



*IAPF SEMINAR
'THE PENSIONS CHALLENGE'*



iapf

THE PENSIONS CHALLENGE

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Challenges

- Coverage
- Adequacy
- Rising cost of benefits
- Falling asset values
- Changing economic environment

A Government seeking sources of finance



Getting it right *(for the long term)*

- We've invested some time ...
- Input from many quarters
- Framework this summer?
 - sustainable pension system providing adequate benefits for future retirees
 - a secure retirement for current retirees
- Short term focus should not impact on long term outcome





- Due to report to Government in July
 - consider how best the tax system can encourage long term savings to meet the needs of retirement
 - review all tax expenditures with a view to assessing the economic and social benefits they deliver and to recommend the discontinuation of those that are unjustifiable on cost/benefit grounds



Pensions Tax Relief

- It is perceived that the support given to private sector pensions

- “Costs” the State €3 billion
- “Favours” the highly paid
- Is disproportionate ...
 - Compared to State Pensions in payment (€3.9 billion)
 - Value of public sector pension benefits accruing (€2.5 - €3 billion p.a.)

Table 7.2: Estimate of the cost of tax and PRSI reliefs for private pension provision 2006

	Estimated costs €million
Employees' Contributions to approved Superannuation Schemes	540 ^a
Employers' Contributions to approved Superannuation Schemes	120 ^b
Estimated cost of exemption of employers' contributions from employee BIK	510 ^c
Exemption of investment income and gains of approved Superannuation Funds	1,200 ^d
Retirement Annuity Contracts (RACs)	380 ^e
Personal Retirement Savings Accounts (PRSAs)	120 ^f
Estimated cost of tax relief on "tax-free" lump sum payments	130 ^g
Estimated cost of PRSI and Health Levy relief on employee and employer contributions	220 ^h
Gross cost of tax relief	3,220
Estimated tax yield from payment of pension benefits	320 ⁱ
Net cost of tax relief	2,900

- Green Paper responses – “little consensus”



Pensions Tax Relief

- System is one of tax deferral (EU norm)
- Not all “reliefs” might generate cash

- Tax deferral approach benefits mid income earners
- 800,000 members of occupational schemes are not all “highly paid”

Country	EET	ETT	TEE
Belgium			
Denmark			
Germany			
Greece			
Spain			
France			
Italy			
Ireland			
Luxembourg			
Netherlands			
Austria			
Portugal			
Finland			
Sweden			
UK			

Source: European Commission (2001)

Salary	Headline rate of relief	Net effective rate of relief
30,000	22.0%	22.0%
40,000	38.1%	38.1%
50,000	43.0%	42.8%
75,000	41.7%	37.2%
100,000	41.7%	34.1%
150,000	41.7%	30.4%

Source: Life Strategies (2008)



IAPF snapshot survey

Defined benefit schemes

Salary Band - €	Number of Members	Percentage of Members
<18,300	2031	4%
18,300 - 36,399	21,752	42%
36,400 – 69,999	23,533	44%
70,000 – 100,000	3,244	6%
> 100,000	1,857	4%
Total	52,037	

Defined contribution schemes

Number of Members	Percentage of Members
7,170	11%
33,645	51%
24,541	37%
5,033	8%
2,754	4%
65,973	

