THE SOCIETY OF ACTUARIES IN IRELAND

News Release **28th May 2008**

- **Further Mandatory Pension Provision Should Be Achieved by Raising State Pension**
- **State Pension Age Should Be Increased Gradually**
- **Current Defined Benefit System "over-promises and under-funds"**

The Society of Actuaries in Ireland has recommended that increasing the State Pension would be the best way to provide a higher minimum level of retirement income for all, rather than introducing mandatory or soft-mandatory occupational pensions. The Society also recommends that the State pension age should be increased gradually to take into account increasing life expectancy and to offset some of the additional costs that would arise if the level of State pension were increased.

In its response to the Government's Green Paper on Pensions, the Actuaries state that reasonable advance notice needs to be given of any increase in State pension age and it is, therefore, imperative that this issue is addressed as a priority.

Mr Philip Shier, President of the Society of Actuaries in Ireland, stated: "The Society believes that gradually raising the retirement age is sensible in the context of the improvements in longevity that we continue to enjoy. Several other European countries have already announced increases in retirement age to take account of increases in life expectancy. We also propose that individuals should be permitted to draw their State pension early at a reduced level, or to defer it if they continue to work after the State Pension Age and draw an increased pension from a later date. There should also be greater flexibility for occupational pension scheme members who should be allowed the facility to draw a pension while continuing to work part-time. This would help enable a transition to a higher State pension age and higher normal retirement age under occupational pension schemes."

The Society's submission recommends that about 15 years' notice should be given of any change in the State pension age that will apply at a particular date in the future. An increase in the State pension age of approximately one year per decade would be needed to keep pace with current estimates of expected future improvements in life expectancy (without taking into account the gains that have already been achieved in recent decades).

"If the State leads the way by increasing the State pension age, this will open up the possibility of occupational pension schemes doing likewise, which might ultimately make defined benefit schemes widely affordable again or, at a minimum, might support wider implementation of hybrid schemes."

The Actuaries' response to the Green Paper focuses on three key themes of adequacy, sustainability and security.

Further Mandatory Pension Provision Should Be Achieved by Raising State Pension

On the question of adequacy, the submission states that "The Society's view is that if, from a public policy perspective, any further layer or mechanism of mandatory provision is considered necessary in order to achieve a specific adequacy target, the most effective approach is to raise the State pension, rather than introduce mandatory or "soft mandatory" saving under defined contribution arrangements." The Society believes that an increase in the State pension would be by far the simplest approach to administer and the most cost-effective way to enhance pension provision.

The submission recognises that this approach would result in an increase in the social insurance contribution rates required to fund the State pension and that inevitably the increased costs will be borne, directly or indirectly, by employers and employees. The Society recommends that the Government commit to a long-term level of State pension expressed as a percentage of national average earnings, rather than this being a matter for a political decision on a year-by-year basis.

Mr Gerry O'Carroll, chair of the Society's Pensions Committee, stated: "The Society of Actuaries is not pursuing any particular political or sectoral agenda in putting forward these views, which we hope will make a contribution to this very important debate on how we fund and secure our incomes into the future. As we state in our submission, an increase in the State pension age would have a positive effect on the cost of Social Welfare pensions. This would help to offset the cost of any enhancement to the current level of pension provision. Given current concerns about both adequacy and sustainability, this would appear to be an appropriate trade-off."

Current Defined Benefit System "over-promises and under-funds"

On pensions security, the Society of Actuaries' submission contains some very cautionary remarks about the security of benefits under private sector defined benefit pension schemes (where workers are promised a pension calculated as a proportion of their earnings and which cover about 250,000 workers). The submission states that the current system "over-promises and under-funds", and that scheme members (especially current employees) are exposed to far greater risks than are commonly understood.

Ms Roz Briggs, who represents the Society of Actuaries on the Pensions Board, stated: "The Society believes that the current regulatory framework fails to give members of Irish defined benefit pension schemes a transparent understanding of the financial risks involved in providing their benefits. At a minimum, the regulatory approach should be changed to provide increased transparency. We advocate a regulatory model similar to those operated in other EU countries under which a more rigorous minimum funding regime would apply, possibly to a reduced "core" benefit promise. We also argue for a more equitable system of achieving benefit security, in the event of scheme wind-up, between retirees (whose benefits are given top priority under the current system) and current employees (who receive a far lower level of protection)."

Defined Contribution Plans

The submission states that a key concern in relation to defined contribution arrangements is that there is a widespread lack of awareness among employees about the level of contribution required for a given target level of retirement income, and about the implications of, and risks inherent in, any given investment strategy.

"The Society welcomes the forthcoming introduction of Statements of Reasonable Projection for Defined Contribution schemes, which will go some way towards helping members in their long-term financial planning. However, there is scope to go much further in education and communication initiatives and the Society considers that this should be a key priority on an ongoing basis."

The Society proposes that the option to take retirement benefits in the form of an Approved Retirement Fund should be extended to all members of all defined contribution plans: "It is inequitable to require some members of such plans to purchase an annuity at retirement, regardless of annuity costs at the time, while exempting others from the requirement.

However, current tax anomalies should be addressed. As any money in an ARF has received income tax relief, we believe that such money should also be subject to income tax when withdrawn from the ARF."

Tax relief on pension contributions

The submission states that the current system of tax relief is an effective approach to providing incentives for retirement saving. It illustrates that most relief (expressed as a percentage of earnings and on an effective basis, i.e. net of the present day value of future tax on retirement income) is granted to people not far above the marginal tax band and saving a moderate amount for retirement, and not to the highest earners.

Public sector pensions

On public sector pensions, the Society emphasises that costs should be determined on a normal commercial basis and the State should be subject to the same rigour in respect of the financial and risk management aspects of pension provision as is applied to private sector companies.

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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.