Minister challenges industry to find solutions now, not later

by Jill Kerby

The new Minister for Social Affairs, Seamus Brennan TD, challenged the pensions industry at the IAPF annual dinner to come up with solutions to the pensions coverage problem. He has asked the Pensions Board to bring the September 2006 pensions review forward to the end of June. But just how confident is he that those solutions are at hand Jill Kerby interviewed the Minister the day the Social Welfare and Pensions Bill went before the Dail.

The snow flurries had brought city traffic to a halt in Dublin, but for Seamus Brennan, who admits he is "still learning" about pensions, this wasn't a day to be late into the House: that afternoon he would take questions on the Social Welfare and Pensions Bill, which is introducing far-reaching pensions legislation that will lead to the ratification of the European Pensions Directive in September, and more urgently for Irish pension funds, the extension of the funding standard.

"The Pensions Board inform me that 57% of occupational funds are meeting the funding standard," he says, "and the Bill gives the others up to a decade to meet that standard, which should take a lot of pressure off. The new 10 year extension gives some flexibility; if it was any tighter the danger was that it could force companies out of business. I'm satisfied from that point of view that it is correct."

The Minister explains how it was not simply a consideration for the security of workers' pension funds that prompted the extension of the funding period, but a wide economic consideration.

"The danger with leaving the standard just at three years was that it could have forced a lot of companies into insolvency," he says, noting how this is a now a problem that has to be addressed in the UK, the US and other countries where a combination of longevity, low interest rates and volatile stock market have combined to put increasing pressure on the ability of traditional

"I want to make clear that whatever reforms may be necessary it is not my intention to interfere in any way in the sensible running of pension schemes."

pension funds to meet all their liabilities.

Given the impact of back contributions on company cash flow and profit , the Pensions Board, he says, is now considering whether companies could even make up the shortfall with "in kind" contributions, and not just by making cash contributions.

"The policy objectives of this Bill are quite clear," Mr. Brennan says. They centre on "maximum cover, maximum adequacy, maximum security, a prudential approach to investment, and the encouragement of savings and fostering a pension culture – a lifelong commitment."

Which swiftly brings him back to the other big pension issue – how to encourage more people, especially young people, to start spending now for a retirement that may not happen for 30 or 40 years.

"I know that my colleague the Minster for Finance has recently said that he does not see the government incentivising any future savings. The Department of Finance do not want to set up another SSIA and I am not in favour of it either.

"The point we need to make is that tax breaks into pensions already amounts to €2.5 billion a year. This is already a huge incentive…and is more than is contributed into private pensions. And about 50% of that €2.5 billion goes to the top 25% higher earners."

Tax breaks , he says, play an important part in people taking out a pension, but they cannot be the only incentive. "The motivation has to be wider than the tax, it has to be a realisation that their future is at stake."

As the father of four young women he is more than aware of the difficulties ahead in convincing young people especially, to forgo lifestyle spending in favour of something like a pension. He gives a clue about what he might like to see on the agenda after the Pensions Board review is completed in June. "One thing that would appeal to my four daughters, I can tell you, is, that if every couple of years they could dip into their savings and get some cash out for important purposes."

Discussions in government about the SSIA's have focused more, he says, on the fact that a savings culture has been set in train by the scheme and that the next step is to encourage people to take this further. "This is an opportunity that shouldn't be missed. What needs to happen now is the designing of products that attracts young people in particular, and that encourages them to assign a portion of it to a pension.

"I've written to the Pensions Board about it. Under statute they are required by September 2006 to give me a report about pension adequacy. I looked at 2006 and said this was too far away. In the letter I said I was disappointed we weren't doing better and asked them to bring forward the review to the end of June instead, and laid out a number of other things that it would deal with."

Quoting directly from the letter he sent to Pensions Board chairman Michael McNulty, the Minister said these issues include "trusteeship, the State as a possible provider of annuities, this on foot of the recommendation in their own Review of the Funding Standard; the forthcoming Indecon report for the Board on coverage issues and proposals by Jim Kehoe in his paper to the Society of Actuaries in Ireland last year."