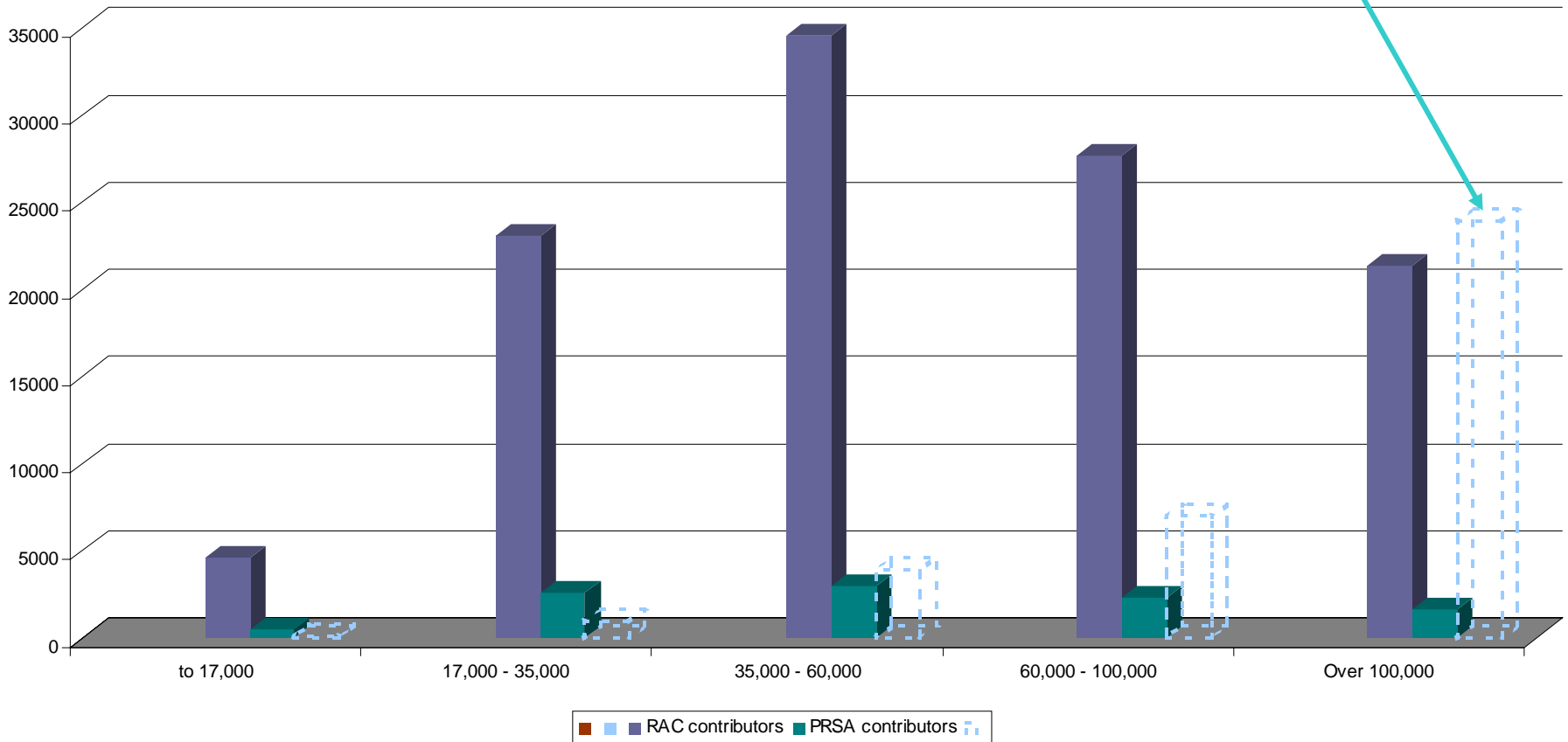
Profile of contributors appears reasonable when compared to Government tax take references



Government references ...

