Pensions Need Government Support Now

For the Irish pensions industry – the sponsoring company schemes, the investment managers and advisors, the trustees and members – the October 14th government Budget could have been a watershed day.

The newspapers had been speculating for weeks about whether the Minister for Finance would pre-empt the Pensions Green Paper process that is now well underway, and target the €1.8 billion income tax relief on pension contributions. Would he standardise the tax relief at the 20% rate they wondered? Would he perhaps also give notice that the days of 1% GDP contribution into the National Pension Reserve Fund were coming to an end?

The IAPF, keen to let the Green Paper take its natural course, issued a press release on the Friday before budget day in the hope that their message that the higher rate tax relief benefits middle earners more than the 'high flyers' in our economy, would find its way back to the Department of Finance.Whether it did or not, the Merrion Street mandarins aren't saying, but on the day itself, the pensions industry barely registered in the Minister for Finance's first Budget speech.

The two most significant changes regarding overall pension provision in the 2009 Budget is the €7 a week increase in the state retirement benefit – at half last year's increase it puts a question mark over whether the government will achieve its goal of a €300 weekly benefit by 2012 – and the reduction from €275,000 to €150,000 in the annual earnings limit for tax relief on pension contributions. This will mainly impact on the self-employed, say concerned pension providers.

It could have been "much worse" one senior life assurance executive told Irish Pensions. His company, he said, "lobbied hard to prevent any tinkering with pensions before the White Paper came out". Dropping the deduction to the standard rate would be a disaster for pension provision in Ireland with the levels of pension contributions falling due to market concerns.

This assessment is shared by other companies - like Standard Life which in September conducted a survey that showed that only 40% of those surveyed thought it was a good time to invest in a pension plan compared 56% of those surveyed in June; the figure was 73% a year ago.

"This is a huge drop in such a short period of time and no doubt reflective of the current weakness in investment markets" said Jim Connolly, Head of Pensions at Standard Life.

"Another worrying factor is the low amount being saved. When those currently working were asked what proportion of salary they thought was needed for an adequate retirement income, the average value was calculated to be 12.1%. However when asked how much they are actually contributing into pensions, the average was just 5.9%, representing a shortfall of more than half the desired amount."

FISCAL PRESSURE

Finding the right combination of tax or other incentives, plus addressing the need to maximize tax revenue, is going to make the task of producing a fair, equitable and sustainable Pensions White Paper even more difficult for a government already under siege for the perceived unfair, biased and unsustainable budget it just delivered.

With fiscal pressure growing, how likely is it that the Government will recognise the need to intervene with increased support for private sector pensions, as advocated by the IAPF. The IAPF has for a long time sought a State annuity safety net, reform of the funding standard, the extension of the ARF rules to induce defined contribution schemes and also the issue of tax incentives.

If there are to be radical changes to the tax incentive system, then a wider issue – some would say it is the 'elephant in the room' – of public sector pension funding and the possibility that 'benefit-in-kind' treatment be applied, should also be put on the agenda.

The urgency to take correct and decisive action on more than just the pension coverage issue has never been more apparent: the credit crisis has taken its toll not just on sub-prime mortgage owners, high street and investment banks, their debt insurers and the stock markets which were dominated by these financial institutions for the last couple of decades, but on the occupational and personal pension funds that ordinary Irish workers and their families are counting on not just to meet their aspirational retirement plans, but perhaps more worryingly, to even meet the rising costs of their personal medical care and to keep their homes adequately heated.

The pension performance figures certainly do nothing to alleviate those fears:

