

IAPF Chairman's speech – Marie Collins

IAPF Dinner.

17 February 2011 – Burlington Hotel

Good Evening Ladies and Gentlemen, Members of the Irish Association of Pensions Funds, and Guests. You are all very welcome here this evening to our 36th Annual Dinner. I would particularly like to extend a warm welcome to representatives of our “permanent government” and they are the senior civil servants from the Department of Finance and Department of Social Protection

Over the years we have worked closely with these departments and they know when they meet with or receive submissions from the IAPF it is from an association whose core objective is to enhance pension provision for all in this country.

Our Annual dinner is always an important platform for our association to set out our views to our Political Masters. We extended invitations to the Ministers and Opposition spokespersons on Finance and Social Protection to join us this evening. But alas, on the week before a General Election, knocking on constituent's doors on a cold and wet February night was preferable to joining us here tonight.

National Pensions Framework

I would like to start this evening with the National Pensions Framework. It doesn't seem like a year ago since the Minister of Social Protection, dramatically announced at our Annual Dinner she was launching the National Pensions Framework that week.

As a nation we have been debating pension policy for decades. Some of you here tonight will remember NPPI in 1997 – the National Pensions Policy Initiative. Since then we have had over 1,500 pages of various official reports analysing the issue - However, since its launch last year the Framework, as Ireland's definitive pensions policy document can now also be confined to the shelf along with the other well meaning but outdated reports for sustainable pension provision in this country.

When future generations look back, it will be with huge regret at the wasted opportunity of the last decade to tackle our nation's pension challenges. Let there be no mistake, - for almost 20 years Ireland's pension problems have been well highlighted and over analysed, no one can say they were not told of the problems coming down the line.

Yet successive administrations have failed to look beyond the horizon and grasp the truly long term planning required for pension provision. It never *quite* fitted into the short term focus of governments.

We only have to look at the National Pension Reserve Fund.

With the pressures on our public finances, rather than looking at ways to encourage pension savings our political masters have set about destroying private pensions funds, Raiding the non commercial semi states funds and of course raiding the National Pension Reserve Fund, and with it - all the ambition of a generation to provide for their retirement.

Some of you will remember that it was back in 1990's - that the IAPF recommended the establishment of a National Pensions Reserve Fund. But it was never to be a rainy day fund, never a job creation fund, or a bank bail out fund. No, it was a Pensions Reserve fund, with very clear objectives to meet a growing problem – that hasn't gone away.

While all the focus is on our sovereign and banking debt and getting our country's finances back in order the huge cost of the public service pension liability hangs over all our heads and is totally ignored. As all political parties line up to spend the reserve fund, no one, but no one has put forward a policy on how they will tackle this.

By way of example you can draw parallels with when the water stopped flowing at Christmas. Water supply and pensions have similarities. It was the lack of long term investment and planning in the water infrastructure that resulted in the taps running dry. A similar lack of investment and planning in pensions – will cause the pension tap to run dry.

Relying on a policy of hope will not be sufficient. Provision for income in retirement requires thinking about the long-term and planning for it.

And this reminds me of a conversation around our dinner table one evening with the kids, and the discussion was *what they wanted to be when they grew up?*. the eldest guy, play for the Dubs, my next lady at 9 couldn't decide between an architect and a hair dresser and the youngest boy felt he was destined to be a super hero. Our second daughter who was 6 at the time was

unusually quiet, and when all eyes turned to her, she said very proudly, well when I grow up I want to be a pensioner. It crossed my mind that maybe she thought I was a pensioner, and she wanted to follow in her mothers foot steps. But no, at the time, she spent quite a bit of time with my Dad, he would collect her from school and she decided he had the best life, didn't have to go to work and still get paid.

We all share the same ambition, - to be pensioners when we grow up.

Yet, the reality is the majority will be depending on a debt ridden state and the taxes of a reducing workforce to provide for their old age.

We know only half of the current working population are making pension provision, for many, it is simply not enough.

As we grow older there will be no sense of security or dignity in our golden years. We hopefully will live longer and there has to be more to look forward to than a cheque from the President when we reach 100.