There is a major problem of coverage among women, he says. The demographic reality "is very frightening" and by the middle of the century, "the vista of three quarters of the country being without anything but a state pension is very scary. We have to act. The instruments I have are the Pension Board and government policy. The PRSA is another such instrument and the SSIA money could be another if attractive new products can be designed."

He has described the take-up of PRSA's as "disappointing", not just in terms of numbers, but because of the lack of employer funding into the new portable pensions set up as group business. Are we moving towards compulsory funding?

"I genuinely have an open mind about that," he replies. "PRSI is already compulsory. So one option is, should we just increase the PRSI contribution

"Despite all the incentives and all the good work, I regret to say that overall the coverage figures achieved are disappointing. Despite the hard work of all concerned, the reality is that we are failing to mobilise the general public and employers to start contributing to pensions in the numbers required to achieve our overall targets in any sort of reasonable timescale."

and get universal coverage? But you can't consider that without looking again at the €2.5 billion tax relief already going to the private sector. The implication of additional taxation are huge for industry here.

"Similarly, forcing all workers and employers to contribute to a private pension scheme raises problems with guarantees and with what the 'minimum' contribution would be, and whether that would bring everyone who was already paying a higher contribution down to that minimum. The Pensions Board will be looking at that area, but I have to say I am very cautious about this."

Nor has it been suggested that any higher contributions should be made into the National Pensions Reserve Fund, which he says is "on course to deliver what it said it would" – civil service state pensions in 25 years time.

Mr Brennan says he is watching with interest how President Bush is trying to reform the American social security system which is facing their funding crisis much sooner than ours as millions of baby boomers starting to retire in about five years time. "There is no question but that pay-as-you-go pensions are unsustainable," he says, but we are in the enviable position of having more time on our side than other countries.

The passing of the Social Welfare and Pensions Bill by the middle of March means that the European Pensions Directive will easily meet its ratification date of next September, but he accepts that the IORPS directive, as it is also known, which also sets out new standards for trustees and for the way pensions are invested, will put some pressure on the Pensions Board which

"I look to the Board and I invite the pensions industry, employers, the trade unions and individuals to come forward with proposals for new products. I can assure you all that I will act on proposals that offer practical and innovative solutions that would be easily understood and send out a clear and simple message."

has the responsibility of overseeing much of this new regulation and especially of the funding standard.

"I have the greatest respect and confidence in Anne Maher and her team at the Pensions Board. And while there is a lot on the agenda this year, I expect the Board to hire in the expertise if they cannot provide it themselves and to take whatever actions are necessary to fulfil whatever new responsibilities they have."

One subject that has attracted "a lot of publicity" Mr Brennan admits, is the Directive-related issue about pension fund borrowing, which is now to be reconsidered by a special working group that will then make a recommendation by September.

"What the IORPS did was ban borrowing across the board though it permitted us to give an exemption to companies of less than 100 employees. I decided to leave it for the moment. The argument that was put to me by the Department was that we had to protect small funds as well as big funds. The other side argument was that Charlie McCreevy had exempted them last year and so they didn't need to be protected, that they were small one or two members schemes. It was put to me, do I need to move to change a situation that small funds need to be protected from themselves – and the risk they are taking if the properties for which they borrowed fell in value that they would lose their pensions - or do I exempt them and allow them to borrow.

"I took the view that unless a strong prudential case could be made I wouldn't change the situation. What I have done is put into the Bill that sometime between now and September we can make a final decision abut this, that a working group will be set up made up of the following bodies - Dept of the Taoiseach, Dept of Finance, Revenue Commissioner, Pensions Board and IFSRA - to discuss the issue and consult widely to look at the prudential and tax issues before we make the regulations."

The Minister also acknowledges that there is a pre-occupation in this country with property. "It wasn't that long ago that you could be taken to the high court over a dispute over a right of way and be kept there for six months – and that was if you were a brother or sister,"

While there is comfort in investing in bricks and mortar, he says, the message also has to go out that over-investing in such an asset for pension purposes could be as dangerous as putting all your money in volatile equities.

"It is estimated that 50% of those private pensions are totally inadequate. In other words, there is a good chance that up to 75% either have no pension or have a pension that falls well short of what they will need for a comfortable retirement."