DÁIL ÉIREANN

AN COMHCHOISTE UM CHOIMIRCE SHÓISIALACH

JOINT COMMITTEE ON SOCIAL PROTECTION

Déardaoin, 15 Nollaig 2016

Thursday, 15 December 2016

The Joint Committee met at 10 a.m.

MEMBERS PRESENT:

Deputy John Brady,	Senator Alice-Mary Higgins,
Deputy Gino Kenny,	Senator Kevin Humphreys.

In attendance: Deputy Seán Crowe.

DEPUTY JOHN CURRAN IN THE CHAIR.

Overview of Pensions: Department of Social Protection

Chairman: As we have a quorum, the committee is in public session. Apologies have been received from Deputy Joan Collins. I welcome the witnesses to this meeting of the Joint Committee on Social Protection. I remind members to ensure that their mobile phones are switched off. I propose to go into private session to deal with a number of housekeeping matters. Is that agreed? Agreed.

The joint committee went into private session at 10.10 a.m. and resumed in public session at 10.15 a.m.

Overview of Pensions: Discussion

Chairman: We are now in public session. I welcome Mr. Tim Duggan, assistant secretary at the Department of Social Protection, who is here to discuss the matter of pensions. He is accompanied by Ms Helen McDonald, principal officer, Mr. Robert Nicholson, principal officer, and Mr. Darragh Doherty, assistant principal officer.

I wish to draw the attention of witnesses to the fact that by virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to the committee. However, if they are directed by the committee to cease giving evidence on a particular matter and they continue to so do, they are entitled thereafter only to a qualified privilege in respect of their evidence. They are directed that only evidence connected with the subject matter of these proceedings is to be given and they are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against any person, persons or entity by name or in such a way as to make him, her or it identifiable. Members are reminded of the long-standing parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the House or an official either by name or in such a way as to make him or her identifiable. I remind people to switch off their mobile phones so that the recording and broadcasting of these proceedings will not be adversely affected.

I now ask Mr. Duggan to make his opening statement, following which members of the committee will have a number of questions for him. The opening statement will be published on the committee's website after the meeting.

Mr. Tim Duggan: I thank the Chairman and other members of the joint committee for the invitation to discuss the issue of pensioners. I also thank the Chairman for introducing my colleagues.

As members of the committee will know, pensions policy is a large and complex area and it will not be possible to treat all the relevant matters in an opening statement. The areas covered under pensions policy in the Department include the State pension contributory, the State pension non-contributory, both the contributory and non-contributory widow's pension, and a range of secondary benefits, including fuel allowance, the household benefits package and free travel. We also cover private and occupational pensions, European law relating to pensions, such as the institutions for occupational retirement provision, IORP, directive, and pensions reform such as the development of a new universal retirement savings scheme.

State pensions cost approximately €7 billion each year and this figure is rising rather rapidly. There are three main factors driving this: greater longevity; increased PRSI coverage in the population; and increases in pension rates paid. The biggest factor, happily, both in Ireland and across the world, is greater longevity. In the 2006 census, the number of people aged 65 or over was nearly 468,000. By the time of the 2011 census, this had risen to over 535,000 - an increase of about 14.5% in only five years. This is consistent with the longer-term trends that have emerged. In effect, there is an increase in the number of people turning pension age each year, but the numbers who die each year is, thankfully, reducing as a result of a range of factors. This places a higher burden upon those who are still of working age. The ratio between those of working age and pensioners was over five to one at the time of the most recent census. Even with the increases planned for in pension age, this is projected to fall to about half that by 2050 and will then hopefully stabilise thereafter.

Expansion of PRSI coverage has increased the number of pensioners who now qualify for a full pension. Most notable of these was the creation of class S for the self-employed in 1988. This brought most self-employed people into the system, including farmers. PRSI-related benefits are good value for workers. This is especially the case for the self-employed who gain access to a pension that is worth approximately €300,000, or closer to €500,000 if they claim an increase for a qualified adult on it, based on deductions of just 4% each week. Unlike employees, this is not supplemented by a significant additional payment by their employers, as they have none.

The third factor involves increases. Over the decades, the rate of the State pensions has steadily increased, from what was a very low base at the time of its introduction, to a much higher level now. Therefore, today's workers and their employers are funding a pension that is about a third higher than the one originally introduced, relative to their ability to fund it. The current rate is approximately one third of gross average weekly earnings - at €233.30 - and this is set to rise by €5 in March 2017.

Increases in pensions have had a positive impact upon pensioner poverty rates. Between 2004 and 2014, the at risk of poverty rate for those over 65 years of age had more than halved to 10.3% and the consistent poverty rate for that group had almost halved to 2.1%. This compares very favourably with the general population, where the risk of poverty rate is 16.3% and the consistent poverty rate is at 8%, or nearly four times the pensioner rate.

The State pension age has gone through a number of revisions, up and down, over the years. When the old age contributory pension was introduced in Ireland in 1961 for 70 year olds, life expectancy at birth was 68 years for men and 72 years for women. During the 1970s, the age for both old age pensions was gradually reduced from 70 to 66. As pointed out earlier, the earlier trends in life expectancy have continued, and this is not just the case in Ireland. All countries across the world are, at the very least, planning to increase state pension age and in most cases they have already started this process. In Ireland, it commenced with the abolition of the State pension transition from January 2014. The same Act which made this change also increased the future State pension age to 67 years from January 2021 and to 68 years from January 2028.

The State pension transition costs approximately €140 million each year, but it was always understood that the net saving would be lower as significant numbers of people would claim alternative working age payments instead, such as jobseeker's benefit and invalidity pensions. Currently, the figures indicate that the annual saving is approximately €80 million. In time, if more people have the opportunity to work longer, this saving will increase. The Department of Public Expenditure and Reform recently chaired an interdepartmental group on this matter and I understand that colleagues in other Departments are looking at the means for encouraging this to a greater extent. While our Department participated fully with the work of this group, the policy areas lie outside our remit.

Another reform which was introduced at that time was the restructuring of the yearly average bands of the State pension contributory, SPC. These have been restructured a number of times over the years. When savings were required in 2011, the Government decided that a restructuring of the bands would be preferable to a general decrease in rates, which would hit all pensioners including those of limited means. Under the new bands, which apply to claims from September 2012, people with lower yearly averages still attract a better return on their PRSI than others. A yearly average of 20 contributions now will attract a contributory pension of 85%. However, in many cases, the person will instead claim a non-contributory pension at a higher rate. This is up to 95% of the maximum rate of the contributory pension, and over 70% are paid at the full rate, after the means test. Those who are not, and are on reduced rate SPC of 85% or less, will generally have their own income, such as a private pension or rental income on a property, over and above that payment. If there is very significant household income, it may instead be more advantageous to claim an increase for a qualified adult, at a rate of 90%, as this is based on the means of the qualified adult and income and capital in their spouse's name are not considered in that means test.

People often ask how much it would cost to revert to the structure which was in place prior to 2012. This is difficult to calculate with precision, but we estimate that it would be a minimum of €50 million in 2017 and would rise at a rate of about €10 million per year. In reality, it is likely to be considerably higher when all the calculations are worked out properly. This would not benefit the less well-off pensioners, who are either on a non-contributory pension or a full rate contributory pension if they have the contributions, so any budget which introduced such a change would have to find the resources from somewhere. If it came from money earmarked for pension increases, this would be to the detriment of the poorest pensioners.

Since 1961, when contributory pensions were introduced in the State, the yearly average contributions test has been used to calculate the rate of pension entitlement. Entitlement is banded, with the maximum rate payable to those with a yearly average of 48 to 52 contributions and the minimum rate payable to those with a yearly average in the range of ten to 14 contributions per year. The Department is actively working on the development of a total contributions approach, TCA, to pension qualification which would replace the yearly average contributions test for State pension contributory. The aim of this approach is to make the rate of contributory pension more closely match contributions made by a person. An important factor in the final design of the scheme will be the treatment of homemaking and caring periods. This is a very significant reform with considerable legal, administrative and technical elements in its implementation. There will be further consultations on this, including with this committee.

