regulatory environment which encourages DB provision

Does not provide adequate security for members (who generally think their benefits are guaranteed)

We believe "the current system over-promises and under-funds"

Pensioners' guaranteed benefits have priority on wind-up

Heavy investment in equities

Can lead to extreme volatility in active (and deferred) members' coverage

Reliant on employer contributions and equity outperformance (over a relatively long period) to meet benefit promises

Transfer value on wind-up significantly less than the "economic value" of the alternative deferred benefit – transferring risk to the individual

Security (2)

No safety nets as in UK – employer debt, PPF

Suggest a system with "hard floor" for core benefits – reserves on economic value plus a margin. If not met, put right "immediately"

Target funding level for promised benefits with reserving requirement reflecting any investment mismatch to be met over a long period e.g. 15 years

Some of the benefit "promise" to become discretionary e.g. revaluation and only provided if funding available (c.f. Dutch model)

Winding –up : all members get the same % of their entitlements using economic valuation approach

Possibly have some safety nets (may be required following Robins case) although difficult to operate PPF in small market

Other issues

Replace "average contributions" basis for assessing entitlement to State Pension by "total contributions" - fairer and more transparent

DC – education re adequacy: greater simplicity of product/regime

ARFs – extend to all DC with minimum guaranteed income requirement (abolish AMRF)

Tax relief system – support as it is not inequitable when considering effective relief as a % of earnings when account is taken of tax on benefits. "Free money" alternative (SSIA-style matching contributions) may appear more attractive and could be an alternative.

Public sector pensions – should be properly costed and budgeted for