THE SOCIETY OF ACTUARIES IN IRELAND

Press Release
10 May 2011

Pension Fund Levy - serious implications for pension savings

The Government has announced today that "Jobs Initiative 2011" will be partly funded by a special levy on pension savings.

The Society of Actuaries in Ireland acknowledges the economic and fiscal challenges the country faces and the need in particular to get more people back to work. We recognise that everyone, including the pensions sector, needs to contribute their fair share. However, any changes to pension policy can have far-reaching consequences, so must be properly thought through.

The levy has been set at 0.6% of funds and in the four year period over which it will apply will mean that nearly €1.9bn will be extracted from the accumulated pensions savings of private sector employees and pensioners. This can only be made up by reductions in benefits (including possibly pensions in payment) or increased contributions by employers or members at a time when both groups can least afford it.

This will come as a serious blow to employers and employees who have engaged in good faith to resolve the current pensions funding crisis. Defined benefit schemes are grappling with serious funding shortfalls. The majority of these schemes currently do not meet the statutory minimum funding standard and this move is going to be a setback to progress for many of them.

For defined contribution arrangements (which account for approximately €24bn in pension savings), it equates to cutting benefits by 2.4%. It is widely accepted that the average level of funding in defined contribution plans is already insufficient to provide adequate levels of pension in retirement.

The levy penalises people who have acted responsibly by making provision for their retirement and comes on top of various other recent and mooted changes in the tax treatment of pension funds. These changes will have the cumulative effect that people will lose faith in the stability of the system and will lose the confidence to commit to future pensions saving. This runs in the face of official Government policy which for decades has been to encourage people to make provision for their own retirement and not to be depending on the State.

The levy does not meet the fairness test on a number of grounds:

- It applies to everyone who saves for a private pension, regardless of their level of saving;
- It applies only to pensions and not to other forms of savings. As such it is a pensions "wealth tax";
- It does not apply to public sector pensions.

ENDS

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Society of Actuaries in Ireland

The Society of Actuaries in Ireland is the professional body for actuaries practising in Ireland. Actuaries provide advice and relevant solutions for financial, business and societal issues involving uncertain future events. Most of the Society's members work in the financial services industry, and the profession has a statutory role relating to the supervision of pension schemes and insurance companies. The Society seeks to make an impartial contribution to public debate on social policy and public interest matters where an actuarial perspective can add value.

10/05/2011

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