I will now turn to occupational and personal pensions. The first matter is defined benefit, DB, schemes. The committee is well aware that the funding challenges facing DB schemes are well aired and are reflected in the steady decline in the number of DB schemes over recent years. In 1997, there were over 2,200 funded DB schemes. Latest figures indicate that there are 682 schemes. Membership of DB schemes in Ireland totals approximately 125,000 active, 435,000 deferred and 100,000 pensioner members. The total assets of these schemes were just over €60 billion with liabilities of over €58 billion.

DB schemes have been under increased strain, particularly since the economic collapse of 2008. While our increasing life expectancy is welcome, the fundamental problem facing DB schemes is that the promise they provide has become significantly more expensive to maintain because of increasing life expectancy, lower than expected investment returns and the very significantly increased cost of purchasing pension annuities in a low interest rate environment. According to the latest available returns made to the Pensions Authority, approximately 70% of DB schemes are meeting the regulator funding standard, which is a considerable improvement over recent years. Of the schemes that do not meet the funding standard, almost all have funding proposals in place to address funding shortfalls. Generally, where schemes have encountered funding difficulties, the process has been managed through dialogue between trustees, employers and members, where efforts are made to reach agreement regarding the steps to be taken. To this end, while under Irish law responsibility rests with the employer and the trustees for ensuring DB schemes are properly funded and managed to meet the pensions promise, the Minister has expressed his view that where difficult situations arise employers, unions and trustees should continue to make strenuous efforts to protect the viability of their schemes.

Turning to defined contribution, DC, schemes and personal retirement savings accounts, PRSAs, in Ireland and throughout the world pension provision is gradually migrating from the DB to the DC model. Year-on-year data indicate a continual increase in the number of occupational DC schemes. At the end of 2015, there were 67,000 active DC schemes with 280,000 members, an increase of over 18,000 thousand members compared to 2014. The total assets under management for such schemes is estimated to be over €40 billion. The number of PRSAs, which are individual contract based DC products, increased to almost 240,000 at the end of 2015, up from 227,000 in 2014. The total assets held in PRSAs increased to over €5 billion in 2015. However, notwithstanding these increases, figures indicate that only 47% of workers aged between 20 and 69 years have a supplementary pension. This figure falls to approximately 35% if the private sector is considered in isolation. This relatively low coverage is of significant concern for the Government as it may mean an unwanted reduction in living standards for large numbers of retirees.

To respond to this problem, consideration is being given to the introduction of a new, universal, supplementary workplace retirement saving system. This employment based DC system would be intended to progressively achieve universal coverage. A high level interdepartmental universal retirement savings group, URSG, which included international pension reform experts, was established to develop a roadmap for consideration by the Government. The work of this group concentrated on whether such a system should be a mandatory or an opt-out model and the potential design characteristics of such a system. The development of a universal system would require a multi-annual programme of work and the Minister has confirmed this area of work as a departmental priority. Data from the Pensions Authority show that with a total of over 160,000 occupational pension schemes, including very many small and single member schemes, Ireland has significantly more schemes than any other European country. As a result, many schemes are not benefiting from the competitive charging structures that would accrue through economies of scale. Given this proliferation of schemes, the Pensions Authority has also raised concerns regarding the potential for inconsistent scheme governance standards and the regulatory capacity to supervise this number of schemes.

Chairman: I must interrupt Mr. Duggan for a moment if he does not mind. There is a vote in the Dáil for which colleagues are not paired. Will the committee suspend?

Senator Kevin Humphreys: It is probably not ideal. It is unfortunate.

Chairman: I apologise for interrupting Mr. Duggan. It is not ideal but I believe that Members had better go and do what it is we are supposed to. We can keep an eye on the monitor while we take a break. We will suspend for a couple of moments.

Senator Kevin Humphreys: Are Deputies voting in different ways?

Chairman: We would not tell you.

Sitting suspended at 10.30 a.m. and resumed at 10.55 a.m.

Chairman: We resume. I apologise to Mr. Duggan for the interruption.

Mr. Tim Duggan: I understand completely. It is fine. I will carry on from where I left off. I am right at the end of the written submission. I was talking about the reform and simplification of occupational pensions. The important point is that in July 2016 the Pensions Authority launched an open consultation process on a range of pension reform proposals, many of which are consistent with our transposition obligations under the new EU pensions directive, IORPS II. It is anticipated that the authority will issue a report and recommendations for the Minister's consideration in early 2017.

To conclude, I note that, as with other sectors of the economy, the last number of years have proven challenging for pension provision. Demographic pressures, financial volatility and the State's desire to ensure that all of its citizens have the opportunity to be financially secure in retirement mean that reform of all forms of pension provision will be required to improve the sustainability and adequacy of the pension system for Irish people. I thank the members for their time. My colleagues and I will be happy to expand on any of these matters for the committee.

Chairman: I thank Mr. Duggan very much for his opening statement. I will start with Senator Kevin Humphreys.

Senator Kevin Humphreys: While Deputies were voting in the Dáil, we were talking about the actual cost of pensions, which is €7 billion at the moment and will increase by approximately €1 billion every five years. The Department is in the process of getting an actuary to look at those figures more exactly for a better projection. Mr. Duggan was saying we will have those figures by the middle of next year.

Mr. Duggan covered briefly the class S stamp for the self-employed that was changed in 1988 for the benefit of contributory pension. For most people who have paid PRSI, there is also an employer's contribution. Does Mr. Duggan have any figures on the amount paid out in relation to the self-employed on the class S stamp in comparison with draw-down? It strikes me that there is a huge benefit. A class S stamp is a great investment for the return one is going to get in relation to contributory old-age pension and we have now seen an expansion in this budget of the actual services people will receive on foot of it. Does Mr. Duggan have the figures or access to them on what the benefit of the class S stamp is compared to the amount of money paid in for it? As an ordinary PAYE worker, the package is about 14% whereas a class S stamp is 4%. Does the Department have any figures in relation to that?

Mr. Tim Duggan: We would not have the figures to hand but we will ask our statisticians to prepare them for the Senator and send them on to the committee subsequently.

Senator Kevin Humphreys: That would be of great help. At this stage, if we are having an overall look at pensions, we must look at what people contribute and the return they get from that contribution. I move on. A great deal of Mr. Duggan's submission was very clear. He said approximately 35% of people in the private sector had pensions. Do we have a breakdown in regard to that 35% in terms of earnings? It occurs to me that the higher earner is more likely to contribute to a pension scheme than somebody on or just above the minimum wage. Is there any further breakdown on that figure of 35% within the private sector?

Mr. Robert Nicholson: We do not have those figures to hand but the Senator's instinct is correct. Typically speaking, it is intuitive in terms of supplementary pensions coverage that the sectors where pensions coverage is highest include financial services, information technology and the sectors where earnings are higher. The sectors where coverage is lower include the retail sector, services and then by gender amongst women to a greater extent because they are typically on lower earnings from part-time work and so on. It is almost intuitive in terms of where the highest coverage is. Certainly, it is higher in particular sectors and higher by levels of income. I can get the Senator a detailed breakdown of that.

Senator Kevin Humphreys: Is there a cost-benefit analysis in regard to it? If one looks at the higher sector workers, there are preferential tax returns for that. In many ways, it is an additional subsidy for a higher earner whereas somebody on a low or minimum wage does not have the opportunity to get that subsidy towards the contributory pension. It would be interesting to see the true cost in relation to that. It would be helpful if the Department could provide it because that kind of detailed information would feed into what we are looking at in terms of pensions.

On automatic enrolment into pensions to which the UK has moved, has the Department had an opportunity to look at how successful it has been in different income categories? Is there a high opt-out rate among those on low incomes?