2005 tax relief granted (€) to RACs and PRSAs

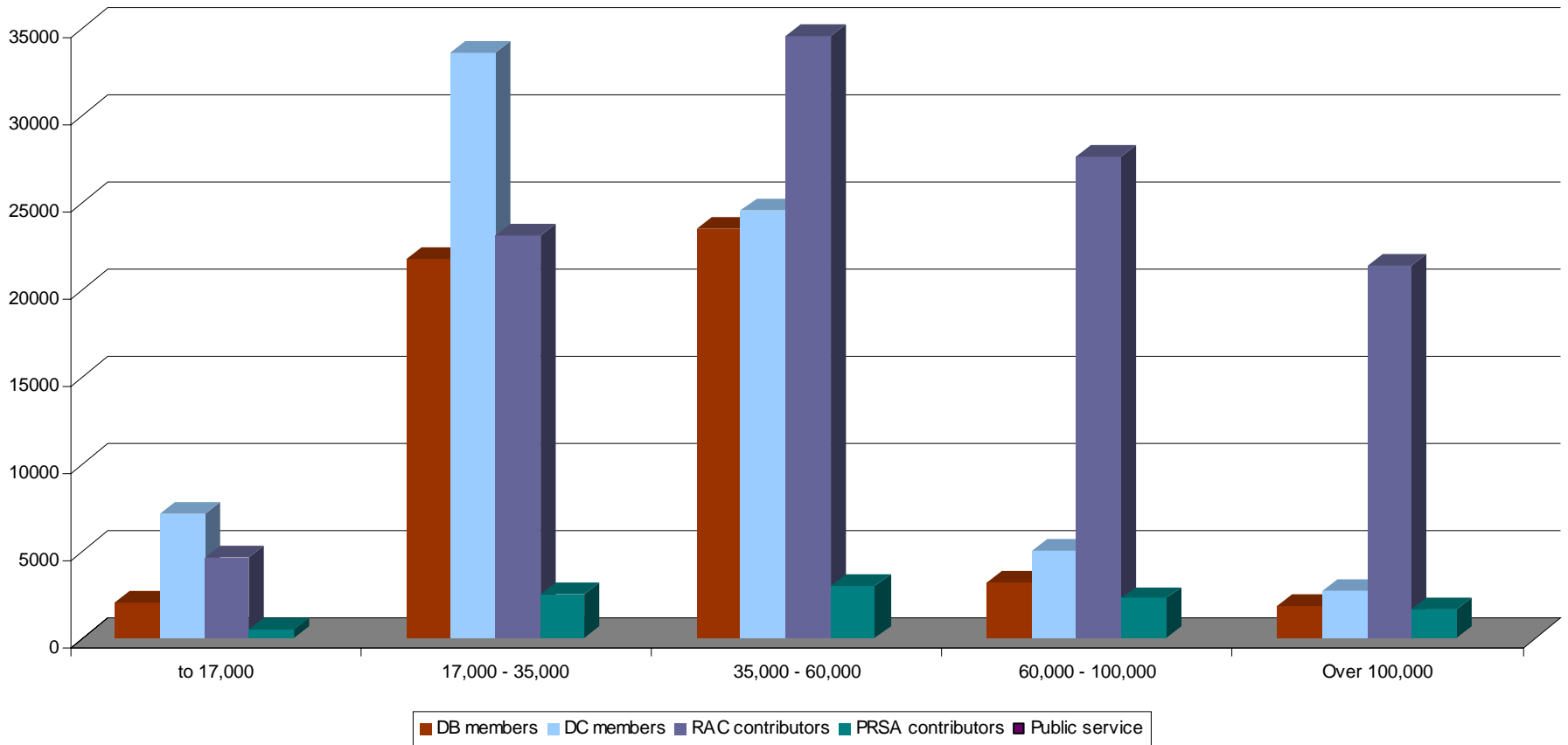
Number of members by gross income (2005/2009 data)





Adding recent survey

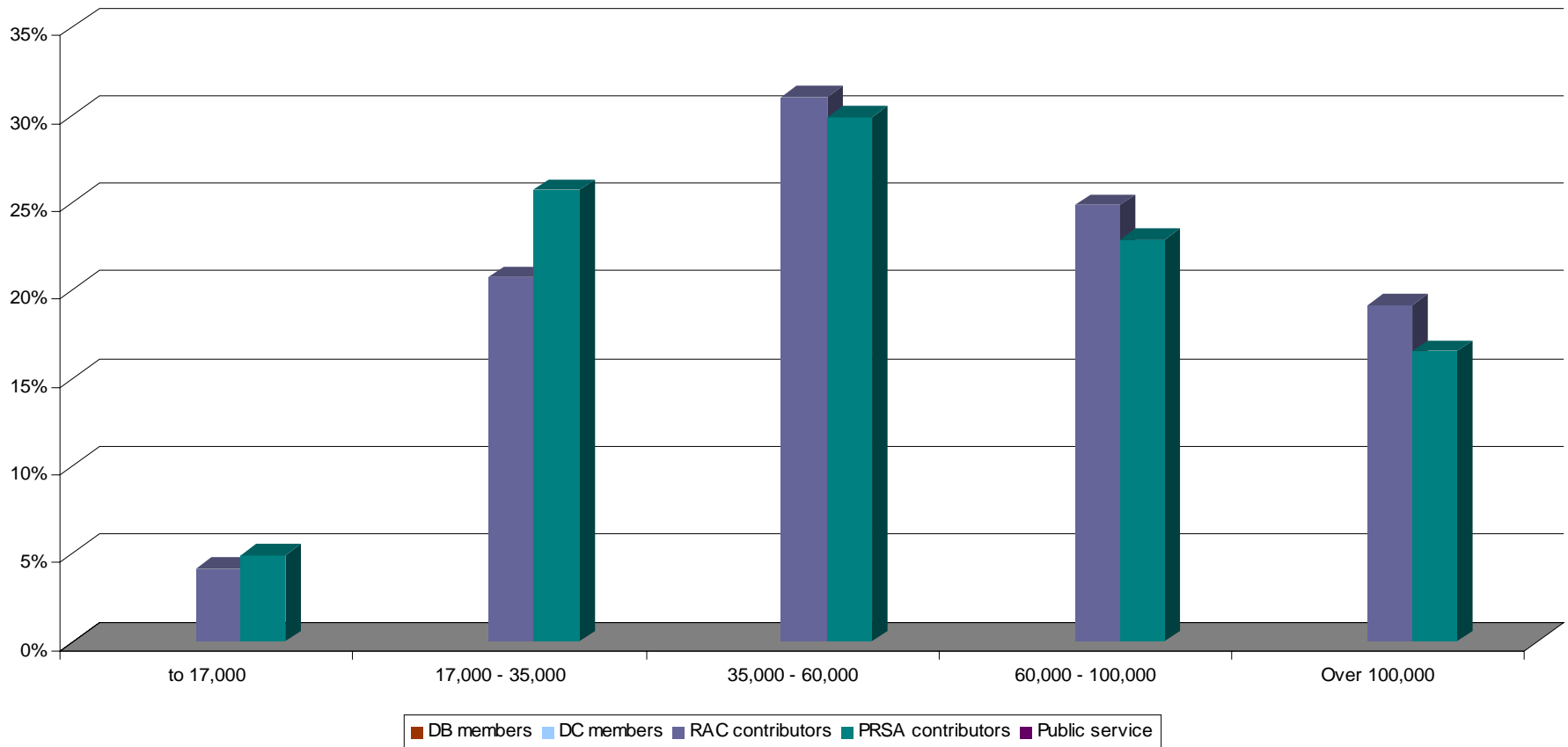
Number of members by gross income (2005/2009 data)





