Irish Association of Pension Funds
Suite 2 · Slane House
25 Lower Mount Street · Dublin 2
Telephone +353 1 661 2427
Telefax +353 1 662 1196
Email info@iapf.ie
Website http://www.iapf.ie

iapf
the voice of Irish pensions

Mr. Michael Noonan
Minister for Finance
Department of Finance
Government Buildings
Upper Merrion Street
Dublin 2

18th May 2011

Dear Minister,

**Re: Pension Levy**

In our letter of 29th April last we outlined the likely consequences of the introduction of a levy on pension savings and asked that you consider some alternative proposals. Our position on this topic has been consistent and we outlined this in a letter to you on 11th February 2011 following the publication of Fine Gael's Fiscal Plan. A levy runs counter to National Pensions Policy objectives and does not have the support of the pension schemes, covering over 350,000 members, that we represent.

The reaction from the public, media and a broad range of commentators to the imposition of the levy has highlighted one of the main points we made, that this course of action would be very damaging to public confidence in pension provision in Ireland. Indeed, it is fair to say the fallout will damage confidence in the security of any form of savings in Ireland.

Since the announcement by you of the levy, the likely consequences of its imposition are becoming clearer and these are disturbing.

1. The "pensions industry" has made it clear to our members' pension schemes that it will not absorb the cost of the levy. Therefore, it will mostly fall on individual savers within pension schemes to pay the levy.
2. Many employers in the current economic climate cannot absorb the cost of the levy without increasing prices, or reducing other employment costs which they have indicated will result in job losses.
3. Defined benefit schemes, most of which are already in deficit, will need to cut benefits further or raise employee contributions to pay the levy. The feedback we have received from a number of pension schemes, is that this will be the tipping point that will lead to the closure of these schemes. These schemes have already spent 12-18 months negotiating benefit reductions and contribution increases. They had just got back into a position where they are now in a long term viable position and the trustees, employers and members of such schemes have no further room for manoeuvre to meet this additional expenditure. Trustees will also be acutely conscious of the recently issued Consultation Paper on Defined Benefit Funding which is proposing further increases in the minimum level of funding for such schemes. If the Government's levy and the

proposals within the consultation paper trigger the wind up of schemes, the impact on members in many cases will be severe.

4. The prospect that average workers will be levied on the pension savings they have made and will not receive tax relief to incentivise them for locking savings away for a considerable period of time, will undoubtedly result in a severe reduction in long term retirement savings and require substantial Exchequer funding for increased State pensions in the future. One must not lose sight of the fact that the National Pensions Reserve Fund was, and indeed should continue to be, projected to have €50 billion available to part fund State and public sector pension liabilities by 2025. The dissipation of the NPRF only heightens further the need to have robust private pension savings to avoid real poverty and hardship for future pensioners.
5. The implication that pension savings are potential targets for capital taxes will detract from Ireland's ability to position itself as a centre for international fund and pan European pension structures. This comes at a time when the EU is seeking to reduce barriers for multinational corporations to establish such vehicles. We are already seeing individuals and schemes examining how they can move their pension assets out of Ireland to avoid the levy and to protect against further such measures.
6. Finally, the levy is inequitable as it excludes a large number of individuals who have benefitted from past taxation subsidies and seeks to tax those who have sought to reduce their future financial dependence on the State.

It is disappointing that the proposals we put forward in our previous submissions have been dismissed in the briefing paper issued by your Department without any engagement to discuss the issues. We believe that there is merit in all of the alternatives we have suggested to the proposed levy and that such options would allow pension schemes to make a positive contribution to the Jobs Initiative and economic stimulus.

We recognise that there is uncertainty in relation to the likely revenue resulting from any option, including the proposed levy, but our experience would indicate that the options we have put forward have the potential to be successful. The options we have suggested have also been endorsed by IBEC and ICTU said that the levy "shows a real lack of imagination as to how these funds can be harnessed to the goal of job creation and growth". We would urge the Government to consider deferring the implementation of the levy and trialling, during 2011, the alternative proposals we have put forward.

The options outlined in our letter of 29th April 2011 were:

- We suggested that savers be allowed early access to some of their pension savings on a limited basis. This would be particularly attractive to people who may be struggling with debt and could result in not just a reduction in the net indebtedness of individuals (and hence improvement in the balance sheet of Irish banks), but also provide individuals with greater net income which would be spent in the economy. The Department's statement that this "might cause difficulty for future pensioners and does not seem consistent with the aim of encouraging long term saving for retirement" equally applies to a pensions levy without the ancillary economic upside of the personal deleveraging and income easing which might result from our proposal. For example, this initiative could be restricted to Additional Voluntary Contributions so that savers "core benefits" are not affected. A once off tax would be applied to those withdrawals. With Additional Voluntary Contributions estimated to comprise at least €5 billion, there is a significant amount that could be accessed and revenue that could be raised. The opportunity could be initially time limited to, perhaps, the end of August which would ensure there would be an early indication as to the success of the initiative.

- In the meantime, work could commence on looking at the possibilities for pension assets to be invested in infrastructure or venture capital funds to support the recovery of the country's economic position. Whilst there would be no direct economic gain to the pension funds we represent from such an economic improvement, it is in the interests of the average pensioner and employee, and Ireland's social fabric, that the country regains its financial strength.

We would again urge that you, and your Department, engage with ourselves on behalf of the average worker and pensioner who are members of the pension schemes we represent. We look forward to discussing these issues in further detail when we meet with you on May 24th.

Yours sincerely

Marie Collins

Marie Collins
Chairman

c.c. Ms. Joan Burton, Minister for Social Protection