Mr. Tim Duggan: The UK started with big employers and decided on a tiered structure. It started with the big, moved on to the medium sized and then eventually to the small ones. They would claim that they have had quite a lot of success with those large employers. The opt-out rate has been in the region of 10% or thereabouts. It is only in recent times that they have tried to enrol employees in medium-sized and smaller firms. Therefore, they are not yet producing extensive data on the type of opt-out rate they are experiencing with employees of those types of companies.

Senator Kevin Humphreys: It would be helpful if we could link up with the UK authority. I want to ensure that it is an inclusive pension scheme, so will people at all income levels be able to get it? Even with a figure of roughly 10%, if it is concentrated in a low-income area the automatic enrolment will not help to deal with the problem of those on low incomes. The more information we have, the better the decision-making process will be. It would be helpful to the committee's deliberations on pensions if Mr. Duggan could find out further information.

Mr. Robert Nicholson: I will just add a point. As Mr. Duggan said, after 6.5 million have been registered in the UK of a total target of about 11 million, it represents around 90% with a 10% opt-out. The initial indicators are that the opt-out rates are highest among the over-50s. The opt-out rates are not higher for lower-income earners compared to others. Typically, the over-50s would opt out at a level of somewhere around two to one, based on the fact that they are closer to retirement and do not see the same demands or opportunities from the system. On initial evidence, therefore, the opt-out rates are highest among the over-50s. That goes to show the crucial design element of any universal retirement savings system. We have looked at such systems all over the world, including talking to the UK authorities and the OECD. What has been highlighted is the need for consensus on how the system is designed. One must get the fundamental design aspects of the system right if it is to be an opt-out system. No decision has been made on that.

It ties in with the Senator's question about tax relief. As regards a universal system, tax relief is a matter for the Department of Finance, not our Department. Based on some of the work we have done, in a mandatory system tax relief does not necessarily come into it if the State decided it does not want it to. That is because if somebody has to be in the scheme, one does not have to give a financial incentive. If one decides on an enrolment, opt-out system the financial incentives become critical. As part of the consultation process on universal retirement savings, the discussions included a number of views. Among some it was felt that the tax relief is skewed towards higher earners. According to the feedback we got from particular interest groups, it was stated that that was not surprising because higher earners typically pay a much higher level of income tax. It is therefore not surprising that they would get a higher level of relief. A similar constituency also said that we pay higher PRSI which is redistributed through the first pillar State pension. They also said that one needs to look at it not just on what relief is obtained in going in because tax relief on pensions works on an exempt tax situation - that is, tax on the outside, coming out. So one needs to look at it in its totality. Having said that, the target for a universal retirement savings system where we would be enrolling around 500,000 middle and low-income earners, may not be entirely consistent with the tax relief system as it is.

Other states that have introduced automatic enrolment, examined tax rebates, matching contributions rather than tax relief, and other forms of financial incentive to ensure that the system's policy objective matches the system of financial incentivisation. Therefore there is a lot more work to do on that in order to understand what the outcomes of any changes would be. Without capacity, one cannot make any changes, but incentivisation is a crucial aspect of any universal system.

Senator Kevin Humphreys: Senator Alice-Mary Higgins will deal with the gender issue, but I have a final question. When we moved to average contributions, in many ways the bar to qualify for the State pension affected people who had started earlier in the workforce. They have been hugely disadvantaged, yet they are only starting to work into the system now. For example, some people began working at 16 or 17 in apprenticeships or on building sites. By comparison, somebody who went through university and did a master's degree, may only have joined the workforce aged 28. The bar for them to reach the full pension is much lower than for somebody who has been in the workforce for a longer period. Has that aspect been examined by the Department?

Mr. Tim Duggan: We are looking at the State pension in its totality. The Senator will know that since 1961 a yearly averaging approach has been taken. In recent times we have started to seriously examine - and have tried working on - the design of a total contributions approach. One is not necessarily better than the other in dealing with the particular question the Senator has raised. It is accepted that a total contributions approach is somewhat fairer in that the pension a person ultimately receives reflects the level of contributions they have made to the fund. However, as I said in my opening statement, part of the design will have to take into consideration periods that people have had to take out of the workforce, for caring duties, home-making duties and things of that nature. Part of our current deliberations therefore include teasing through how those things might work in practice, and what options might be available for consideration and consultation with this committee and other stakeholders, before the Minister and the Government decide on a full design for it. So, yes, we are looking at it and we are acutely aware of some anomalies that occur with the averaging system. That is why we are pushing ahead in trying to get this design done as quickly as we can.

Deputy John Brady: I would like to thank the officials from the Department for attending the committee this morning. In many respects, pensions constitute an important and complex issue. It has been described as a ticking time-bomb. In his opening statement, Mr. Duggan alluded to the three major factors driving some of the difficulties: greater longevity, increased PSRI coverage and the increase in pension rates that are paid.

I wish to focus on a few specific areas including the increasing pension age and longevity. We know that the pension age increase from 65 to 66 has created difficulties, but further increases are expected - rising to 67 in 2021 and 68 in 2028. We are going faster and further than any of our European counterparts in this regard, but the Irish Congress of Trade Unions has said we should look at halting that process. I would certainly agree with the ICTU on that.

Has the question of slowing down that process been costed? Perhaps the officials could answer that question. If the extension to age 67 were to be pushed out by an additional five years, what costs would that incur? Can we examine the possibility of moving more into line with our European counterparts, instead of pushing way ahead of them, because the impact on people will be immense?

Last week, I launched a Bill to abolish the mandatory retirement age. That had been attempted previously by the former Deputy Anne Ferris, but the measure fell with the dissolution of the Thirty-first Dáil. I have reintroduced that Bill and I look forward to debating it. What are the officials' views on the mandatory retirement age and the kinds of impacts its abolition may have on overall pensions? What are their views on giving people the option, if they so wish and are able to do so, to work a little longer, rather than the current position whereby their contracts may stipulate that they must retire at 65? I ask the witnesses to address this first. There are a few other points I wish-----

Chairman: The Deputy should continue.

Deputy John Brady: Okay. I refer to PRSI contributions, the changes that have been made and the extension of some of the contributions and what people can receive for them. The Minister said when he appeared before the committee that he had engaged and started discussions with opticians, dentists, etc. I am not sure whether the witnesses are aware of the progress of those discussions or whether any progress has been made in extending the scheme and the coverage for people. Could the witnesses give an update on this?

It was stated that a survey was conducted among self-employed people to discover what benefits they might like to see for the PRSI they pay. At what stage is this at? Has there been much of an uptake in the consultation process? Could the witnesses give an indication of the type of feedback that has been received?

Regarding the State pension increase of €5 a week, I understand some of the points the witnesses have made about lifting people out of constant poverty and so on. Has the Department ever considered or costed a measure to inflation-proof pension contributions? I would like to see this happen. My party has advocated and costed it and provided for it in our alternative budgets. It should be done. Has the Department given it any consideration as opposed to the current position whereby some years pensioners might get an increase whereas other years they might not? The index-linking of pension contributions would be a very useful measure.

I have just touched on poverty rates. Mr. Duggan said consistent poverty has been halved to 2.1%, but this is not true for all pensioners. I mentioned 65-year-olds who are forced to retire. We are aware of the measures that have been introduced in this regard and the changes made to the eligibility of retirees to obtain their State pensions. They are not able to do so until they reach 66, before which they are placed onto a jobseeker's payment, which is €45 less than the full State pension. Therefore, while the witnesses talk about the reduction in poverty rates, 65-year-olds forced onto jobseeker's benefit are below the poverty level in many cases, so I question the facts and figures as the witnesses have presented them. They are not consistent across the board. One of the measures brought in to tackle this was the transitional State pension, the abolition of which in 2014 has had a huge impact on many people across the board. More than 5,000 65-year-olds are now forced onto a jobseeker's payment, higher than any other age category in the State. Do the witnesses acknowledge the impact the abolition of the transitional State pension has had, the difficulties it has put people under and the fact that they must retire at 65? In many cases these people have worked 40, in some cases 50, years, paying their PRSI and paying into the State pension, yet they are not able to obtain it once they reach retirement age. Do the witnesses acknowledge that this has caused huge difficulties for people reaching at that age?