The Government sees ...

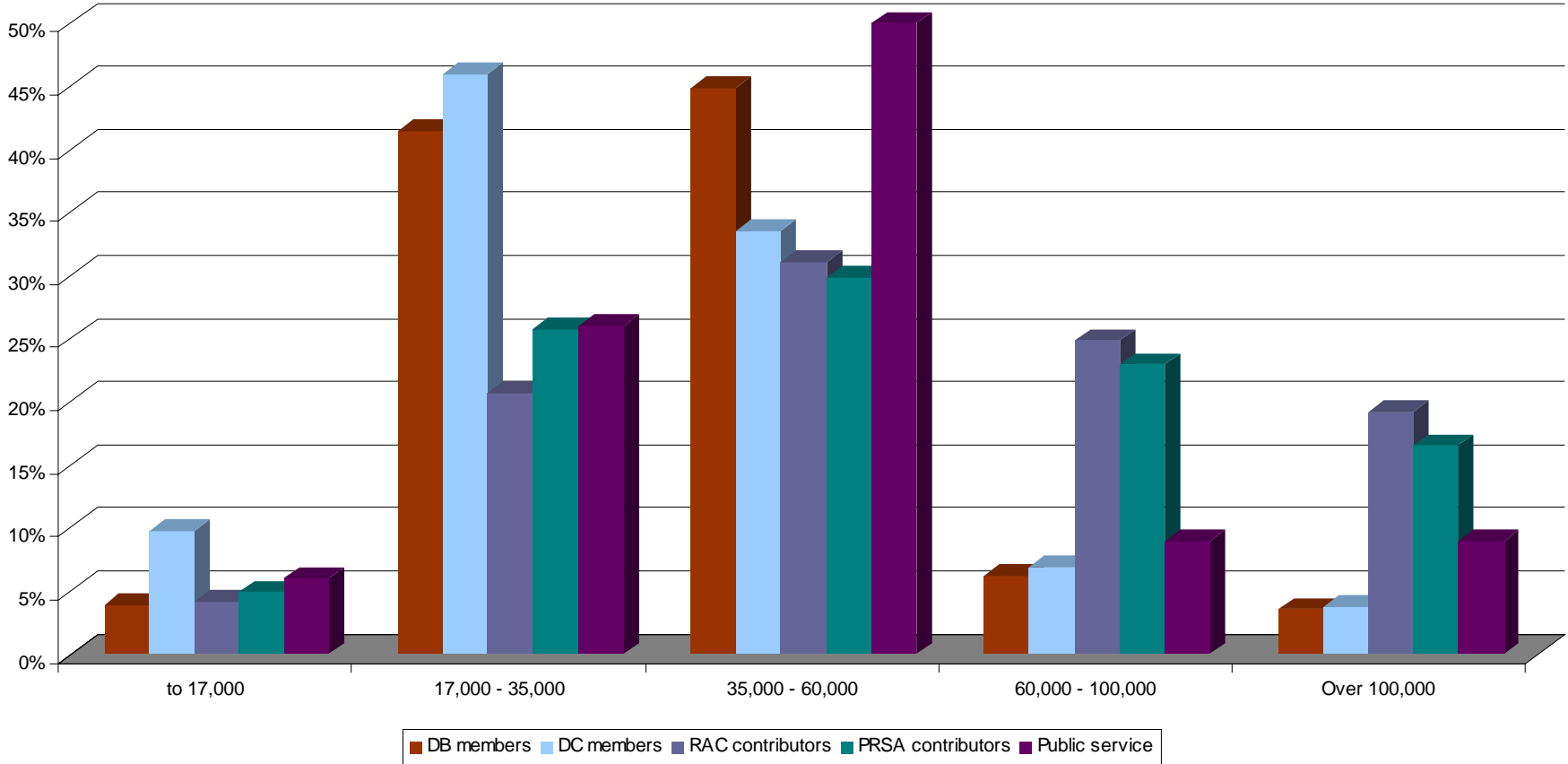
Percentage of members by gross income (2005/2009 data)





