

Brokers Ireland submission on Pensions Commission consultation sustainable State Pensions into the future

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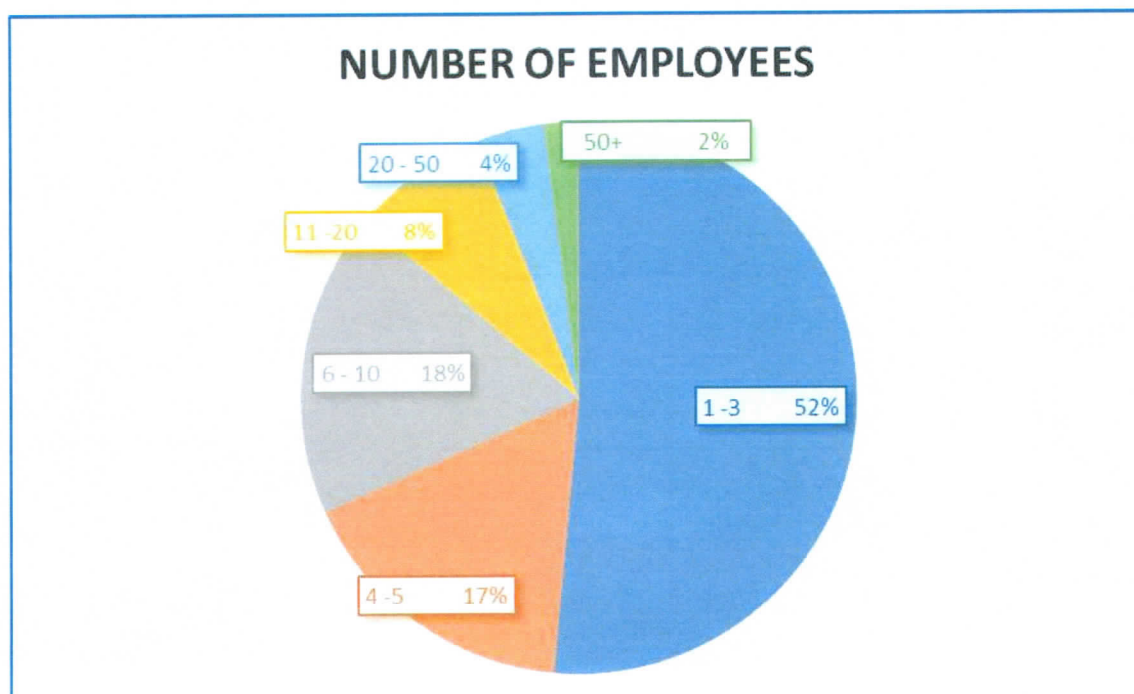
Brokers Ireland

Brokers Ireland is Ireland's representative body for insurance and financial brokers, with a combined strength of over 1,225 firms. We believe we represent a substantial number of insurance and financial brokers currently trading in Ireland. These firms provide advice on products ranging from personal and commercial insurance to advising on life assurance, pensions, investment products and mortgages. They are based in cities, towns and villages throughout Ireland and provide invaluable service to their clients. As the premier voice for insurance brokers and financial brokers, we advise members, liaise with regulators, government, and other insurance industry stakeholders on key insurance issues, to raise and maintain industry standards.

Brokers Ireland's mission is to promote, support and protect our members, both collectively and individually, in the areas of education, compliance, lobbying and business development. We underpin this support by providing a forum for dialogue and debate, both within Brokers Ireland and with industry stakeholders.

Brokers Ireland is also a member of BIPAR the European Federation of Insurance Intermediaries whose mission is to promote a European regulatory environment in which intermediaries can prosper and that, at the same time, ensures fair competition, an adequate level of consumer protection and a sound insurance market. It groups 50 national associations in 30 countries. Through our membership of BIPAR, Brokers Ireland contributes to lobbying and submissions at an EU level to influence legislative developments at their inception.

Most Brokers are small to medium firms, Brokers Ireland carried out a survey of members in August/September of 2020, the results of which are illustrated below.



Source: Brokers Ireland survey August/September 2020 - 261 respondents

Introduction

Brokers Ireland welcome the opportunity to reply to the State Pension Consultation 2021.

Research carried out in 2016, showed that those that have used a Financial Broker are more than twice (71%) as likely to have a pension compared to people that have not used a Financial Broker (33%).

What do you expect from State Pensions?

Brokers Ireland suggest that the state pension should be 35% of the average industrial wage. Under the current arrangements, those who are out of work during the current Covid-19 pandemic are not paying PRSI due to being out of work. This will leave them with a gap in their career thus affecting the State Pension Contributory calculated on a 'Total Contributions Approach' (TCA). These individuals might need special arrangements for the future.

Brokers Ireland believe that the pension payment rate should reflect the total contributions paid by any person, taking into account periods of low or no PRSI contribution where credits should be awarded. The rate of the state pension contributory, where possible, should be indexed to the cost of living to help pensioners avoid poverty in their retirement phase.