The rate bands have caused huge difficulties across the board, particularly regarding gender. When the pension reforms were introduced in 2012, the gender gap was estimated at 37%. It was a huge gap. These reforms have compounded the problems and forced more and more people, particularly women, into poverty in their retirement age. An internal survey of 5,700 claimants conducted in advance of the cuts introduced in 2012 demonstrated that annual cuts in the band categories in which women are in the majority would exceed €1,100, whereas the cuts in the predominantly male band categories would be lesser. In 2014, the *Irish Examiner* carried out an investigation involving various Department memos and briefing notes. One of the most glaring findings of the investigation showed that in three of the categories in which women accounted for over 60%, the cuts imposed ranged from €1,196 to €1,497. In two other categories in which women only accounted for between 16% and 36%, the cuts ranged from €977 down to zero. It is therefore clear to see the changes in the bands have impacted women more, and we know the reason for this: they have been out of the workforce looking after and rearing their children or loved ones. This has had a huge impact. Prior to these changes, in 2012, the gender gap was estimated at 37%. Has an analysis been carried out to discover the current extent of the gender gap? I imagine-----

Senator Alice-Mary Higgins: It is still 37%. It has gone from 35% to 37%.

Deputy John Brady: It is increasing. This is a serious problem which needs to be tackled.

There has been a lot of media focus on defined benefit schemes over the past number weeks, and rightly so. There have been some very high-profile cases. I will not get into all of them now but I know the Minister has in recent days been talking about this. It has been highlighted time and again that legislation is needed to improve the system here but it has not been brought forward. I ask the officials whether they have considered best practice adopted in other countries regarding defined benefit pensions. Are they aware of the system in place in the UK, for example, where a pension protection fund is in place? This pays some compensation to scheme members if employers become insolvent and there are not enough funds in the scheme for benefits to be paid. The scheme therefore has protections in place. The UK model seems to work very well. We need a pension protection fund here. Has the Department given this any consideration whatsoever?

I ask the witnesses to try to respond to the matters I have raised. I will see what kind of response I get and possibly contribute further.

Chairman: Before I call Mr. Duggan, I ask Senator Higgins to make her contribution.

Senator Alice-Mary Higgins: Some of the matters I had wished to raise have been touched on already. I wish to touch on a few other points. I will begin by picking up on some of the points Senator Humphreys raised. I will begin with the universal supplementary retirement saving scheme and then move on to the first-tier pension. The current marginal rate tax relief system will be important. While it is a matter for the Revenue Commissioners, clearly it is a central focus when considering pension planning. There can be a little fudging, not from the witnesses, around the idea that it gets taxed on the way out. Of course, an income that is taxed on the way out to a pension income, which is only part of an income, will often be taxed at a lesser rate or less of it will be taxed at a higher rate, so there is a very tangible saving. It is not the same as if that amount had been taxed as income. There is a reduction in the revenue gathered by the State in that regard. It is important we do not equate that or blur that line.

Regarding higher earners, they are earning higher incomes and paying higher taxation because we have a progressive taxation system. It is a point of pride for the country. It is one of the fundamental defences we have had when the OECD and others have pointed out that Ireland has one of the highest rates of income inequality. One of the highest rates of income inequality means that we have this progressive taxation system which has a redistributive role. There is something of an anomaly in the marginal rate tax relief. It was highlighted by the troika and it was one of the matters in the memorandum of understanding that were to be acted upon. A cap was put in place but that did not deal with the fundamental inequity issue that exists. For a long time it has been at odds with the stated aim of our pension policy, which is to provide the greatest protection possible to lower and middle income earners. With regard to the information Senator Humphreys requested, it would be useful if the witnesses were able to access that information and work with the Revenue Commissioners on it. It would be very useful for us. If we have a universal supplementary retirement savings scheme it would be a considerable investment and a new step for the State, and it is hard to see how that would be compatible with the considerable investment there is at present in the marginal rate tax relief.

That leads to another point we might discuss in terms of the type of models, and I am aware that the Department is still examining this. I recall engaging with the process regarding the universal supplementary retirement savings scheme. Mr. Nicholson briefly touched on the models that might be used. For example, it might involve tax rebate or schemes that might be closer to the special saving incentive account, SSIA, model, where one is considering a pension promotion tool or a State subsidised mandated scheme. It is a second tier mandatory earnings related social insurance scheme of some kind versus a tax subsidised private pension scheme. The model is important because of the issue of control.

Another issue that concerns me is that even some of the advocates of these schemes have acknowledged that they tend to disadvantage women. Although voluntary pension schemes might not have such a measure, it would be important that a system that would be State subsidised to a great extent would find a way to have a compensatory mechanism to address concerns regarding the redistributive role and the recognition of care. We will return to that question further, but how do we include the recognition of care, for example, within the pension system? It is not really dealt with here but we have not seen what the proposals might be if a new second tier was introduced in terms of how the State can ensure there is subsidisation protection for particular vulnerable categories and, indeed, potential recognition for other forms of contribution. There is, effectively, a subsidisation in the improvements we have seen for the self-employed, because the contribution self-employed people are making through PRSI at present is not at the same level as that of people in PAYE where there is an employer and personal contribution. The level is something to be examined as well.

That leads to the question of voluntary pension contributions. I welcome that the Department has taken on board one of my proposals relating to voluntary pension contributions. I am probably going back to the first tier, so I apologise for that. I have too many things to say. I will put that aside, because it relates to the first tier, and finish my points on the second tier and on private pensions. There are huge issues of trust and risk with private pensions. If we are considering a universal supplementary model, how do we ensure it is not simply an individualised risk and that we are not simply subsidising people to take a chance in the system, but that we are giving them some sense of a guarantee of an increased income? That is what people are generally seeking. If people want to gamble they can go to the stock market, but most people want the security of knowing they will have an income on which they can plan. What are the witnesses' thoughts on how we can build that into a system in which there are private and public actors? In that regard as well, there is the issue of the governance and the chain of accountability in the universal supplementary retirement savings scheme. How can we enforce that governance and ensure there is a chain of accountability, so that it is not simply an input from the State but that there is an accountability level for the State in it?

On defined benefit schemes, and Deputy Brady mentioned the UK pension fund, the witnesses will be aware that I also proposed, unfortunately unsuccessfully, that we consider some of the other measures the UK has implemented to ensure that trust is maintained and delivered with regard to pensions. The cost of it has been mentioned, but the cost is the cost. Many things have a cost. However, there is the question of a solvent company that decides that a cost which it has committed to is not a priority for it. Potentially, there is a power imbalance there and there is a question of whether it is committed to the cost. We are aware of the Independent New & Media case and I will not go into the detail of it, but in that case many employees were required to pay into the pension system. People have shown me the letters where they were required to do that. It has been a condition of their employment that they pay into a defined benefit scheme. Now we are looking at a situation in which that trust is effectively being diluted. There will be a board meeting on that today.

The witness mentioned the work of trustees and the importance of engagement with them. We must think about how the State can have a fall back when the Pensions Authority is not listened to, an agreement made by the authority is flouted or when trustees are bypassed. I am aware that actions are being taken, but we might have to look to a more systematic approach in that regard. It never should be open to one party in an agreement to renegotiate unilaterally. In the Independent News & Media case, the 2013 agreement was reached with the support of the Pensions Authority. It was to be continued, planned and scheduled. It was very manageable from a company's perspective with scheduled investment over a ten year period into a defined benefit scheme. What we are seeing now is a company that appears to be deciding that it will now invest, if it invests at all, in a defined contribution scheme. I accept that many defined benefit schemes are winding up and I would not have raised it but it was in the witness's presentation. We must ensure that it is not a unilateral decision to move from defined benefit to defined contribution. It must always be negotiated and agreed.

