A Secure Pension System for All?

Baseline Position on the National Pensions Framework

older & bolder

INTRODUCTION

In the National Pensions Framework (NPF), the Government has set out the seven principles that will underpin its approach to pension reform. In this paper, Older & Bolder sets out its baseline position on those principles.

Older & Bolder is an alliance of eight NGOs in the age sector : Active Retirement Ireland, Age & Opportunity, Alzheimer Society of Ireland, Carers Association, Irish Hospice Foundation, Irish Senior Citizens Parliament, Older Women's Network and Senior Help Line.

Principle 1

The Government says that proposals for pension reform must be affordable and sustainable.

Older & Bolder says that, as well as being affordable and sustainable, proposals for pension reform must meet criteria of adequacy, security, equity and reciprocity.

Older & Bolder also emphasises that measures of affordability and sustainability are both economic and political, reflecting choices about the kind of society we want to shape for citizens of all ages.

Principle 2

The Government says that the State Pension will continue to be the fundamental element of the pension system.

Older & Bolder welcomes the Government's commitment to the State Pension as the foundation of a reformed pension system.

We share the views of diverse commentators who have highlighted the merits of a system which is secure, reciprocal and which incorporates elements of risk pooling and income redistribution.

The Government says also that it will seek to ensure that the level of the State Pension is maintained at 35 per cent of average weekly earnings.

Older & Bolder views an income target of 50 per cent of gross retirement earnings as the appropriate target to secure income adequacy in retirement.

We recommend a level of State Pension set at a minimum of 40 per cent of gross average industrial earnings, as previously recommended by the Pensions Board. This minimum level is necessary to reduce the risk of poverty for low and middle-income earners who are the main target group of the pension reforms.

Adequate first pillar pension thresholds are vital to protect older people from poverty. The efficacy of the thresholds as an anti-poverty measure is directly affected by older people's access to high quality public services and the application of user charges for those services. In the context of the NPF, Older & Bolder will keep issues of income, access to public services and costs of services under review in our meetings with older people over the coming year.

Older & Bolder also believes that, in principle, the State Pension system should be universalised to provide a guaranteed income for all older people. In practice, this would remove the existing distinction between contributory and non-contributory pension rights.

Principle 3

Supplementary pension coverage and contributions must be increased to improve adequacy of incomes in retirement.

Older & Bolder agrees that supplementary pension coverage and contributions must be increased to improve adequacy of incomes in retirement.

The NPF provides for a system of auto-enrolment in supplementary pension schemes and proposes that individuals will invest their pension contributions in funds provided by the private sector.

Older & Bolder believes that individuals should also have the option of investing their pension contributions in a public pension scheme that is led, provided, managed and guaranteed by the State.

Our view is that an exclusively private system of supplementary pension provision would not win the confidence of potential contributors.

The OECD has recently documented the underperformance of Irish private pension funds. This highlights the high risk investment decisions taken by the managers of those funds. Older & Bolder is now meeting individuals on the cusp of retirement, whose pension savings have been decimated and who do not have the time to re-build their retirement income. The reality is that the capacity of the private pension system to provide adequate income in retirement remains unproven. Older & Bolder believes that a public pension scheme guaranteed by the State is more likely to enjoy the confidence of low and medium earners and to retain their long-term participation.

Older & Bolder is also concerned both about the level of fees paid to private pension schemes (1% management fee on the total fund, 5% charge on contributions for a standard PRSA) and about the lack of transparency for pension holders on deductions in fees by private pension companies. We believe that these charges are high by international standards.

Principle 4

The National Pensions Framework states that the way in which supplementary pension contributions are taxed by the State should be equitable.

Older & Bolder agrees that the National Pensions Framework should be equitable, we also believe that it should be efficient. In practice, the principles of equity and efficiency will be tested by the design, implementation and public take-up of the supplementary pension provision envisaged in the NPF. In order for the NPF to be understood as equitable and efficient the Government must show, through detailed projections, that larger numbers of low-paid workers will not opt out of auto-enrolment provision; that privately provided schemes will deliver secure and adequate rates of return to pensioners; that the administrative costs associated with establishing or switching between supplementary auto-enrolment schemes will not be excessive.

Older & Bolder also believes that there is an onus on the Government to provide detailed projections and data for public review about the costs and returns on proposals set out in the NPF. In order to accurately assess the equity and efficiency of these proposals more detailed information is required about pension contribution levels, pension income returns, fees and charges to the individual, administration costs of setting up or switching between supplementary Pension Funds and the costs and benefits of tax incentives for individuals, the State and pension providers. It will be particularly important to examine how these factors will affect those on low and medium incomes.

Principle 5

The Government says that employers, employees and the State each have a role to play in any pension reform.

The Government's view that employees, employers and State each have a role to play in any pension reform is shared by Older & Bolder.

Older & Bolder recommends that Government proactively address the issues of excessive fees and charges on private pensions and promote greater transparency to contributors about those charges.

The National Pensions Framework also identifies the significance of financial literacy and financial education for individuals in relation to retirement planning.

Older & Bolder recommends that Government-supported financial literacy initiatives incorporate impartial information about core concepts in pension provision i.e. risk, individualised risk bearing, social risk pooling, risk in defined benefit pension schemes, risk in defined contribution pension schemes.

Older & Bolder also believes that individuals who are making critical pension decisions (e.g. choosing a pension scheme, leaving a pension scheme) need access to clear, unbiased, quality assured information and advice provided by independent advisors operating within a regulatory framework that meets tough quality assurance criteria.