Adding recent survey

Percentage of members by gross income (2005/2009 data)



Public sector data	55,000	74,000	126,000	55,000
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Source: Impact 2009



Irish pension assets

- Assets in private sector schemes - €67 billion
- Covering
 - Actives
 - Deferreds
 - 75,000+ pensioners
- Taxation of investments could
 - Increase cost of DB provision
 - Reduce benefits for actives
 - Lead trustees to be permitted to reduce pensions in payment (for pensioners share of tax)
 - Result in move to buy out pensions

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**Calculated as 20% tax on
€80 billion earning 7.5% p.a.**



What changes might be considered

Tax on employees

Removal or reduction in income tax relief

- contribution rates
- € cap
- change tax rate for all (or adjust levy)
- tapering down of tax rate (as per UK changes)
- tapering up approach (standard rate for initial)

- *Reducing incentive to save (fall in AVCs)*
- *Unless reduce tax when retired*
- *Public sector impact*
- *Increased reliance on State Pension*
- *Perhaps cope via new State 2010 Pension*

Taxing employer inputs

Removal or reduction in corporation tax relief

Making employer contributions a BIK

- Approach needed for DB
- Approach needed for €2.5bn+ public sector cost

- *Genuine business expense (if regard as deferred income)*
- *Restructuring contributions*
- *Incentive to underfund, abandon DB*
- *Move to individual accounts*
- *BIK charge on pensioners?*
- *Impact on low income groups*

Taxing the assets

Taxing gains

Taxing income returns

Levy approach

- on contributions
- on assets

- *Increases cost of DB and risk of collapsing some DB*
- *Funds depleted*
- *Reducing benefit outcomes*
- *Variability of income for Government*
- *Refund when markets fall?*



What changes might be considered

Reducing net cost of benefits

Changing taxation of pensions

- future retirees
- future benefits earned
- all

Changing taxation of lump sums

- all lump sums
- lump sums above € cap
- consider impact on low paid

Changing public sector pensions

- pausing accrual
- pausing/amending post retirement increases
- changing state pension age

- *Change to taxation of pensions unlikely as result is disincentive to save at lower incomes*
- *Taxing lump sums widely rumoured, impact of scheme restructuring/ARFs/redundancy link*
- *Public sector pause: no cash benefit and likely pause in pension levy as quid pro quo*

Curbing excesses

Reducing maximum pension

- € cap
- introduce max annual accrual

Reducing Standard Fund Threshold, max lump sum

Changing tax on large individual fund

- say, between SFT and PFT

Change ARF regime

- higher drawdowns
- accelerated tax above € limit
- alter tax treatment on death

- *A reasonable approach to remove perceived inequities*
- *Unlikely to generate large cashflow for Government*
- *Need to consider equitable approach to valuation of public service pensions*



In summary

Changing tax relief on pensions, could ..

- Short term outcomes
- In the longer term



Platform for future retirement security, planning

- Signal phased timing of future NPRF contributions
- Determine level of future NPRF contributions
 - Exchequer funding
 - Employee contributions/levies
- Release National Pensions Framework
- Determine target level of State Pension(s)
 - Current retirees
 - Future retirees



Activity

IAPF to date

- Green Paper response
- Commissioned and published research
- Met Commission on Taxation
- Meetings with IBEC, unions
- Press commentary
- Contributions to
 - State Annuity Fund
 - Government funding needs
 - Infrastructure

Going forwards

- IAPF to meet again with:
 - Policy makers
 - Employers and unions
 - Commission on Taxation
- IAPF members
 - Use influence