I will finish with the second tier and third tier, but a core question is the gender pension gap. There is a gender pension gap. In addition, there is an equality and gender proofing obligation. With regard to the gender pension gap, I am interested in how care will be addressed in the supplementary scheme. However, I believe the core problem is the question of trust. Again, it is trust and risk and how we rebuild trust. I would like people to engage in a new pension system, but trust must be repaired. I have the same figures as Deputy Brady but I will not list them again because he has done so. The marriage bar, which was ended by Europe, has an ongoing impact on many women in Ireland through their reduced pension every week. There are some opinions - I do not know if the Department has had this discussion internally - that the European equal treatment directives have not been adequately fulfilled by simply ending the marriage bar because the legacy impact of the marriage bar has continued and has not been adequately addressed. For example, the homemaker's disregard system only goes back to 1994. It does not extend back to 1973 so even that system cannot be said to be an adequate response to address the impact of the marriage bar. That is a concern that has been expressed to me at European level previously.

It is almost a case of adding insult to injury in that women who have been deeply, unequally treated by the pension system were effectively targeted. It was a decision. It is interesting that even in the presentation from the Department – I do not make the point personally – when savings were required and there was a desire to keep the top rate of the contributory pension untouched, the lower rates were effectively eroded. We had a concrete loss in income for those on the lower rates who are predominantly women. We saw a group that had been systematically disadvantaged, who had been inadequately recompensed, again disadvantaged. I am particularly concerned now that when we see the steps of repair that are happening, we are talking about the €5, but all those on reduced rate pensions will not get €5. They will get €3 or €2, a *pro rata* amount less than €5. Even though they suffered unequally in terms of the impact of the contribution thresholds being changed and the bottom rate just being cut, it has not been a priority to repair that or address it.

I notice the costing in terms of 2012 is put at €50 million and potentially €10 million every year thereafter, yet we also hear about the total contributions approach. I put it to the Department for potential consideration. I would welcome the thoughts of the witnesses in this regard. Currently, under the averaging system we have anomalies where women who have paid a full 520 contributions are not getting a full pension because of the way the system is averaged due to the years in which they paid their contributions. People who have paid in as much as someone else are getting less back for it. When we raised it, we were told it would be really expensive to fix that and that we should wait for the total contribution approach. At the moment the system is failing to address the point. Since 2004, there have been policy promises to address that anomaly. The Department must ensure that it is not making the situation worse. It may be that it would cost €50 million next year and €10 million for the following two years, but I do not think women should be asked to bear the cost, given that they have borne the cost of austerity and previously have borne the cost of inequality, while the system is sorting itself out. I suggest that it is unacceptable that we would have that gap maintained. That is just a thought in that regard as it is a key anomaly.

I am interested in voluntary contributions, which I strongly welcome. Part of my proposal was to increase the period to five years. Rather than having one year from one's last contribution, one would have five years in which one could make a voluntary contribution. That is good and it will help a lot of people who suddenly realise their pension shortfall. The second half of my proposal is that those who have already made 260 contributions would be able to make voluntary contributions because there is still the requirement of having already made 520 contributions. Now the repair work will only address people where there is a gap and they are suffering from averaging. It will not help those who realise they fall just short of a tier or that they could potentially move, if not to the highest tier, to between the third and the second tiers. I urge the Department to consider that because it would be a way to allow people to pay in and to contribute in order to improve their own security at a later stage. I would like the witnesses to address how that might happen. I am probably coming to the end of my time.

Chairman: The Senator certainly is.

Senator Alice-Mary Higgins: I apologise. The final point I will make relates to the homemaker's credit. The current system is inadequate. Total contributions will not fully fix it because it only fixes it at pension age. I know there were discussions with the Department previously on the idea of a re-entry credit. If, for example, one were to allow contributions to be on an ongoing basis for people who were giving a period of care, those contributions might not reach a total of 520 at the end of their working life but a re-entry credit would, in effect, allow them to access activation services and link back into the system for the purposes of training, the back-to-education allowance and other such second-chance initiatives. The question is whether total contributions will be enough to identify the care gap. I apologise for exceeding my time but I had extensive questions. I have more to say but I will e-mail them to the Department if that is okay.

Chairman: I thank the Senator. I will make a few points before I call on Mr. Duggan to respond. There has been much discussion on annual averaging versus the total contribution. Mr. Duggan was very direct in his opening statement where he indicated that the additional bands that were put in were specifically to make a saving. The irony is that the savings were imposed on a particular group of people rather than being spread across the board. Given that this cohort of people have felt it more, it has really highlighted the issue. It was very prevalent in the debate on Committee Stage of the Social Welfare Bill that women who had left work for a period might have total contributions greater than others, but their total pension payment was reduced. Two things would be very useful from the committee's point of view. We talk about a total contribution model but as an academic exercise it would be useful for the committee to see what that might look like. If one took the current budget figure and divided it into a total contribution model, what would it look like? What would the entry level be in terms of minimum number of requirements? What total maximum would be needed to get the top rate? Such a scoping exercise would be useful for the committee.

Is it the case that at the moment to get the maximum one has to have an average of 48 to 52 contributions, but if one were to get the maximum on a total contribution basis, it would be 1,000 contributions or 1,500? That type of scoping exercise would help the committee to examine what a new model might look like. If there was anything detailed and specific in that regard it would help us considerably. Talk of total contributions can mean a lot of different things to people. Before we go down a certain road, it would be important to know what is involved. The Minister clearly said there would be winners and losers and it would be well worth having a look at what that might mean before we embark on it. That is one specific issue.

Second, from the point of view of effecting change, any kind of change in terms of pensions and eligibility involves a lead-in time. If the contributory pension age is to be set at 67, one does not say it this year for next year in order to afford people an opportunity to get their affairs in order. If the Department is to move from an annual average approach to a total contribution basis, over what period would it take place? Would it be done on a phased basis? Would the two systems be run in parallel or would it be for new entrants? How does the Department see the transition taking place? They are points that were raised already so I do not wish to repeat them.

If the Department has information on the following issue, perhaps it might circulate it to the committee afterwards. It was said that only 35% of those in private employment have pensions. How does that compare to other countries? How are pensions in other countries incentivised to encourage people? What are the various factors that encourage people to have a higher rate of private pensions than 35%?

There was much debate about class S, the self-employed. It was said that they are only paying 4% but 4% of what? It is a lower percentage but what is the figure? Some self-employed people might be earning a high amount. While it does qualify a person for a contributory pension, the rate is 4%, but one is buying a smaller product. An ordinary pay-as-you-earn, PAYE, or pay-related social insurance, PRSI, contributor would traditionally have greater benefits than somebody in class S. How are they valued? What percentage is attributed to pension and other benefits? What is the basis for the figure of 4% in the case of those in class S?

Senator Alice-Mary Higgins: Is there consideration being given to allowing people to make another form of contribution besides class S?

Chairman: There is a voluntary contribution.

Senator Alice-Mary Higgins: I was asking about the rules in being allowed to make a voluntary contribution. I also wanted to know about qualified adults and the independence of income because it was highlighted as a route.

Chairman: Mr. Duggan can group his answers because there was common ground in some of the questions asked.

Mr. Tim Duggan: In my opening statement I said pension contributions were a large and complex issue. I did not think the committee was going to try to prove it to me. I will not promise to take the questions precisely in the order in which they were raised by committee members. On occasion I will bring in colleagues in dealing with them.

