

# IAPF

## BUDGET SUBMISSION 2010



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November 2010



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the voice of Irish pensions

# Irish Association of Pension Funds

## Budget Submission 2010

There are two key points that the Irish Association of Pension Funds would like to make in advance of the Budget on December 7th 2010.

1. The current incentives available to encourage workers to save for retirement need to be, at a minimum, maintained. Reducing the incentives, as outlined in the National Pensions Framework, will result not only in fewer people saving for retirement, but also in reduced contributions by those that continue to save. The Government should focus on ensuring it has incentives in place so that its own policy target of having 70% of the workforce saving for a pension of 50% of pre-retirement income can be achieved by all.
2. The current level of State pension should be maintained in order to ensure that everyone can have a basic standard of living in retirement.

### 1. Tax Incentives

The National Pensions Framework contains the commitment originally set out in the Renewed Programme for Government to introduce a single 33% rate for tax relief on pension contributions. This is a reduction in the tax relief currently available to higher rate taxpayers and an increase in that available to standard rate taxpayers. According to the Minister for Finance this would generate income to the Exchequer of €115 million assuming no change in behaviour.<sup>1</sup>

However, such a change is likely to result in changes in behaviour and will, in all likelihood, result in lower overall savings for retirement. Most of the workers affected by this change will already have experienced reductions in income over the last two years and their capacity to absorb further reductions is greatly diminished. Where possible, many are likely to reduce their pension contributions to offset this latest reduction and the implications of that will only become apparent when they retire.

Furthermore, over half of all defined benefit schemes have increased member contributions or are likely to in the near future.<sup>2</sup> Having already taken a reduction in income, this will put further pressure on those schemes and will make it more difficult for those schemes who have said they are likely to introduce an increase.

A reduction in tax relief for higher rate tax-payers means a reduction in their take-home pay. This change applies to all higher rate tax-payers and not just higher earners. We have prepared some examples to show the effect of this:

- A single person earning €40,000 in a defined contribution scheme paying a 5% contribution will suffer a 1% reduction in take-home pay of €320 per annum or €27 per month.
- An Executive Officer in the Civil Service earning €42,311 will suffer a 2.3% reduction in take-home pay of €702 per annum or €59 per month.<sup>3</sup>
- A married person in a defined benefit scheme, who is the only earner, earning €50,000 with an 8% contribution rate of pensionable salary (basic salary less 1.5 times the State pension) will suffer a 1% reduction in take-home pay of €411 per annum or €34 per month.
- A Higher Executive Officer earning €52,955 could see a 2.59% reduction in take-home pay of €985 per annum or €82 per month.<sup>4</sup>

<sup>1</sup> PQ answer from Minister for Finance, 26th May 2010

<sup>2</sup> IAPF Defined Benefit Survey 2010

<sup>3</sup> Single, Class A PRSI

<sup>4</sup> Married, One Earner Class A PRSI

It is clear from these examples, of typical occupational pension scheme members, that this proposal will have the opposite effect of encouraging greater pension provision. At a time when members have experienced investment falls and concerns about the solvency of defined benefit schemes this will just add to the uncertainty about pensions. What started as a crackdown on excessive use of the tax system, is in danger of ending up as an attack on average savers who are saving average amounts. There are better and more equitable ways of tackling the excesses.

## 2. State Pensions

The IAPF supports an adequate State Pension that is sufficient for its purpose, which is to provide for a basic standard of living in retirement. The current level of State Pension is not sufficient, on its own, to achieve that aim for many pensioners. As the main objective of the IAPF is to improve pension provision for all, we cannot support any reduction in the level of State Pension. The State Pension is taxed along with any other income pensioners are in receipt of and this ensures that those on lower incomes receive a higher proportion of their income.

It should also be noted that any reduction in State Pension would further increase the liabilities of private and public sector occupational pension schemes where the benefits provided are integrated with the State Pension. Any further increases in liabilities will increase the already considerable pressure on such schemes and will make some of them unsustainable.

### Examples

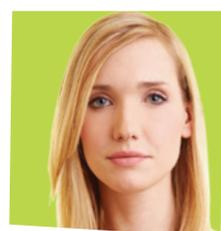


#### Sean

Private Sector – Employed – DC scheme  
Single  
Salary: **€40,000**

Summary	September 2010 (€)	Pension 33% (€)
Gross Salary	40,000	40,000
Pension Contribution	(2,000)	(2,000)
Income Tax	(4,276)	(4,436)
PRSI	(1,256)	(1,336)
Health Levy	(1,520)	(1,600)
Income Levy	(800)	(800)
<b>Net Pay</b>	<b>30,148</b>	<b>29,828</b>
<b>Net Monthly Income</b>	<b>2,512</b>	<b>2,486</b>

**- €26**



#### Sinéad

Civil Servant – Executive Officer  
Single – Class A PRSI  
Salary: **€42,311**

Summary	September 2010 (€)	Pension 33% (€)
Gross Salary	42,311	42,311
Pension Contribution	(1,912)	(1,912)
Pension Levy	(2,481)	(2,481)
Income Tax	(4,242)	(4,594)
PRSI	(1,253)	(1,428)
Health Levy	(1,517)	(1,692)
Income Levy	(846)	(846)
<b>Net Pay</b>	<b>30,060</b>	<b>29,358</b>
<b>Net Monthly Income</b>	<b>2,505</b>	<b>2,447</b>

**- €58**



## Mark

Private Sector – Employed – DB Scheme  
 Married – One Earner  
 Salary: **€50,000**

Summary	September 2010 (€)	Pension 33% (€)
Gross Salary	50,000	50,000
Pension Contribution	(2,563)	(2,563)
Income Tax	(4,425)	(4,630)
PRSI	(1,633)	(1,736)
Health Levy	(1,897)	(2,000)
Income Levy	(1,000)	(1,000)
<b>Net Pay</b>	<b>38,482</b>	<b>38,071</b>
<b>Net Monthly Income</b>	<b>3,207</b>	<b>3,173</b>

**- €34**



## Helen

Civil Servant – Higher Executive Officer  
 Married – One Earner – Class A PRSI  
 Salary: **€52,955**

Summary	September 2010 (€)	Pension 33% (€)
Gross Salary	52,955	52,955
Pension Contribution	(2,604)	(2,604)
Pension Levy	(3,546)	(3,546)
Income Tax	(4,166)	(4,659)
PRSI	(1,608)	(1,854)
Health Levy	(1,872)	(2,118)
Income Levy	(1,059)	(1,059)
<b>Net Pay</b>	<b>38,100</b>	<b>37,115</b>
<b>Net Monthly Income</b>	<b>3,175</b>	<b>3,093</b>

**- €82**

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