Society of Actuaries in Ireland

Press Release
8th July 2013

Unprecedented call for Government action to save thousands of workers from pensions hardship

Pensions of another 30,000 workers at risk

The failure of a large number of defined benefit pension schemes with an estimated 30,000 employees to submit recovery plans to the regulator is a clear wake up call to Government that the crisis facing the pensions of thousands of workers cannot be ignored any longer. This was stated today (Monday July 8) in a joint statement by IBEC, ICTU, IAPF and the Society of Actuaries in Ireland.

“Nearly 65,000 employees have already been affected by the cessation of more than 400 defined benefit schemes since the end of 2008. We expect scheme closures to continue over the coming months. Many of these could be prevented if the Government now takes action.

“We hope that the seriousness of the situation is underlined by the unprecedented step of IBEC, ICTU, IAPF and the Society of Actuaries in Ireland for the first time collectively calling on the Minster for Social Protection and her Government colleagues to take immediate action.

“If the Government is not going to take practical measures to slow the rate of scheme closures, it should at least take immediate action to ease the worst effects of these closures. If the Government continues to defer reform of the ‘priority order’, the simple truth is that, in the unfortunate event of a scheme winding up in deficit, people of working age continue to risk losing everything before scheme pensioners can be asked to give up anything.

“Under the current rules a retired worker will have his or her full pension protected in a wind-up, whereas a 64-year old worker, months from retirement, may be left with little or no pension rights at all.”

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Issued (8th July 2013) on behalf of IBEC, ICTU, IAPF and the Society of Actuaries in Ireland by:

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Statement from IBEC, ICTU, IAPF and the Society of Actuaries in Ireland

The failure of a large number of defined benefit pension schemes with an estimated 30,000 employees to submit recovery plans to the regulator is a clear wake up call to Government that the crisis facing the pensions of thousands of workers cannot be ignored any longer.

Nearly 65,000 employees have already been affected by the cessation of more than 400 defined benefit schemes since the end of 2008, and we expect scheme closures to continue over the coming months. Many of these could be prevented if the Government now takes action.

We hope that the seriousness of the situation is underlined by the unprecedented step of IBEC, ICTU, IAPF and the Society of Actuaries in Ireland for the first time collectively calling on the Minster for Social Protection and her Government colleagues to take immediate action.

Many defined benefit pension schemes are in a state of crisis and Government inaction is making matters worse. Failing to meet the regulatory deadline of June 30th for funding standard submissions, amid the complications of continued legislative uncertainty, will be a tipping point for the trustees and/or sponsoring employers of many schemes as they try to decide whether to continue the schemes and put in place recovery plans to rectify deficits or wind them up in deficit and distribute the assets.

Some of those schemes that did not meet the funding standard deadline are already in wind-up and it is inevitable that more will follow suit. There has already been a significant decline in the number of defined benefit schemes – more than 400 have ceased to exist since the end of 2008, affecting nearly 65,000 employees. We expect scheme closures to continue over the coming months. Government, first through total inaction and then through onerous new regulations, has added to the difficulties facing pension schemes at a time when it should have been looking for substantive and effective ways to help schemes through this crisis. Recent changes to the funding standard rules, while they may be justifiable over the medium to long term, have exacerbated the situation for many schemes by requiring employers to increase the pace of funding for benefits at a time when, for many, they can least afford it.

In the absence of clarity regarding the legislative environment, including how the Government will respond to the European Court of Justice ruling relating to former Waterford Crystal employees, many defined benefit pension schemes will start to unravel in an inequitable and disorderly way, at a time when it is more expensive than ever to secure pension benefits. This will, in turn, only add to the pensions bill facing the State. We recognise that the Government now awaits a High Court decision on the Waterford Crystal case. However, the ECJ judgement has implications beyond that case, and the sooner Government signals its intentions in this regard, the better for all concerned, including the State.

If the Government is not going to take practical measures to slow the rate of scheme closures, it should at least take immediate action to ease the worst effects of these closures. The decisions that Government will need to make in relation to the European Court of Justice ruling are complex and require careful consideration: however, this situation should not prevent them pressing ahead with much needed reforms, particularly in relation to the "priority order".

The current wind-up rules give absolute priority to pensioners, potentially leaving those scheme members who have not yet reached retirement age with only a small fraction of the pension they had expected. Under the current rules a retired worker will have his or her full pension protected in a wind-up, whereas a 64-year old worker, months from retirement, may be left with little or no pension rights at all. The only circumstance that retired members will suffer a reduced pension is when active members have lost everything.

If the Government continues to defer reform of the "priority order", the simple truth is that, in the unfortunate event of a scheme winding up in deficit, people of working age continue to risk losing everything before pensioners can be asked to give up anything.

The injustice of this situation is unquestionable and was recognised by the OECD in its recent review of the Irish pensions system: "the priority currently given to pensioners before other members if a scheme winds up creates large inequalities across members". Almost 200,000 people of working age are active members of defined benefit pension schemes. Many of them – people with modest pension expectations – will pay a heavy price for the Government's delay in addressing this injustice by reforming the wind-up rules. There have been recent examples of high profile cases where active members lost between 40% and 70% of their expectations – and there have been many more cases of substantial loss that did not attract media attention.

The four organisations have asked that the wind-up and restructuring rules be reformed as a matter of urgency, to deliver greater fairness in the distribution of assets while continuing to protect retired people on modest pensions.

Some positive regulatory changes have been implemented that will be beneficial to schemes that survive the crisis, but opportunities for fundamental reform have been missed. We call on the Minister for Social Protection and the Government to accelerate its actions in this regard and to act now to prevent more wind-ups and a chaotic and inequitable unravelling of the private defined benefit pensions system. The longer the delays, the greater the number of people who will be at real risk of losing hard-earned pension benefits.

ENDS

July 8, 2013

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.

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