I will begin with the increase in State pension age. It is often said we are ahead of other countries but actually we are not. We are pretty much in the middle of the pack, of EU countries in particular. Of the other 27 EU countries, between 2009 and 2013, 12 increased pension age for men, while 16 have increased it for women. While pension age was largely lower than here in many of those countries during that period, by the end of this decade, 2020, many of them will have caught up with us and will have a higher pension age. It is not just those countries that are enduring particularly acute economic pressures, for example, Greece, that are doing it. In other much more stable developed economies pension age is the same as here or greater, for instance, in the Netherlands. It is essentially a factor of the sustainability of the state pension system.

During the break, while there was a division in the Dáil, Senator Kevin Humphreys asked us about future cost projections. It is difficult to be clear a long way into the future. At present we are spending an additional €1 billion every five years on the State pension system. That will become utterly unsustainable unless changes are made to the system, or the Government and the Houses decide to dedicate a significantly greater amount of funds from the Exchequer and the Social Insurance Fund to pension payments. It will be one or the other, or perhaps a combination of the two. The thinking all along has been that we have to put in place measures to enhance the sustainability of the system into the future in order that those of working age who are contributing to the Social Insurance Fund will not be left high and dry when it comes to their time to receive pensions. This is a feature of modern developed economies around the world, particularly in Europe where one of the measures is an increase in the qualifying age for the state pension.

On those being forced to retire at 65 years, there seems to be a misconception or misunderstanding. There is no such thing as a statutory retirement age in Ireland and there never has been. People are not being required to retire at 65 years because there is some law or rule of the State in place. It is a contractual matter between an employer and an employee. EU directives require retirement impositions to be justifiable. Employers are required, when setting a pension age, to have justifiable grounds. While some will say they are long-standing contracts into which people entered voluntarily and so on, there is nothing to stop employers from renegotiating them. It is very easy to change a contract when there is mutual agreement and there is nothing to stop employers from putting in place a second contract, beginning at age 65 years and moving on if they wish to tackle the problem in that way. The 65 year age issue is not State generated. It is a function of contracts employers have with employees.

The Department of Public Expenditure and Reform spearheaded a group that examined the issue of developing mechanisms or measures to encourage people to work for longer. Part of it is encouraging employers to allow people work for longer and not to try to enforce the 65 year retirement contracts they may have. As a consequence, the Workplace Relations Commission is developing guidelines for employers to encourage them to behave in that fashion.

The gross cost of the State transition pension was approximately €140 million. The net saving as a result of its abolition is estimated at approximately €80 million in a full year. In abolishing it State pension age was essentially unified at 66 years. People were required to retire before receiving the State transition pension. It was to move from retirement to receipt of the contributory pension. In thinking about policy objectives it is highly unlikely that somebody who was forced to retire at 65 years to reeive the State transition pension and who at 66 received the normal State contributory pension would go back to work. Therefore, if the policy objective is to increase people's working lives or to enable them to have "fuller" working lives, it seems that the State transition pension ran counter to it. It is not just that it was a mechanism to save money in difficult austere times, it was also to aid the policy objective.

The issues of pension increases and indexation were raised. The Department has never made a formal proposal that pension payments be index linked. However, the Senator is absolutely right that it is often looked at and has been under consideration for some considerable time. The issue is when, how and by how much pensions should be increased would impact on a lot of other budgetary measures and it could not, therefore, be considered in isolation. That said, it is the case that Ireland is somewhat unusual in an EU context, in particular, in that setting the rate each year without reference to a particular formula is not done. The norm in other countries is that there is a form of indexation. Various measures are used in indexing in most other countries. Lithuania may be the only other member state that operates somewhat like us. Of the others, 20 member states include prices in the formula; 17 include wages; three include GDP, while there are combinations of these, depending on the approach taken by each country. If we were to consider inflation, there would be two possibilities. We would either use the CPI or a measure called the HICP, but in deciding we would have to look at the basket of goods used in determining the rate. Some of the things in the normal basket are not particularly pertinent to people of retirement age; in that sense, therefore, it might not be a good quality indexer. For example, education costs are ordinarily included in the basket. One has to wonder if they should be included in indexing pension payments.

Senator Alice-Mary Higgins: The partnerships' research is a very useful resource in having a more tailored basket.

Mr. Tim Duggan: Indeed. Indexing wages is another possibility and would require us to land on a particular index. While there would be some issues, it could ultimately be done. If we were to choose a double lock, favoured by some, inflation, on the one hand, and wages, on the other, we would have to be extremely careful in how they were put together and over what periods of time we would be willing to make the calculations. For instance, we could have a crazy situation where, for instance, we would take the higher figure of both, a model that is sometimes referenced. Inflation could be high in one year, with wages being relatively low, while the following year wages which tend to lag behind inflation might be high after inflation has come down. While the economy generally might have inflated at a particular level, indexation might result in pension payments being increasingly significantly above it. As such, one would have to look at the issue over a multi-annual period, whatever combination of indexers one would choose. It is obviously something that can be considered by a Minister and a Government and in respect of which we are capable of providing good quality research and figures. Ultimately, however, it is a policy matter and would have to be determined in that space.

I can come back in on details if members wish me to do so, but I will move on for now. The 37% gender gap mentioned by Senator Alice Mary Higgins is taken from the European Union's 2015 pensions adequacy report which found that there was a slightly larger gap across the Union as a whole than in Ireland, which is interesting. The gap is widest in countries such as Germany, Austria, the Netherlands, the United Kingdom and Luxembourg, which is also interesting. These are well developed economies which, in some cases, are better developed than ours or, certainly, have been developed for longer. Interestingly, the countries with the smaller gaps were at the other end, including Estonia, Lithuania and the Czech Republic, some of the newer member states. The important point is that it does not relate only to the state pension but to all pensions. It is a measure of history in that it reflects what went on in the past. Many households worked on the basis of the breadwinner model in which women were carers in the home or homemakers. That, in turn, is reflected in the gap owing to the earnings related element of pensions. The state pension works differently from occupational pensions in that sense. Consequently, the difference in pensions paid by the Department to those over 66 years is nowhere near 37%. In fact, it is approximately 2%. In other words, the average male pensioner - I am talking about averages - is paid an amount that is approximately 2% higher than the amount the average female pensioner receives in the State pension.

Senator Alice-Mary Higgins: Does Mr. Duggan have separate figures for contributory and non-contributory pension payments?

Mr. Tim Duggan: We do not have them with us, but we can certainly get them for the Senator.

Senator Alice-Mary Higgins: That would be interesting to unpack.

Mr. Darragh Doherty: It includes pensioners over 66 years in receipt of widow's and widower's contributory pension.

Mr. Tim Duggan: It is all included in the statement.

Senator Alice-Mary Higgins: It would be great to have a gender disaggregation for each of the different pension categories because that would allow us to look at the measures might be taken in each category.

Mr. Tim Duggan: We can go through some models and show where different possible methods of qualification would work better in certain circumstances, depending on individual circumstances. The main issue is that the gap is primarily found in occupational pensions rather than the State pension.

I was asked about INM and the possibility of having a pension protection fund, a debt on the employer and things of that nature. The first really important point to note is, as members know, defined benefit pension schemes in Ireland are set up and maintained by employers on a voluntary basis. There is no legal requirement on any employer to establish or maintain a defined benefit pension scheme. It has always been voluntary and there has never been a law requiring employers to provide fpr one or anything like it. As a consequence, most defined benefit schemes in Ireland are set up under a deed of trust which sets out the rules of the scheme and undertakes certain liabilities and duties as a consequence of these rules. Because they are voluntary, each trust deed varies. It depends on what the trustees, the employees, their representatives and the employers agreed to. There are differences in the rules which, in some cases, are considerable. There is no essential one-size-fits all scheme. Despite all of the difficulties which have arisen, the vast majority of employers operating defined benefit schemes have made great efforts to support them and deliver the benefits to scheme members. They are making significant efforts to ensure their ongoing viability for as long as required into the future. It is important to state the majority of schemes are working well and that employers are committed to them.