So much damage has been done to pension provision in this country, and it is galling that the people who have overseen this destruction and constantly chipped away at the ability of ordinary workers to save for their retirement, are now walking away from public life with their own lottery style pensions.

They leave behind a regime that will prevent private sector workers being able to afford or even aspire to similar pensions.

It is beyond belief given the serious economic environment that Public Servants still today expect a final salary pension with unlimited inflation protection. While private sector workers are struggling to save for their retirement and are bracing themselves for a possible levy – *a levy on their pension* to pay for public sector pensions.

We believe this is totally unacceptable in what is after all supposed to be a democratic and civil society.

While it has been claimed in some quarters that a levy has the support of the “pensions industry”, let me be very clear, it does not have the support of the IAPF. Levying the private pension savings of ordinary workers is no solution and is not in the best interest of pension provision in Ireland.

We must not loose sight of the fact that workers are doing the right thing saving for their retirement, it's the right thing for them, their families and for society.

Last year In Ireland there were over three-quarters of a million private sector workers saving for retirement. However, with the economic down turn and changes to tax relief for many, it will be very difficult for this to continue.

While countries all over Europe are trying to build private pensions provision, our policy makers now seem on course to destroy this good solid base.

Many in this room have worked hard to build this solid base over the years with the commitment of employers, trade unions and trustees all working to do the right thing. For many here tonight, pensions' has been your business, your career and your passion for many years.

As a result of this there are 100,000 pensioners today spending the "*grey euro*". They are also paying tax and social charges on their pension, *a fact conveniently overlooked when calls for cutting tax relief on pensions are made.*

Let us also not forget that Pension Savings today are over €80 billion. For many this will provide them with a reasonable standard of living in their retirement without dependence on the state.

I would like to speak about Sovereign Annuities. When the IAPF proposes a policy change, it does so in the best interest of pension provision in Ireland.

This was the driving force behind our proposal with the Society of Actuaries when I announced at last years dinner that we were developing a mechanism that would allow pension funds match their liabilities with Irish sovereign bonds. At that time the spread between Irish and the German bonds was 1½%. With the movement in the yields in the months that followed this only added to the woes of Irish DB Schemes.

Something had to be done, otherwise schemes were facing sever benefit cuts or even collapse. The introduction of sovereign bonds/annuities", will help pension funds and give Trustees further options to meet minimum solvency.

Sovereign Bonds/Annuities are not for every scheme and there is no question that it will lead to very tough decisions for Trustees over the coming months. Trustees and plan sponsors are a waiting clarity on what the Funding Standard actually is, the deadlines and how the proposed new DB Model will fit into possible solutions

We know it has never been a more challenging time to be a Trustee of a Pension Scheme, and trustees will need time and appropriate advice to deal with these changes and the impact on their members and their investment strategy. We would strongly caution against short-term deadlines being imposed.

The financial crisis continues to impact throughout pension funds as Trustees consider their investment strategies for 2011 and beyond. While recent market conditions have been good, the harsh reality of losses in 2008 is focusing many Trustees to seek opportunities to de-risk their investments.

However, in spite the intentions to de-risk, trustees need to reduce deficits. Balancing Risk and Reward has never been easy. Pensions Funds face the dilemma of having to continue to run risk in the short term in order to get risk off the table in the long term.

The scale of this challenge should not be underestimated, as trustees consider a new world order for investments, uncertainty about the euro and the re-emerging threat of inflation.

Our Trustee Network provides a valuable and unique environment for trustees to meet, to share their experiences and improve their own knowledge to deal with the challenges facing them.

I would like to now turn to the issue of Pension Tax Incentives.

There is no question that the economic downturn is having a severe impact on pension savings. When putting money away for 40 years you need confidence – confidence that the body politic will not change the rules mid way and confidence that your savings will not be raided when the going gets tough. You also need to be incentivised.

The IAPF has been very active on the issue. 2010 put the spotlight firmly on pension tax relief. The high pensions of a few made it almost politically correct to attack pension tax relief for all, and as we know the majority of this relief is paid to average earners.

It never made sense to reduce the incentives for the very people who will require additional replacement income in their retirement.

Only last February the Government announced a policy of 33% relief and this went out in a puff of smoke in the four year plan by last November.