Principle 6

The National Pensions Framework states that people should be supported to work longer through flexible working arrangements.

Older & Bolder favours the principle of choice for workers. We agree that people who wish to work longer, or who wish to work longer but flexibly, should be facilitated to do this.

Mandatory retirement ages are a barrier to longer working life and the development of flexible working arrangements for older workers. We specifically recommend the removal of the exemption in the Employment Equality Acts 1998 and 2004 which enables employers to set retirement ages for employees.

Older & Bolder believes that it is necessary to clarify arrangements to meet the income and security needs of older workers who need to retire early for reasons of ill health, disability or safety. Older & Bolder also believes that employers need to be supported in developing innovative measures for the retention and redeployment of staff who, through onset of illness or disability, need to change functions within the workplace or to adopt changed patterns of work.

It has long been accepted internationally that having a job is the single greatest protection against poverty (AGE Europe). In the context of the NPF and the intention to raise the qualifying age for the State Pension, it is also necessary to clarify arrangements to meet the income and security needs of older workers who become unemployed before they reach the qualifying age for State Pension.

In light of the societal issues involved, the lead-in time to 2014 is short for the introduction of a major change to pension qualifying age, from 65 to 66 years; and subsequently to 67 in 2021 and 68 in 2028. We recommend a longer lead-in time (In the UK, the lead-in times are longer by a decade per year; pension ages will rise from 65 to 68 between 2024 and 2046).

As documented by the Equality Authority, age discrimination is one of the most frequently reported forms of employment discrimination. Older & Bolder recommends that the Government clarify its plans for tackling age discrimination in conjunction with intention to adjust the State Pension qualifying age.

Older & Bolder recommends that the Government lead a national campaign to promote and support age friendly employment practice.

Older & Bolder believes that all age cohorts have a right of access to education and training opportunities. We recommend that the Government specify plans in relation to maximising opportunities for older people to participate in education, employment, volunteerism and other aspects of economic and social life.

Principle 7

The Government says that Pension reform should focus on arrangements for the future rather than attempt to address shortcomings of the past.

Older & Bolder strongly rejects the Government's view that long standing issues, such as those pertaining to older women affected by the marriage bar, are not the business of the NPF.

Older & Bolder, as stated under Principle 1, recommends universal access to the State Pension.

In the absence of universal access to the State Pension, we recommend as a priority the development of a special once-off arrangement to meet the needs of women denied access to a pension because of the marriage bar. We do not accept that such an arrangement would, as stated in the National Pensions Framework, compromise the contributory principle underpinning the contributory State Pension system.

Footnotes

1. Reciprocity: interdependency through the communal sharing of risk, contributions and benefits over the lifecourse and across the generations.

2. Society of Actuaries in Ireland, Submission to the Department of Social and Family Affairs on the Green Paper on Pensions (May 2009) http://www.pensionsgreenpaper.ie/consultation_SocietyofActuariesIreland.html; TASC, Making Pensions Work for People, TASC Policy Update, (January 2010) http://www.tascnet.ie/upload/file/Tasc%20Pension%20Update%20220110%20Final.pdf

3. As calculated by the CSO in the Earnings, Hours and Employment Costs Survey (EHECS).

4. "The report specifically recommends that the contributory State pension be increased to 40% of GAIE over ten years until 2016 or similar period, and that the real value of the pension be maintained at least at that proportion of GAIE thereafter", Pensions Board, Special Savings for Retirement, report on the mandatory pension system by The Pensions Board for Seamus Brennan T.D. Minister for Family Affairs (2006)

5. "The individual will be provided with a range of investment choices reflecting different levels of risk, accompanied by suitable, easily understood information about the level of that risk and the benefits expected. The range of funds will include very low risk options to provide members with a high level of security on their savings. The Government will not, however, provide any guarantees on investment returns. The limited number and types of funds (which will be required to have life-styling built in) available under the scheme will be provided by the private sector through a competitive process run by the State. Members will have the option of choosing between these approved funds or providers, or else they will be enrolled in one of the low risk default options. Charges will be kept to a minimum as marketing expenses and investment advice are minimised."

6. “In the United Kingdom the annual management charge for a Stakeholder Pension is 1 per cent of the contribution. In Ireland the annual charge for a Personal Retirement Savings Account is 5 per cent of the contribution and 1 per cent per annum of the value of the fund. The charges for personal pension accounts in the UK compare with a cost of 0.1 per cent for the State pension scheme and between 0.1 and 0.3 per cent for large company schemes according to the second report of the UK Pensions Commission. The Commission has recommended that there should be an independent central authority with responsibility for investing contributions and that it should aim for an Annual Management Charge of 0.3 per cent. However, many of those working in the private pensions industry argue that this is unrealistic”, Hughes, Jerry & Stewart, Jim, Personal Provision of Retirement Income; Meeting the Needs of Older People, Edwar Elgar (2009).

7. A key objective for Government is to maximise the opportunities for older people to participate in education, employment and other aspects of economic and social life. Older people will be further encouraged and supported to access further and higher education and appropriate targets will be set in the context of proposals on life-long learning and access to further and higher education. The continued participation of older people in the labour market will be encouraged and facilitated to meet the challenge of an ageing society.

Older & Bolder
Jervis House
Jervis Street
Dublin 1

t: 01 878 3623
f: 01 878 3624
e: info@olderandbolder.ie
w: www.olderandbolder.ie