As I said in my opening statement, the process all along has been that the good functioning of schemes is generally engineered through dialogue between the parties involved. Where issues arise, they sit down and work things out between them. This usually works well. However, there are exceptions. The INM case that occurred in recent weeks is an obvious example of a case where the dialogue process that is almost taken for granted does not seem to have occurred. If serious consideration was given to taking legislative measures in this area, such legislation would have to have a couple of significant qualities. First, it would have to work and do what one wanted it to do, in other words, achieve the desired outcome. One would have to think carefully about what that desired outcome should be. Most people argue that the desired outcome is a no-brainer, namely, that people should receive the benefits they have been expecting to receive. That may not be achievable in its fullest sense, however, and for that reason a little thought and consideration would have to be given to how one might frame it. The second quality which is as critically important as the first is that, in addition to such legislative measures achieving the desired outcome, they would have to do so in a way that would not cause harm. That is a tricky balance to strike.

Another issue that would have to be carefully considered is how applicable this might be in some retrofitting arrangement. Given that pension schemes were established voluntarily under a trust deed, there is a degree of debate about whether one could subsequently impose a statute on them. A question arises as to whether one could impose legal requirements on an existing debt. While it would be okay to do this for the future, could they be applied to schemes that were or are in place using a voluntary mechanism? That issue also requires careful consideration. While I am not necessarily saying anything the Senator has not heard before, these are important qualities that would have to be considered.

There would be obvious advantages in placing a minimum obligation on an employer who is sponsoring a defined benefit pension scheme. It would be better in trying to protect the benefits of existing and former members of a scheme. It would also, to use a horrible phrase, prevent employers from walking away and leaving a scheme high and dry. It might also help to reduce any potential exposure of the State if a scheme were to be wound up with a deficit. Notwithstanding these obvious and good advantages, there could be significant downsides which also have to be considered. I referred to retrofitting and how fair and legally permissible it might be. A second concern is that one would not want a scenario to arise where one had a pension scheme with a company tagged on to the side of it. If it was suggested legislation of this nature was to be introduced, one would not want a flight from defined benefit pension schemes by employers, regardless of whether they had debt issues. Given the volatility of the investment market, it is difficult for anyone managing a pension scheme to predict with any degree of accuracy in what position the scheme will be in one year, two years or five years from now. Therefore, if employers were to be faced with the possibility of having a legal obligation to secure debts that could arise in the future, it could force them, their boards and shareholders to think very differently from the way they think about the scheme when it is a voluntary arrangement. We would have to be careful in considering that issue and teasing out that possibility.

In addition, even if legislation was to be introduced in a way that did not allow for this scenario to arise, experience in other countries has shown that it takes time to bed these things down because it is not particularly easy to predict what behaviours might emerge with companies in such cases. As a result, anti-avoidance structures and measures have become a feature of the system in the United Kingdom and the United States, as well as other countries that have introduced provisions of this nature. We would have to carefully try to predict and tease through these scenarios and how they might work, which would be a complicated task.

While this approach is fine where there is a single employer scheme or a single set of trustees scheme, a number of defined benefit pension schemes are much more complicated as they involve multiple employers and different sets of rules for different types of employee and so on. It is not the easiest thing in the world to develop legislation. I truly wish it were as easy as drafting a small amendment to an Act. However, on close examination, it seems that complicated legislation would be needed to address an issue such as this.

A significant issue is that the extra funding burden could, unfortunately, accelerate the demise of the defined benefit pension scheme environment if one were to take the route proposed. Some experts have suggested this approach could bring about a rather abrupt end to the provision of defied benefit pension schemes. While some argue that this is exaggerated and could not possibility occur, we have to be mindful of this potential and tease through the realities before we would be in a position to make a decision one way or the other.

Senator Alice-Mary Higgins: My colleague, Deputy John Brady, referred to a pension protection fund, which is another approach.

Mr. Tim Duggan: That approach is very unlikely to be helpful right now because a fund would have to be built up. There are different ways it could be done. The fund in the United Kingdom to which the Deputy referred is essentially a quasi-insurance fund which is built up over many years from charges imposed on pension schemes. In many cases, when a charge is imposed on a pension scheme, it either impacts on the employer who is sponsoring the defined benefit pension scheme, in other words, the employer carries the can and pays more into the fund, or it is essentially a charge on the members of the scheme and results in reduced pension payments. It depends on the way in which the measure is applied. If one has a benign, reasonably solvent employer, he or she will usually pick up the tab.

The funds are amassed over many years and used in the event that an insolvent company is not able to fund its pension scheme. In the particular case the Senator raised, this would not apply and would not be of any use. As there has not been such a fund in Ireland, it would not have been of any use because the fund would not have been in place. Introducing one now to protect schemes in the future would have obvious advantages, but there would also be disadvantages. For instance, the big disadvantage is that it could result in some of the scenarios I outlined with regard to debt on employers and in exactly the same behaviours. It would impose additional charges on pension schemes already with funding difficulties or facing a predicament. For this reason, one would have to wonder how willing employers would be to continue funding these schemes if the costs were to increase continuously. It is also possible that in the event of a downturn in the economy or a large scheme failing, the fund would not be able to withstand the calls being made on it, unless it had been in place for a considerable period and, even then, it could experience difficulties. This concern persists in the United Kingdom, notwithstanding the fact that its fund has been in place for some time. They do not expect that fund to be self-sustaining until after 2030, for instance. This is a long-term measure and given what is happening with defined benefit, DB, schemes worldwide one wonders if there would be a lifetime for such a fund in Ireland. In any event, such funds seem to work best in countries that have large scale. The UK is probably almost at the edges of the type of scale that is required. The view has been expressed, and it would appear to be intuitively correct, that Ireland may not have the scale to sustain a fund of this nature in terms of the schemes that are in place and the level of liabilities that accrue to those schemes.

In his engagement on the Bill in the Seanad on Tuesday, the Minister listed many reasons that debt on the employer requires careful consideration, some of which I have repeated.

Senator Alice-Mary Higgins: I thank Mr. Duggan for his input on that issue.

Mr. Tim Duggan: My colleague, Mr. Nicholson, will respond to the questions on the universal retirement savings system.

Mr. Robert Nicholson: The Chairman asked for information on how we compared internationally in terms of occupational and supplementary pensions. Ireland is one of only two OECD countries that does not have a mandatory or quasi-mandatory earnings related pillar, the other country being New Zealand which has in place a fairly significant system anyway. However, one needs to look at the nature of the individual systems because they are not always comparable between the various pillars. The first pillar is the State pension, the second is the occupational pension and the third is the personal pensions. There are differences between the systems. As a broad indicator, the OECD average of post-retirement income, compared to pre-retirement income, is 54% of pre-retirement wages. In Ireland, only 35% of the population in the private sector have occupational or supplementary pensions. The remainder are reliant on the State pension, which is 35% of the average industrial wage, such that there is a crude retirement savings gap in Ireland in comparison with our OECD colleagues in terms of overall adequacy. Again, there are all sorts of caveats around that because this is a notoriously difficult area in that one needs to take account of housing, taxation, differences in consumption between different types of people and tertiary benefits such as free travel, household benefits and so on. This retirement savings gap has prompted the idea of a universal retirement savings system, whereby the State removes the voluntary nature of the system and adds an element of compulsion. Decisions have not yet been made on the appropriate model in this regard, although two models have been put forward. The preferred model of the interdepartmental committee that looked at this issue was a defined contribution earnings related second pillar system, which narrows the frame of reference significantly in terms of the proposed solution.

