Irish Association of Pension Funds

Budget Submission

October 2006

IAPF Budget Submission 2006

"Some pension members are treated more equally than others"

Executive Summary

The Irish Association of Pension Funds (IAPF) has prepared this submission to highlight the key issues that need to be addressed in the pension field in the forthcoming Budget. The objective of this report is to make constructive observations and recommendations which the IAPF believe will be valuable to the Minister and his officials in framing the budget and the Government's general pension policy strategies in Ireland.

The Association would very much welcome the opportunity to discuss the contents of this submission with the Minister of Finance and members of the Department. This submission is limited to those aspects of the operation of pension plans which are controlled by the Department of Finance.

The theme for this year's IAPF pre-budget submission is the inequality that prevails in the Irish pensions system. Many pension members are unaffected by inequality but we have highlighted six groups that are disadvantaged where this disadvantage could be reversed in the 2006 Budget.

The Irish Association of Pension Funds

The Irish Association of Pension Funds (IAPF) was established in 1973 and is a nonprofit, non-commercial organisation. Our members provide retirement security to over 200,000 employees, pay pensions to nearly 70,000 people and are responsible for some €78 billion in retirement savings.

As the voice of Irish pensions our principal aims are:

- To represent the interests of pension scheme members, trustees and sponsoring employers;
- To promote financial security for all retired people; and
- To provide a forum for discussion and debate of pension issues.

Issue	Who is disadvantaged	What is the effect of the problem	What is the solution	What is the cost
ARF deemed distribution	Ordinary PAYE workers who want to preserve their retirement funds for their most vulnerable later retirement years. Perhaps when they have greater long-term care costs and/or if their pension is not keeping pace with prices if not inflation proofed	Double taxation for people who don't draw down their ARF in line with the deemed distribution. For further information see our separate paper on ARF deemed distributions.	(1) The deemed distribution tax prevents people who need their retirement funds most in their later retirement years and should be reversed. Alternatively, the inequity would be reduced if the deemed distribution started at age 70. (2) If it is retained, the deemed distribution tax should serve as a credit against actual distribution tax (as happens with unitised funds)	Should be negligible as people will tend to draw down funds they do not need to avoid double taxation.
Inability to ARF DC funds	Ordinary PAYE workers	Those PAYE workers not in PRSAs need to use their hard earned retirement funds to buy an annuity at retirement which is often bad value for money. So far, relatively few people have retired from DC plans (which only became popular in the 1980s). This is going to become more of an issue in future years. For further information see our separate paper on ARFs and DC Funds.	Extending the ARF option introduced in prior budgets to all DC pensions	No long-term cost as retirement proceeds will be taxed; there could be a change in the timing of receipts. In reality, ordinary PAYE workers are likely to draw down funds at least at the level which an annuity would have provided which should lead to an improvement in tax receipts.
Inability to ARF death in service funds	Widows and widowers of deceased pension scheme members	Widows and widowers must use pension funds to purchase an annuity rather than have the choice of an ARF	Extend the ARF facility to funds available on death in service	No long-term cost as retirement proceeds will be taxed; there could be a change in the timing of receipts
Benefits paid to non-marital adult dependents	Anybody in a non-spousal relationship	People in non-spousal relationships are subject to the same CAT taxes as apply to strangers in addition to having the pension payable by the scheme subject to income tax. The impact is double taxation.	Change CAT limits to include equality for all people regardless of the status of their relationship.	We have not quantified this but we feel that the cost is irrelevant as it is grossly unfair to impose penal taxes on minorities. There may be no change from the current tax position due to changing structure of relationships in society as a whole.
Calculation of Revenue limits	People who retire early or who switch employers late in their career	Revenue limits can be lower for people who early retire or who switch employers	Simplification of revenue limits. Amendment of current limits in two respects: (1) All service from all employments should count for calculation (2) Limits should apply on retirement at any age over 60	Minimal impact on Exchequer. Simplification would help people's comprehension of pensions.
Tax relief for lower paid workers	Ordinary PAYE workers who pay the standard rate of income tax	There is insufficient incentive for these workers to contribute to pension schemes (only 20% relief vs. 42% for higher rate taxpayers). This has contributed to a low level of pension coverage for low earners.	The extension of 42% tax relief to all contributions, perhaps translated into a tax credit (similar to SSIAs) which ordinary people understood more than tax relief due to its transparency	There would be a short-term cost but higher coverage in the long-term would reduce the pensions burden on the State.