

NEW IAPF CHAIR SAYS HER ROLE IS TO ENSURE THE PENSION VOICE IS HEARD

What next for pensions? Jill Kerby interviews the new IAPF chairperson, Marie Collins about the setbacks to the pension review process, and the performance and funding problems that have arisen in light of the wider economic turmoil.



A 10 year veteran of numerous IAPF committees who also heads the ESB Pension Fund, Marie Collins has this year become the chairperson of the organization at an eventful stage for the Irish pensions industry. All the issues that confronted her immediate predecessors in the office – of inadequate coverage, the longevity risk, funding difficulties and government reform – still exist, but have now been compounded by the biggest

economic crisis here in Ireland since the 1930s.

Have events overtaken the efforts that were being made to address, for example, the survival of the defined benefit scheme with hybrid arrangements, we asked?

"There is certainly a sense these days of trying to keep up with events," she admits. "A couple of years ago, there was a lot of steam building up around hybrids, for example, but now we see

that even some of those that were put together only two or three years ago are experiencing many of the difficulties of pure defined benefit schemes."

Not even the stock market bounce since March will be sufficient to restore, let alone resolve the funding issues that DB schemes are facing, says the IAPF Chair.

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"There is a real need for all the parties involved – the employers and trustees, members and trade unions to try to see what is the best solution for pensions in the 21st century so that people can have a clear, practical and reasonable expectation of financial security in retirement. People's expectations and the reality of their fund is where the real poverty gap is going to be."

Top of the Chair's agenda is to get the policy framework that has most recently been represented by the Green Paper, but which has also been contributed to by the McCarthy Report, and more recently, the Taxation on Commission's findings on private pensions, back on the Government's agenda.

"There has been an awful lot of talk and we now require action," she says firmly. The White Paper has been promised for the past year.



"Going all the way back to the NPPI, then the Pensions Review, the Green Paper and the 50 pages that the Commission on Taxation dedicated to pensions there has been one and a half thousand pages produced on pensions. There's nothing more than can be written. It's not as if someone would come up with the perfect solution if we were to wait another six months."

The danger now says Ms Collins, is that the Government, despite being in the best position to move the debate forward, is succumbing to a lethargy of expectation – for Nama to be up and running, for the next Budget to be published, for Christmas and the New Year to be over. The danger, she says is that every new political or economic crisis could be used to delay any action on pensions.

"We believe the Government should establish a Commission on Retirement which would pull all of the existing reports together, update the assumptions in them to take into account the current economic and demographic conditions and make clear recommendations to move the debate forward. This Commission would also examine the wider issues of health, long-term care and lifestyle in retirement".

Unfortunately, individual pension schemes cannot wait for the political will

to be found to progress the changes necessary, she says.

"I think most pension schemes are doing their best, but there is the economic reality that individual members and companies have affordability and competition issues. The world over, it is not in our nature to put money away for 40 years without being incentivized and this usually means using the tax system as the incentive.

"We are very disappointed with the findings of the Commission on Taxation regarding tax relief and higher rate taxpayers, who in fact is anyone earning over €36,000, people who are the backbone of the Irish economy.

"The problem with their proposals is that they disincentive the people who are already saving for their retirement while not guaranteeing that those who are on the lower tax rate – who may not have the money or inclination to save for retirement – actually take up a pension. There could end up being no gain."

She says it's hard to fathom exactly what was behind the Commission's reasoning in suggesting a lower tax relief, given how higher rate taxpayers will end up paying

McCarthy report

The report of the 'Special Group on Public Service Numbers and Expenditure Programmes' – or An Bord Snip Nua – led by economist Colm McCarthy included many recommendations about and references to state and public sector pensions reform.

These include:

- Endorsement of the Green Paper on Pensions reform options including raising the minimum public service pension age; increasing the rate of pension contributions from staff; modifying the earnings-linking of pensions; removal of fast accrual terms and moving to the calculation of pensions on the basis of "career average" earnings.
- Reinstate a mandatory retirement age and not run the risk that low-performing members of staff would end up being retained indefinitely.
- Revise upwards the ages at which people qualify for pension in both State occupational and social welfare schemes.
- Introduce better transparency on the true cost of accrued pensions arrangements.
- Accelerated arrangements should be phased out or eliminated as soon as possible and there should be a move as soon as possible away from full earnings-linking of pensions to include an element of inflation-indexing, as in some other EU countries.
- Amalgamate the Health Insurance Authority and the Pensions Board with the Financial Regulator and the Pensions Ombudsman with the Financial Services Ombudsman.
- End the payment of 1% of GNP (€1.7 billion in 2009) into the National Pension Reserve Fund.
- Examine the appropriateness of paying 1/40th of salary per year of service into the pensions of the Members of the Oireachtas
- Reduce all social welfare rates (including pensions) by 5%.
- Review the payment of Widows' / Widowers' Contributory Pension, which is paid on an indefinite basis, irrespective of age or income
- Treat as taxable income the means tested Household Benefits Package that is available to people living in the State aged 66 years or over.

more tax on retirement incomes if it were enacted, but she accepts that it may be part of the backlash the country is experiencing towards 'fat cats' bankers and developers.

