

Green Paper on Pensions

The Government today launched the Green Paper on Pensions which was promised as part of the Partnership talks "Towards 2016". Launching the report, Martin Cullen T.D. the Minister for Social & Family Affairs described it as the culmination of the review process, but only the commencement of a consultation period which will run to mid 2008. He also emphasised that the Government would not be expressing a view on any of the proposals put forward in the Green Paper at this stage, as they wished to stimulate an open debate on the issues raised.

Reform of Social Welfare Pension

The Green Paper runs to over 250 pages, and is divided into 14 chapters covering various topics. After a number of introductory chapters, chapter 6 considers possible **reform options in relation to the Social Welfare pension**, ranging from the provision of a universal pension, based only on residency, to an extension of means testing to all elements of State pension provision and the possible introduction of a formal indexing process rather than the current annual uplift announced in the Budget.

Incentives

Chapter 7 considers the **incentives which are provided for supplementary pension** provision i.e. tax reliefs and discusses possible changes to these, including the extension of the ARF option at retirement. This chapter also considers granting matching contributions from the Exchequer, as under the SSIA arrangements, as an alternative to tax reliefs, which would also enable a reallocation of incentives between the higher and lower paid.

Improving Pension Coverage

Possible approaches to pensions development are also considered and it is recognised that there are four ways to improve the level of pension coverage

- Enhanced Social Welfare provision
- Improved voluntary system
- "Soft mandatory" system
- Mandatory pensions

Although there is no indication of the Government preference, it is stated that it would be useful to allow time for more evidence on the performance of soft mandatory schemes elsewhere, for example, New Zealand to emerge before a decision is reached.

Pension Adequacy

The discussion of defined contribution pension schemes notes the extent to which contributions currently being paid to such arrangements fall short of those required to provide a pension of 50% of salary "including State pension" at retirement age. The Minister also specifically expressed concern about the extent to which pension provision for women was much lower than that for men, particularly in the light of the greater longevity of females.

Security

There is also a discussion of guarantees and security, and in particular comments on the possibility of introducing a **debt on the employer** in relation to the shortfall in a defined benefit pension scheme, and the introduction of a protection fund for insolvent wind-ups, similar to those in existence in the UK, USA and Germany. Reference is also made to the **Robbins Case** before the European Court of Justice (see Spotlight 8) which may require a change in legislation to deal with insolvency. However, the

general tone of the discussion in the Green Paper does not suggest that the Government has any enthusiasm for the introduction of an employer debt or a State protection fund at present.

Funding Standard

There is a further discussion of the **Funding Standard** in relation to defined benefit schemes, together with recognition of the fact that the Funding Standard of itself has not been the cause of increased pension costs, but that these are a function of reduced interest rates, greater longevity and increased salaries.

Annuity Market

There is a review of the **annuity market** which includes discussion on the role of the State in relation to annuities, and again the Government appears distinctly luke warm towards this suggestion.

Public Service Pension Schemes

The final two chapters of the Green Paper are perhaps the most interesting from a political perspective. Chapter 13 discusses **public service pension schemes**. This notes that "in common with the general population, public servants are living longer than in the past and this and other factors are increasing the cost of providing pensions". The Government intends to consider a number of further possible options to address the increasing public service pension costs including raising the minimum pension age, increasing the rate of contribution, modifying the pay parity basis for increases and moving to a career average earnings basis. Whilst the Green Paper is careful to state that the Government is not committed to implementing any of these options, the fact that they are being considered is a positive sign that Government is taking seriously the increasing burden of public sector pension costs.

Flexibility in Older Age

The final chapter addresses work **flexibility in older age** and considers this from a number of perspectives. It includes the possibility of raising the age for eligibility for Social Welfare pensions for those who are currently some way from retirement on a phased basis, similar to the approach adopted in other countries. This could also lead to a prohibition on employers imposing a mandatory retirement age below, say, 68 or 70 except in specified occupations. In its conclusion to this paragraph the Green Paper states that retirement age needs to be appropriate to make it possible to provide an adequate pension and to rise in a rational way as life expectancy increases, whilst enabling labour market flexibility and allowing people to phase the move from full-time work to full-time retirement. It will be interesting to see how this particular discussion develops during the consultation process.

In conclusion, the Green Paper covers a great deal of ground, most of which has previously been considered, and poses a number of questions for consultation, and again many of these have already been addressed. The challenge for Government is to pull together the emerging views into a consensus which will enable employers and employees to plan their pension provision in a stable framework, against the background of a published strategy in relation to Social Welfare provision in the future. Hewitt intends to play its full part in the debate during the consultation process and we will be talking to our clients to ascertain their views on some of the questions raised over the next couple of months.

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