What is working with current State Pension arrangements?

We are aware that previous studies state that the State contributory pension should be set at 34/35% of average earnings, and that in Ireland, this is already the case. Currently Ireland operates on a pay as you go basis, meaning that existing payments to pensioners are coming from the taxes of the current workforce which is about 4:1 and that over the next 40 years this is due to fall to a ratio of 3:1, creating a large deficit of approximately €400billion over the next 50 years.

What concerns you with respect to current State Pension arrangements?

Brokers Ireland are concerned with the current state pension arrangement and would urge the government to reconsider halting plans to extend the State Pension Age to 68. Brokers Ireland are concerned that failure to act on this issue now will have a catastrophic impact on State Pension provision in the future. It is recognised that over the longer term, increasing life expectancy will continue to outpace the increase in pension age. Pensions age should be directly related to life expectancy which at the moment it is not.

The State Pension Contributory will not provide enough to adequately replace 50/60% of an individual's pre-retirement income and therefore there is an ever-growing need for occupation pensions and/or personal pensions.

If pensioners are not funded sufficiently in retirement, it will reduce consumer spending and therefore will have a negative impact on the economy. Citizens deserve a good retirement after working and contributing to the economy throughout their lives.

How best to accommodate those who provided long-term care for most of their working lives?

Brokers Ireland also agree that there should be more generous home caring provisions for those reaching State Pension age in the 10 years following 2021 than someone reaching State pension age in later years, considering the marriage bar (abolished in 1973), limited childcare availability until the 1990s, and other social changes. For those who were self-employed in 1988 when Class S was introduced should have special arrangements, not available to others, in assisting them to obtain a full pension.

What specific policy, provision or other changes are needed to make State Pension arrangements sustainable into the future?

To ensure sustainability, it is vitally important the State Pension Contributory is not viewed in isolation and that those in employment are encouraged to make private provisions for retirement. It is only where there is greater coverage and adequacy through private pension provision that some of the proposals within the consultation will not have an impact on the quality of living for our pensioners.

Brokers Ireland would have expectations of state pensions in terms of adequacy through increasing state contributory pension in line with inflation. The suggested 50% of salary in retirement as recommended by Pensions Professionals is substantially higher than the current state contributory pension which makes up 36% of the current average industrial wage. The importance of supplementary pensions and the clear advantages to everyone needs to be highlighted to the public.

Brokers Ireland view that there should be a phased in approach, where those who qualify in the earlier years will need less PRSI contributions than those who are given sufficient time to build up maximum contributions. Brokers Ireland believe that there should be allowances made for periods of low PRSI coverage for those who are self-employed or when people are out of the workforce acting as a carer or looking after young children. Also, the people who have provided long term care for an incapacitated dependent need to be accommodated within the State Pension system.

Within the existing supplementary Pension landscape, the second pillar – Occupational Pensions have approximately 140,000 schemes. Almost 50% of these are frozen schemes. There are 66,000 “Active” single member trusts with 8,000 small, self-administered Pensions (SSAP). There are 8,500 group schemes with less than 100 members. 600 group schemes with more than 100 members.

In terms of the third pillar – contract-based pensions, there are 300,000 PRSAs with approximately €7.5 Billion in assets. 120,000 – 140,000 in Retirement Annuity contracts with €3.4 Billion in assets. 150,000 in Personal Retirement Bonds with €7 Billion in assets.

Sustainable Reform Proposals

Increasing the Pension Age

Access age for the state pension should be increased as previously proposed.

Locking in access

It is however possible, as the report suggests, that some individuals will need to retire before the contributory state pension is accessible. Provisions should be made to allow those persons to retire and receive access to your state pension from age 62 if required. To have those who are over age 62 apply for job seekers allowance to bridge the gap is disingenuous. This issue needs to be addressed so that it is clear that these individuals have retired and are not seeking employment.

It is not fair that if an individual retires early and does not want to receive Jobseeker's Benefit /Jobseeker's Allowance, that this will mean that they may have difficulty in qualifying for the State Pension (Contributory) as they will have several years during which they have no PRSI contributions before retirement age without having to sign on for credits or be a voluntary contributor.

There should be ability to lock in access/method of retaining credits to allow those in the position of needing to retire early still access their pension at pension age. The current system is not set up to accommodate early retirees who have contributed PRSI over their working lifetime and should be entitled to state pension provision. In countries like Sweden, if you stop working, start working in another country, or move from the country, you retain the pension rights you have earned.

National Retirement Age

There should be an obligation on government to raise employer's awareness on compulsory retirement age. Employers informed on this issue as some employers may not be aware that setting a mandatory retirement age must be objectively justified.

Auto-enrolment

Commencement of automatic enrolment is key to assuring that individuals retiring will have adequate pensions to sustain them in retirement. Auto-enrolment could be implemented swiftly by using the current PRSA structure with compulsory contributions and Revenue Commissioner oversight.

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