"The language of the Commission's report hints at this when it describes the current system of tax relief as 'regressive' and 'inequitable'. But we believe that paying more tax at retirement is inequitable – equity doesn't happen if it's not across the board." Nor does she believe it will solve the problem of adequacy.

That said, the IAPF's engagement with the Commission was satisfactory, she says, "though they didn't have any pension experts on the panel and I think that comes out in some of their recommendations. For example, regarding auto enrolment and PRSAs, which they endorsed, they didn't make any reference to the fact that the costs of standard PRSAs can be much higher than that which larger DC schemes currently enjoy. I think they were conscious of the huge body of work that is there already on pensions, but in the absence of the framework, it's hard to see the interaction between the Commission and what's been produced. This is why we need a Commission to pull all of this together."

Ms Collins is making the publication of the White Paper a top priority for her period as IAPF Chair, which she also wants to use to further raise the profile and voice of the Association.

"Our committees are currently looking more closely at the Commission's findings," she says. "And we will make our findings available to the policy makers and government.

"We have always done this as a voluntary organization for the entire industry and not just for a single sector. A lot of what we've contributed to the pensions debate over the years has come out in government policy." She mentions the emergency measures last spring regarding Defined Benefit plans that was done in conjunction with the Society of Actuaries, the Commission on Taxation's endorsement of ARF's being extended to Defined Contribution scheme members and their support for SSIA type funding incentives.

There is some consolation in knowing that the country and the IAPF are not alone in trying to sort out our serious pension issues.

"No, we are not alone. If you look at the UK they are putting in place an auto-enrolment scheme that come isn't coming into effect until 2012 but they've been planning it since 2006-2007 and are still tweaking it. We have to accept that fundamental changes take a long time."

Our demographics, she says, are not as favourable as they were a decade ago when the original NPPI report came out, though she notes with a broad smile that last year's remarkable high birth rate - "the highest since 1896" – is very good news.

"It is critical to Ireland Inc going forward that we understand that the demographics will not always be in our favour and that there will be a time when there will be more people in retirement than in the labour force."

While regretting that the National Pension Reserve Fund "has not worked out quite the way" it was originally envisaged as the government has raided it to fund AIB and Bank of Ireland, she maintains that "Not addressing [pensions] now is so shortsighted. We've seen in so many areas what shortsightedness has done to the economy."


If Ms Collins has any "over arching priority" for her two years in office, "it is to keep pensions on the agenda and not to let them be overtake by the economic situation. We need to keep addressing not just the short term problems, but the long term position of the country."

She expects the IAPF, which is representative of all sectors of the pensions industry to contribute to this macro view through the work of the committees: she cites Eamonn Liddy's investment committee and the benefits committee, currently chaired by Rachael Ingle which are "pulling in all sorts of views" about investment strategies, benefits changes and cost controls.

As for her own role, she says "the IAPF's agenda doesn't change with the change of the Chair. That change comes through Council whose agenda is fed by the committees." She notes "how lucky I am to have [Director of Policy] Jerry Moriarty

to work with who is the link between all the committees and who brings a wealth of experience to the IAPF.

"My agenda is to strength the IAPF voice. When you bring a diverse group of people together in a council, you don't always find they agree about everything, but you do get better solutions than what is produced by a single interest group.

"My job is to make sure that the collective voice gets heard." 



The Taxation on Commission report made a number of recommendations regarding pensions, including:

- All contributions towards supplementary retirement provision should qualify for a matching Exchequer contribution of €1 for each €1.60 contributed by the taxpayer.
- Employee's payslips should show the amounts contributed by the Exchequer to the employee's retirement savings.
- The first €200,000 of lump sum given on retirement should be tax-free, while anything above that should be taxable at the standard rate.
- A retirement savings scheme along the lines of the former SSIA scheme, that is easily understood and which involves an Exchequer contribution, should be introduced.
- All defined contribution occupation scheme members to have access to approved retirement funds (ARFs).
- Introduction of pension scheme auto-enrolment on a soft-mandatory basis should be considered.
- Anomalies in the treatment of retirement should be eliminated as far as possible