

## Submission Form

### IIPM response to Pensions Commission Consultation paper:

*Have your say on sustainable state pensions into the future*

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#### Introduction

Founded in 1990, the primary objective of the Irish Institute of Pensions Management (IIPM) is to promote professional standards amongst those working in the field of pensions, with education being central to the achievement of this objective.

Today, we pride ourselves on the high quality and relevance of our qualifications and services. In turn, employers recognise the value of the IIPM's qualifications and have benefited from the increased expertise of their staff.

There have been many changes in pensions over the past two decades as a result of domestic and international influences. Legislative changes, increased emphasis on governance and compliance, product developments and European Union influences means that pension practitioners must work harder to keep informed. Organisationally, we have Members, Associates, and Fellows from all the main providers and advisory firms in the Life and Pensions Industry, as well as pension scheme trustees, HR, actuarial, and legal professionals.

The IIPM welcomes the establishment of the Pensions Commission and is strongly supportive of Commission's task to *"examine and make recommendations for the sustainability of State Pensions and the Social Insurance Fund"*.

In framing our response to this consultation, we have focused on the policies that could be deployed to potentially increase the sustainability of the State Pension for current and future pensioners, while recognising the importance of the *social contract* between those currently working and those in receipt of the State Pension.

#### Potential policy reform options

In this section, the IIPM will outline a number of policy proposals we feel could address the sustainability challenges with the State Pension's continued reliance on the social insurance fund. Whilst some of the proposals could be effective, we do not feel that they are acceptable socially, and therefore, we would not recommend adopting these policies.

## Reform options we would not recommend

### 1. Means testing

*Reducing the amount of people eligible for the State Pension by way of a means test would reduce the ongoing cost for pension recipients in future.*

*Advantages:* Cost reduction.

*Disadvantages:* The IIPM feels that it is important to recognise the social contract that exists between workers and pension recipients; there is an expectation that those paying incomes taxes at the moment for the benefit of social welfare recipients will be able to rely on the same treatment as they reach retirement themselves. To introduce such a change could undermine the motivation of those in employment to continue to make PAYE/PRSI contributions and break that social contract. Furthermore, a lot of workers today are planning their retirement and counting on the State Pension being payable to them in the future, regardless of their current means.

This would be an unacceptable solution.

### 2. Reduce the amount of money payable to those in receipt of the State Pension

The State Pension is benchmarked at 33% of the average industrial wage. Reducing this benchmark, or the rates payable across the various State Pension benefits would reduce the costs incurred by the social insurance fund.

*Advantages:* Cost reduction, applied equally to all State Pension recipients.

*Disadvantages:* Many workers rely solely on the State Pension to provide their income in retirement. Reducing the amount payable could have a detrimental impact on entire cohorts or workers. Per the above, many workers are planning their retirement and relying on the income the State Pension will provide.

This would be an unacceptable solution.

### 3. Increase taxes

An increase in the tax income would help fill upcoming shortfalls in the social insurance fund. It would be important to ring-fence such money so that it would be there to help with social insurance costs, to address the gap between assets and liabilities.

*Advantages:* increase in the amount of money going into the social insurance fund.

*Disadvantages:* Not only have such increases in the past not addressed the gap, this would place an additional burden on workers throughout the country, who are already under significant financial pressures.

This would be an unacceptable solution.

## Reform options we would recommend are considered

### 1. Retirement age flexibility

Life expectancy is increasing. The nature of work is changing. People are becoming more flexible, and are likely to change jobs more often than we have seen before. Many workers wish to continue in some capacity to continue working into what has traditionally been called retirement, but we know that the nature of retirement has changed in many respects.

There exists too large a separation between working and retirement – some form of blending could contribute to



reducing the gap in terms of assets and liabilities in the social insurance fund if later retirement was something that was possible for the retirees of tomorrow. The possibility of delaying State Pension payments or combining partial payments with income from employment and tax incentives to continue saving for retirement, could see more workers remain in the workforce on a part-time basis. These workers could support others in full receipt of State Pension benefits.

## **2. Reform the pay-as-you-go nature of State Pension funding**

Re-introducing an element of pre-funding in order to provide for future liabilities should be considered when looking at policy reform. Ireland has previously set money aside for this purpose when establishing the National Pensions Reserve Fund, though the purpose of the fund changed as result of the dramatic deterioration of the country's finances in the last 10 years. Reforming the current model to something that is similar to pension saving itself, i.e. investing the contributions in order to get a return, could help significantly reduce the gap between assets and liabilities.

In order to ringfence exchequer contributions to meet future pensions liabilities, it would be important to put in place constitutional protections that could be useful at times of future economic crises (i.e. contributions couldn't be suspended or funds utilised for another purpose without a referendum). Such a measure would go a long way to protect trust in the state pension.

## **Conclusion**

In the above we acknowledge that we are making brief yet pragmatic recommendations, and we are also discounting recommendations which do not sit well with the established principles of the State Pension.

We welcome the opportunity we have been provided with to engage in the process, and look forward to seeing the outcome of this consultation.