The four year plan if implemented in its current form will see relief for all at 20% over the coming years. I have no doubt that without our strong representation

tax relief would have unilaterally being reduced to 20% immediately.

We also are encouraged that the section in the four year plan that deals with pension tax relief is under review by a small group and the IAPF will play a leading role in this group, working with the Department of Finance on this issue. They will consider how best to achieve savings with our shared objective of not destroying the solid pension base that Ireland has built and needs to grow.

What underpins any pension policy is of course an adequate and sustainable state pension as first tier protection for all. But we also need a strong system of second tier provision. The IAPF has always believed, that effective second tier pension provision must be incentivised through the personal tax system. In turn these pension savings will generate tax revenue when drawn down.

Occupational Pension funds and their savers need to be supported and incentivised by Government to help achieve their stated policy to improve coverage and adequacy.

In recent years we have seen occupational pension schemes changing to provide more realistic expectations, with less focus on whether this is DB or DC and more on the likelihood of receiving an adequate pension in retirement.

The pension landscape in Ireland is shifting, with a move to Defined Contribution. The IAPF, through the work of our DC Committee has focused on improving governance, Communications and trustee training to ensure appropriate investment strategies and real member engagement.

We believe, that if designed correctly with the appropriate contribution rates DC schemes can deliver for members in retirement.

After many years, the introduction at last, in the recent finance Act of the extension of the ARF option for DC members is to be welcomed.

It is hard to believe that this simple change, despite overwhelming and unanimous calls has taken almost 8 years to implement. Yes - we do need to change how politics operates in this country.

I am pleased to announce the IAPF will shortly launch a new DC Pensions Quality Standard. Schemes who meet core standards in communications,

contributions and governance will receive the recognition and be able to use this to promote their scheme. *I have no doubt this will receive your support when launched.*

I would now like to talk briefly to those who provide services to Pensions Funds. You need to ensure there are suitable products and services that meet the needs of funds and their members. Providers need to focus on their costs and the transparency of these costs to reflect the changed economic environment.

We must have greater innovation and simplification to ensure companies and members have the confidence to continue to make pension provision. There is also a danger that those providing services to Trustees and members forget that ultimately a pension scheme is about the members and their financial security. Confidence is built when members understand their pension scheme and we all need to communicate better.

Let me briefly address the issue of Europe with regard to pensions. With so much going on, on home soil, changes that could have serious impact on pension provision in this country are being considered in EUROPE.

This Commission are continuing to look at the issue of Solvency 2 and there is a European Green paper on pension under review. We actively participate in the EFRP – European Federation of Retirement Provision. Indeed, as some of you already know we are very honoured that Patrick Burke, was selected as their Chair of the EFRP last November. This reflects the high esteem Patrick is held by our colleagues in Europe, and it allows us to influence positively for Irish pension schemes.

I would now like to acknowledge and to thank the Council, Committees Forum members and the Office of the IAPF for their continued commitment to the Association and its members. I am very grateful to all whom I have had the pleasure of working with and who have supported me during my tenure as chair of the association. Regardless of their profession or role those involved with the IAPF, past and present all share the same commitment, integrity and *passion for pensions*.

I am sure many of you will appreciate that the work of the IAPF has been greatly enhanced in recent years by the Commitment and drive of Jerry Moriarty, Director of Policy. I would like to thank Jerry for his personal support to me, making it possible for me to combine my day job with my IAPF Role.

As I near the end of my term in office I am delighted to be followed by Maurice Whymys. Maurice, whom many of you will know, will bring his experience and professionalism to ensure the IAPF's position as the credible and practical

Voice of Irish Pensions is safe hands as we navigate our way through the challenges ahead.

Before I conclude, I would like to say sincere thanks to my friends and colleagues at ESB, some of whom are here tonight and to my husband all who have been enormously supportive to me during my term of office.

The Irish Association of Pension Funds has a long and proud history in helping to shape pension policy. Never before in the history of our association has it been as critical that our voice is heard - and that we continue to lead and shape solutions to the Pension Crisis facing our members and our country so that we can all aspire to being pensioners when we grow up.

Ladies and Gentlemen thank you very much.