The Government today published the Pensions Board report on a supplementary pensions system "Special Savings for Retirement". This report was requested by the Minister for Social Affairs, Mr. Séamus Brennan, TD, as a follow on to the Pensions Board National Pensions Review, which was published last January and the National Pension’s Forum which was held in May. The Pensions Board was requested to consider, through detailed investigation of national and international suggestions, proposals and experiences, the options the Government might consider should it decide to introduce a system of supplementary pensions.

The report is a technical examination of the practical issues associated with a supplementary pension system. The Pensions Board has not recommended a mandatory supplementary pensions system. It has, instead, examined several options and concluded by giving an outline of what such an arrangement could look like.

The report has also highlighted issues around the economic and financial sustainability of such a system. These issues are extremely important in the context of any future decisions the Government may take regarding pensions coverage in the light of current coverage levels and of changing demographic trends over the coming years.

The parameters of the systems considered in the report, including the “hybrid model”, and the background to the pensions issue overall, are contained in the Executive Summary on pages 8-19 of the report.

It should be noted that the "hybrid model" option would have significant public finance and economic impacts. On the fiscal side, it is estimated that the cost of the recommendation could rise over 10 years to as much as €3 billion in 2006 terms. This would arise from the increase in the State social welfare pension (and possible knock-on impact on other adult social welfare rates if these were increased at the same rate) and the indirect expenditure that will arise from enhanced levels of tax relief and the State contribution to the envisaged supplementary savings accounts. This would be equivalent to 1.8% of GDP in 2006 terms.

On the economic side, it could be argued that the mandatory pensions savings examined for both employers and employees could be viewed as a tax on labour and could have a negative effect on labour demand and supply. Labour cost increases, it could be further argued, could ensue, impacting negatively on the country’s competitive position and ability to attract foreign direct investment, and overall economic growth could be lower. On the social side, it is clear that there are many challenges. At present over 900,000 people, almost half the country’s workforce, have not made provision for any private pensions and, as of now, are moving towards a retirement in which their main source of income will be the State pension. While there have been substantial improvements in the State pensions in recent years - for example, the Contributory Social Welfare pension has been increased by 45% in real terms since 1997 and the increase has exceeded the rise in gross

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average industrial earnings over the same period - most citizens require additional income if they want to maintain their pre-retirement standard of living. The considerable attention in recent times that has been paid to the pension’s challenge Ireland is facing, which is increasing in importance but remains some years away from the impending crisis faced by many other countries, has now placed pensions firmly on the national agenda for discussion and debate.

The issue of pensions, for example, was especially prominent in the recent partnership negotiations. In the new agreement "Towards 2016", the Government has agreed to publish a Green Paper on Pensions Policy which will outline the major policy choices and challenges in this area and, following consultation with the social partners, to develop a framework for comprehensively addressing the pensions agenda. The timescale for this process is within twelve months of the ratification of the new agreement.

Any examination of future pensions will have to recognise the following facts: -

- the number of persons aged 65 and over will, from a current level of some 464,000, double by 2030 to nearly one million;
- the public cost of providing for those in this age group will rise from 13% of GNP to over 17%, apart from other pressures or enhancements to social welfare or public services;
- at present there are over 4 workers contributing to the support of every pensioner. This will fall to 2.7 in 20 years time and to less than 1.5 workers per pensioner in 50 years time.
- our people, thankfully, are living longer, healthier lives and this, in itself, must inevitably mean a longer working life is possible and that a higher pension age overall may in time become the norm;
- no pension system is worthwhile unless it is sustainable.

Our pensions system will only be able to serve our pensioners, both current and future, if it is financially, economically and socially sustainable in the medium to long term. Therefore, the forthcoming Green Paper on pensions will have to consider all aspects of the system including, in the context of existing and projected increases in longevity, current retirement ages and innovative measures to encourage, facilitate and offer choices to people to remain part of the workforce for a longer period.

In publishing the Pensions Board report on supplementary pensions (and indeed the Board's earlier report on the National Pensions Review), the Government is of the view that it will make an important contribution to the wider pensions and public policy considerations that will now take place in the context of the work on the forthcoming Green Paper on Pensions.

A copy of the report is available at: http://www.welfare.ie/publications/pensionreport/pensionreport06.html and can also be found under the Latest News on the Pensions Board website at www.pensionsboard.ie.

Ends

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