Managed Fund Performance Returns for Period ending 30th September 2008

	ANNUALISED (% p.a.)							12 MONTH RETURNS FOR PERIOD ENDING					
	Month (%)	Quarter (%)	YTD (%)	1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	15 Year (%)	Sep-06 (%)	Sep-07 (%)	Sep-06 (%)	Sep-05 (%)	Sep 04 (%)
Acorn Life	-9.9 (22)	-11.1 (23)	-23.6 (14)	-26.4 (13)	-3.9 (9)	3.4 (12)	3.0 (8)	7.0 (4)	-26.4 (13)	8.1 (4)	11.5 (14)	20.7 (16)	10.6 (16)
AIBIM	-8.0 (7)	-8.6 (7)	-22.2 (7)	-24.5 (5)	-1.7 (2)	5.0 (2)	2.7 (10)	6.3 (9)	-24.5 (5)	11.5 (1)	12.8 (5)	22.3 (6)	9.9 (17)
AIBIM Multimanager	-9.8 (21)	-10.6 (21)	-23.9 (15)	-27.3 (17)	-4.6 (16)	n/a	n/a	n/a	-27.3 (17)	6.9 (15)	11.8 (13)	21.4 (12)	n/a
AIBIM Passive	-8.3 (10)	-8.8 (8)	-23.0 (13)	-26.3 (12)	-4.0 (10)	n/a	n/a	n/a	-26.3 (12)	7.1 (14)	12.2 (9)	21.7 (9)	n/a
BIAM	-7.3 (4)	-7.5 (3)	-20.8 (5)	-25.0 (6)	-5.4 (21)	2.1 (17)	3.6 (4)	7.1 (3)	-25.0 (6)	3.4 (24)	9.1 (23)	18.2 (21)	10.8 (13)
BIAM Consensus	-8.4 (11)	-9.0 (11)	-22.9 (12)	-26.2 (10)	-3.8 (7)	4.1 (7)	n/a	n/a	-26.2 (10)	7.6 (8)	12.1 (10)	21.7 (9)	12.6 (5)
Canada Life/Setanta	-6.9 (3)	-5.0 (1)	-17.6 (1)	-20.4 (1)	-3.1 (4)	4.6 (3)	3.7 (3)	6.3 (9)	-20.4 (1)	5.2 (21)	8.7 (24)	23.0 (3)	11.8 (9)
Canada Life/Setanta Consensus	-8.8 (13)	-9.5 (13)	-24.6 (21)	-28.2 (21)	-5.5 (22)	2.6 (15)	n/a	n/a	-28.2 (21)	5.9 (19)	11.1 (19)	19.3 (17)	12.8 (3)
Davy/Formerly Aberdeen	-6.7 (1)	-8.2 (5)	-19.8 (3)	-24.3 (4)	-3.8 (7)	1.6 (19)	1.9 (13)	n/a	-24.3 (4)	7.6 (8)	9.3 (22)	14.4 (22)	6.2 (19)
Eagle Star	-6.7 (1)	-6.7 (2)	-19.5 (2)	-21.8 (2)	-1.1 (1)	6.1 (1)	3.6 (4)	8.5 (1)	-21.8 (2)	10.2 (2)	12.3 (8)	24.0 (1)	12.0 (8)
Friends First/F&C	-9.4 (18)	-9.9 (15)	-25.6 (23)	-28.5 (23)	-4.8 (19)	3.0 (14)	2.4 (12)	6.7 (6)	-28.5 (23)	7.3 (10)	12.4 (7)	21.6 (11)	10.7 (14)
Friends First Consensus	-10.0 (23)	-10.5 (20)	-23.9 (15)	-26.7 (15)	-4.3 (13)	3.5 (11)	n/a	n/a	-26.7 (15)	7.3 (10)	11.3 (17)	20.9 (15)	12.2 (7)
Hibernian	-9.5 (20)	-10.3 (19)	-24.8 (22)	-27.6 (18)	-4.0 (10)	3.6 (9)	2.8 (9)	6.9 (5)	-27.6 (18)	8.1 (4)	13.2 (3)	18.8 (19)	13.5 (1)
Hibernian Consensus	-7.6 (5)	-8.2 (5)	-22.6 (10)	-25.8 (7)	-4.3 (13)	3.3 (13)	n/a	n/a	-25.8 (7)	6.2 (17)	11.3 (17)	19.1 (18)	12.6 (5)
ILIM	-9.0 (14)	-10.7 (22)	-24.4 (19)	-27.7 (20)	-4.5 (15)	4.0 (8)	3.4 (6)	6.7 (6)	-27.7 (20)	8.1 (4)	11.5 (14)	22.9 (4)	13.4 (2)
ILIM Global Access	-8.2 (9)	-8.9 (10)	-22.4 (9)	-26.2 (10)	-4.1 (12)	3.6 (9)	n/a	n/a	-26.2 (10)	6.7 (16)	11.9 (12)	21.9 (8)	11.3 (12)
ILIM Consensus	-8.0 (7)	-8.8 (8)	-22.8 (11)	-26.1 (8)	-3.7 (6)	4.3 (5)	3.4 (6)	n/a	-26.1 (8)	7.3 (10)	12.8 (5)	22.3 (6)	12.8 (3)
KBCAM	-9.1 (15)	-10.2 (18)	-24.5 (20)	-28.3 (22)	-4.9 (20)	2.5 (16)	1.6 (14)	5.8 (11)	-28.3 (22)	6.0 (18)	13.3 (2)	21.0 (14)	8.4 (18)
KBC/NT MoM	-9.4 (18)	-10.1 (17)	-23.9 (15)	-26.9 (16)	-4.6 (16)	n/a	n/a	n/a	-26.9 (16)	5.2 (21)	12.9 (4)	n/a	n/a
New Ireland	-7.8 (6)	-7.8 (4)	-21.6 (6)	-26.1 (8)	-5.8 (23)	1.9 (18)	3.8 (2)	7.3 (2)	-26.1 (8)	3.6 (23)	9.4 (21)	18.3 (20)	10.7 (14)
Merrion Investment Managers	-9.2 (16)	-9.1 (12)	-20.7 (4)	-22.7 (3)	-2.8 (3)	4.4 (4)	5.2 (1)	n/a	-22.7 (3)	7.8 (7)	10.2 (20)	21.1 (13)	11.8 (9)
Standard Life Investments	-8.4 (11)	-9.9 (15)	-22.2 (7)	-26.5 (14)	-3.3 (5)	4.3 (5)	2.5 (11)	6.4 (8)	-26.5 (14)	8.3 (3)	13.6 (1)	22.7 (5)	11.4 (11)
Standard Life Investments Multi-Manager	-11.0 (24)	-11.9 (24)	-26.2 (24)	-30.4 (24)	-6.3 (24)	n/a	n/a	n/a	-30.4 (24)	5.6 (20)	12.0 (11)	23.8 (2)	n/a
Standard Life Investments Consensus	-9.2 (16)	-9.6 (14)	-24.0 (18)	-27.6 (18)	-4.7 (18)	n/a	n/a	n/a	-27.6 (18)	7.3 (10)	11.5 (14)	n/a	n/a
Hewitt Managed Fund Index	-8.2	-8.4	-22.0	-25.0	-3.1	4.8	3.8	n/a	-25.0	7.9	12.5	22.5	13.6
Average	-8.6	-9.2	-22.8	-26.2	-4.1	3.5	3.0	7.1	-26.2	7.0	11.6	21.0	11.4
Number of funds	24	24	24	24	24	19	14	11	24	24	24	22	19

Hewitt collects unit fund prices from the managers and in no way audits or verifies their accuracy. The inclusion of any fund in the survey is by no means a recommendation or an endorsement. Hewitt takes no responsibility for errors or omissions.