

PENSIONS COMMISSION SUBMISSION

While ISME welcomes this opportunity to contribute to the Pensions Commission, we are unsure what utility is served from doing so, nor are we sure what we can add to the substantial submission we made to the Strawman consultation issued by the Department in November 2018, which we append to avoid repetition.

The impending ratios of pensioners to working people make it inevitable that:

1. The contribution to the social fund will have to increase.
2. The age at which most (if not all) workers enter pensionable retirement will have to rise.

ISME is aware that some workers especially those in dynamic jobs cannot necessarily extend their retirement age, but there must also be some incentives for those workers who choose to postpone retirement and work longer.

While the CSO's press release on pensions on 11th February 2021 delicately glides around the topic, pensions poverty is an almost entirely private sector issue. 65% of private sector workers have no "second tier" pension beyond the contributory old age pension, compared with 90% plus coverage among public servants who enjoy defined benefit schemes.

Despite this, the tax system continues to treat private sector workers who try to save for an adequate pension as if they are engaged in active tax avoidance. On an annual basis, the Revenue Ready Reckoner¹ suggests further restrictions on the tax incentives to private sector pension savers, identifying them as "tax expenditures," despite the fact that pension contributions are tax deferred, not tax avoided, and also despite the fact that public sector workers, including Revenue officials, are beneficiaries of actual tax transfers from private sector workers to public sector pensioners for pensions which are grossly underfunded by them.

¹ <https://www.revenue.ie/en/corporate/documents/statistics/ready-reckoner.pdf>

Because of this discrimination against private sector pension savers, ISME will initiate legal action against the State² later this year.

Regarding the specific questions posed in the consultation paper, ISME responds as follows:

What do you expect from State Pensions?

ISME considers that the basic state pension should constitute a floor income for retirees, as an essential anti-poverty measure. We note that citizens' contributions to the social fund are uncapped by reference to their income, while their benefit from the pension is fixed. This is a characteristic of a taxation system, not a social insurance system.

What concerns you with respect to current State Pension arrangements?

Our chief concern is that of affordability and sustainability. Every year we wait to initiate reform of the state pensions' system, the larger the deficit the taxpayer will have to fund becomes. Yet the political system sees no advantage in long-term sustainable thinking. This is problematic. The pay-as-you-go model will founder because of demographics. We should be as explicit and as forthright as possible with citizens about the implications of this. If we continue to do nothing except mount studies and public consultations on this matter, we will within the next two decades:

1. Be forced to reduce the state pension;
2. Be forced to increase individual and employer contributions to the state pension;
3. Increase the age at which workers qualify for the state pension;
4. Or a combination of all three.

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

The total contributions approach goes some way to addressing this issue, but the state should recognise that those who are in full-time care of a relative are also saving the state from expenditure elsewhere.

² <https://isme.ie/isme-initiates-innovative-crowdfunding-campaign-to-back-high-court-challenge-on-pensions/>

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

The obvious funding measures are addressed under the third question, above. ISME accepts that these are politically difficult choices; however, infantilising the electorate by continually kicking the funding can down the road will require much more aggressive and painful solutions at a later date.

Sustainable Reform Proposals

We consider the work done by the Citizens' Assembly³ in this regard particularly useful, and we believe that asking for a plurality opinion specifically addressing the funding of state pensions would be a useful tool in securing social buy-in for what will be difficult choices about the funding of our social protection system.

ISME acknowledges that, in European terms, employer contributions, but most especially employee contributions to the social fund are low in this country. While it is a perfectly valid view that these should increase, we must bear in mind that auto-enrolment for employees will start in the next number of years, this and other increases in employee entitlements will increase the cost of labour, which will in turn place pressure on employers to increase the productivity of labour.

We should also consider that for most citizens, the cost of accommodation whether rented or purchased is their greatest outlay. With the increasing cost of property, and the lengthening of mortgages to an unacceptable degree, the ability of a state pension to look after those citizens who carry debt into retirement to enjoy a comfortable standard of living will be compromised. Therefore, while looking at how we sustainably fund state pensions, we must, in parallel, address the provision of affordable housing to all our citizens.

³ <https://www.citizensassembly.ie/en/news-publications/press-releases/citizens-assembly-on-gender-equality-begins-deliberations-on-work-and-welfare.html>