IRISH ASSOCIATION
OF PENSION FUNDS

BUDGET SUBMISSION 2009

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There are three key points that the Irish Association of Pension Funds would like to make in advance of the Budget on December 9th 2009.

1. The current incentives available to encourage workers to save for retirement need to be, at a minimum, maintained. Reducing incentives will only result in fewer people saving less. 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. For some, particularly the lower-paid, this will require an improvement in incentives.

2. The option to transfer to Approved Retirement Funds at retirement should be extended to all defined contribution occupational pension scheme members

3. 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 Renewed Programme for Government contained a commitment to "introduce a single 33% rate for tax relief on private pension provision in the context of the national pensions framework". This is a reduction in the tax relief currently available to higher-rate taxpayers and an increase in that available to standard rate taxpayers. The impact of such a measure has not been assessed and is therefore not properly thought through. The following issues need to be taken into account when giving proper consideration to this:

- Ireland needs more people to save more for their retirement. For many years it has been Government policy to get 70% of workers to save for a pension that would provide 50% of their pre-retirement income. Yet, this proposal will result in many of those who are already saving either saving less or not saving at all. There is no evidence that, in the current economic circumstances, increased incentives for lower paid employees will result in them starting to save or saving more.

- Pension schemes are already in crisis. Defined benefit pension schemes are experiencing large deficits while defined contribution members have seen their investments fall in recent years. The system needs time to recover and restructure and now is not the time for such a fundamental change.

- A reduction in tax relief for higher rate tax-payers means a reduction in their take-home pay. This would affect over 50% of members of occupational pension schemes. 75% of these members earn less than €70,000

- Because pensions are taxed in retirement, many people will now receive tax relief on their contributions at 33%, yet pay tax on their pension at whatever the marginal rate is when they retire (currently over 50%). For many, it will not make sense to make pension contributions on this basis. Furthermore, a 40 year old earning €45,000 will have an effective rate of relief lower than the 33% relief when the tax they will pay on their pension in retirement is taken into account. This effective rate of relief continues to fall until someone on €145,000 gets no effective tax relief and, on salaries above that, more tax is paid on the benefits than was received in relief.*

- The real high earners who are perceived to benefit most from the current system will be able to influence the restructuring of arrangements so they do not pay member contributions. Specific targeted measures should be taken to ensure any abuses of the system are curbed. The actions of a small few are no justification for inhibiting the ability of the majority of workers to save for retirement.

- Employers, trustees and trade unions who are trying to restructure defined benefit schemes to ensure their sustainability will find it harder to increase member contributions when the Government has already increased them. This is often a necessary component of plans to restore schemes to solvency.

- Any measures that reduce the attractiveness of pensions to employees will ultimately reduce employer participation. There are over 800,000 members of occupational pension schemes that benefit from employer contributions to those schemes. It is very difficult for individuals to save the amounts necessary to provide an adequate pension on their own.

- It is difficult to see how the payroll deduction system could cater for such a change. Contributions are currently paid under the net-pay arrangement which can only work if relief is granted at the marginal rate. Switching to a tax credit basis would require every contributor to contact Revenue to claim an amended certificate of tax credits which would also be required any time there was a change in contribution rates. Granting relief at source would be logistically difficult where there are over 90,000 schemes that would have to recover the tax relief from Revenue. Any additional costs are likely to further diminish employer support for pensions.

- Long-term savings require a reasonable level of certainty. The uncertainty caused by this and other piecemeal changes is a discouragement to such savings.

- If the real goal of such a measure is equity then there should be an equitable rate of tax on pensions in payment.

- If 10% of those not currently contributing to a pension started to pay contributions of 5% because of the additional incentives for them, the Government would save €60 million a year. Even then, it is unlikely that 95,000 people are in a position to start contributing in this economic climate.

- If no-one started to contribute and those who currently are continued, the Government would save €120 million a year.

- Pension provision in Ireland cannot be improved by the Government saving money.

- If the Government is serious about improving pensions coverage and adequacy they should give higher rate tax relief to all pension contributors. If 10% of those not currently contributing to a pension started to pay contributions of 5% because of the additional incentives for them, the additional cost to the Government would be €165 million a year.

***** A 40 year old with a 10% employer and 5% employee contribution being paid into a defined contribution fund will receive “headline” rate of relief of 33% based on the Government proposal. The “effective” rate of relief takes into account the tax that person will pay in retirement assuming they take their maximum tax free lump sum (assuming also that lump sum is restricted to a maximum of €200,000 tax–free as recommended by the Commission on Taxation).

Analysis completed by Life Strategies Ltd. as follow-up to “An analysis of certain tax aspects of the Irish system of pension provision” paper prepared for the IAPF in May 2008.

Current Regime - allowing for Capped Tax Free Lump Sum		
Salary	**Effective Rate**	**Headline Rate**
25,000	33.0%	33.0%
35,000	33.0%	33.0%
40,000	33.0%	33.0%
45,000	32.9%	33.0%
50,000	31.7%	33.0%
55,000	29.6%	33.0%
60,000	26.8%	33.0%
65,000	23.8%	33.0%
70,000	20.8%	33.0%
75,000	18.1%	33.0%
80,000	15.7%	33.0%
85,000	13.6%	33.0%
90,000	11.8%	33.0%
100,000	8.6%	33.0%
110,000	6.1%	33.0%
120,000	3.9%	33.0%
130,000	2.1%	33.0%
140,000	0.4%	33.0%
145,000	-1.3%	33.0%
150,000	-3.5%	33.0%
160,000	-8.0%	33.0%
170,000	-11.8%	33.0%
180,000	-16.0%	33.0%
190,000	-20.4%	33.0%
200,000	-25.1%	33.0%
210,000	-29.9%	33.0%
220,000	-34.9%	33.0%
230,000	-40.1%	33.0%
240,000	-45.4%	33.0%
250,000	-50.6%	33.0%

2. Approved Retirement Funds

We strongly believe that all defined contribution members should have the option to transfer their accumulated funds to an approved retirement fund at retirement. This would allow, members the option to continue to manage their investments on a long term basis rather than be locked into an investment vehicle (an annuity) that can only operate on a low interest rate return for an average period of more than 20 years. This has been recommended by the Commission on Taxation and would give those members the same options as all others who save for retirement on a defined contribution basis.

3. 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.