As part of that process, we talked to approximately 36 groups, including trade unions, employers, pensions industry officials and officials from the voluntary and community sectors. There is absolute consensus around the need for improved retirement savings although there is little consensus and disparate views on the manner of the response to that. For example, a defined contribution, DC, earnings related pillar could take many forms. It could take the form of a State-operated system in the context of increased PRSI contributions or a nominal account for an individual that is personalised and moves beyond the redistributive State pension system. It could equally be one large State pension scheme, similar to NEST in the UK or a hybrid of both models which could involve the private sector bidding for work in that area for a large number of funds, or it could be an extension of the current system with employers and employees being compelled to enrol in a pension scheme. The operational framework will be extremely important. As I said earlier, all the evidence suggests that the design of such a system will be crucial. Also crucial is political consensus. Generally speaking, internationally, there has been cross-party political support to allow any proposed reform to move beyond the term of, in this instance, this Dáil. As mentioned by Senator Alice-Mary Higgins, consumer trust and buy-in by the various individuals involved will also be crucial.

Leaving aside the operational characteristics of the scheme, fundamental questions such as who should be included, why they should be included, the policy objective of the system, the financial incentives, how much a person should contribute, whether a person should be allowed access to some of his or her savings and so on need to be addressed. In terms of the gender issue, it is fair to say that any system that relies on earnings and contributions from earnings can naturally result in worse or lesser outcomes for particular groups in comparison with others. I am speaking in this regard about the gender pensions gap. It is a difficult area in the context of an earnings related system because the triple whammy of fewer hours worked, less time spent in the labour market and more part-time work and lesser earnings generally results in lesser pots at the end for those groups, who, typically speaking, and to a large extent, are women. What is put in reflects what goes out. A particular challenge will be how such a system will meet the needs of carers and other groups, which leads on to the issue of financial incentives and any contribution the State may make for particular groups. This is a matter on which a decision will have to be taken before any system could be launched. Typically speaking, internationally, those issues rather than being addressed through an employment related system are addressed through the distributive first pillar system. One way or the other the issues have to be considered and a position taken on them. I agree that this is a key issue.

On the question about people who are naturally outside the labour market, there are international systems that allow opt-ins, with financial incentives and so on. There is nothing preventing any DC employment-related system being opened up to people outside of the labour market. On the question regarding trust, fundamentally what is required is the trust of the consumer, particularly in the case of an opt-out system. Again, this will be a matter around design of the system. Typically, default investment structures with very tight parameters would be put in place. All of the evidence we have suggests that we should move away from the current system which comprises 160,000 with significant charges because they do not achieve economies of scale and, on occasion, there are problems with governance because there are 200,000 trustees across the country making decisions about people's retirement income in the future. It would be generally accepted that what we need to do is to strive towards having a small number of large schemes that can achieve economies of scale, result in better outcomes for members, can be more easily governed and have legislative underpinning in terms of how they operate. All of this work is work that still needs to be done, although we have devised initial ideas around it.

Senator Alice-Mary Higgins: In regard to the large schemes, which may be public, private or a mix of the two and involve tailored products produced for the investment market, would the ethical investment concerns that may arise in terms of State investment and the constraints already in place in that regard affect what types of packages are acceptable?

Mr. Robert Nicholson: Generally speaking, the investment parameters would be set in legislation. It must be borne in mind that it is the responsibility of trustees is to act in the best interest of members in terms of investing their income for a decent retirement outcome.

Senator Alice-Mary Higgins: Is that under the mandate they have?

Mr. Robert Nicholson: Yes. In terms of moral investment, different people have different ideas about different investments, whether it is in cigarette or arms companies or in states whose regimes one might not support. That is generally dealt with in legislative provision. They give the kind of marching orders to trustees about how they operate.

Whatever system is developed, it will need significant economies of scale. Efforts should be made to get tens and hundreds of thousands into the same environment rather than into many different schemes. Default investment products mean individuals effectively do not make a choice. They will know that if they do not make an active choice, the State has set appropriate parameters for investment products for them. Generally, in international systems, 90% of people go into default investment products. They do not make a decision but are put into them. The design and trust around that are crucial

Senator Alice-Mary Higgins: Would something similar to the insurance scheme referred to by Deputy John Brady be considered?

Mr. Robert Nicholson: The capital guarantees issue is a difficult one because they are expensive. The nature of a defined contribution system is that the outcome depends on the moneys put in, the investment growth, or loss, and any charges taken away from it. If capital guarantees are considered as part of any system, it limits the capacity for more positive outcomes for some and may reduce the negative outcomes for others. It is a design criteria on which a position would be needed to be taken.

Senator Alice-Mary Higgins: There was a 30% fall in pension funds in 2008. I guess it is balancing out.

Mr. Robert Nicholson: On tax relief, in any system which changes from a purely voluntary system to a mandatory element, again, a position would need to be taken on the financial incentives which would underpin it, particularly in the case of an auto-enrolment system where if incentives are not correct, people will opt out. The exempt tax system at marginal rates of relief would need to be considered and, again, a position taken on whether it reflects the policy goals a new system is trying to achieve. I would not take a position on that one way or the other without more information.

It also needs to be pointed out that the marginal rate of tax relief kicks in relatively early at €32,800. Those individuals would be core constituents of both the current and future retirement savings systems. Again, negative impacts of any change will need to be examined.

The supplementary pension coverage for women is 46.2%, as per data from the Central Statistics Office, CSO, while it is 47.2% for men. The coverage rates are quite similar. Again, because of lower hours, part-time work, lower wages and so forth, the outcomes from those pensions are significantly lower for women than they are for men. The issue of adequacy needs to be looked at. The gender pensions gap in the 2013 EU report on this area showed a 39% difference in supplementary pensions income for women compared to men. CSO data indicates that, on average, 9% of income of women in retirement comes from occupational pensions as opposed to 23% for men. There are different ways to look at the figures but certainly there is a gender gap. It is not lessened by employment-related pension schemes as it stands.

As Mr. Tim Duggan stated, current pensions income typically reflects social norms of yesterday. The labour market participation rate of women has gone up 20 percentage points in the past 20 years. Some of those impacts will be reduced but it remains an issue.

The issue with the mandatory retirement age and longer working goes back to the European report on pension adequacy. The question is what is one trying to achieve by how long someone stays in retirement. To a large extent, it is about intergenerational fairness. The period that individuals contribute to a pensions system and benefit from it should stay somewhat consistent across the generations. How does one get that right? That is a question for another day but that is what underpins the increase in age for the State pension.

The Department of Public Expenditure and Reform report on fuller working lives covered several areas but attached a report in 2013 around various suggested measures which would support longer working. That included financial incentives such as tax and PRSI, changes to employers' practices, how to reform the labour market, training and upskilling and so on. These would cover to a large extent international best practice in this area.

Mr. Tim Duggan: The homemaker provision was introduced in 1994. However, at the time it did not have any retrospective effect and only applied from that date on. My understanding is that the reason it was not retrospective was that the costs involved would be significant. It is not possible to be entirely definitive about those costs without doing a lot of spadework, so to speak. Typically, we do an analysis based on the child benefit records which have only been computerised since the early 1980s. One would have to go through paper to go back beyond that, which would be difficult enough. At the time, it was estimated tentatively that the cost would be the equivalent today of €160 million. This was approximately 4% of the pensions spend at the time. Since then, we have done quite a detailed analysis of this. If we were to introduce a homemaker measure with no start date from January 2017, we estimate it would be an additional €290 million per annum.

Senator Alice-Mary Higgins: It would be useful if that costing could be sent on to us. I have looked for it before with the provision going back to 1973.

Mr. Darragh Doherty: That costing is assuming a high take-up among women, but a low one among men. It is not looking at particular years because we do not have access to child benefit years for 1973 as opposed to 1997. It is an estimate but is not based on a particular date.

Senator Alice-Mary Higgins: I know a check was done on 1953. It would be useful to go back to 1973. It should also look at the women, for example, who are on a reduced rate contributory pension who may be impacted by it.

Mr. Tim Duggan: I would suggest academically only in the sense that one could not impose it that way.

Senator Alice-Mary Higgins: It might give an estimate of one likely scenario of cost. I do not believe many people will switch whereas I believe those on the reduced rate might get an increased rate. One would have to give them the entitlement to switch. It would be worth bearing this in mind as another scenario. Of course, one must consider all scenarios.

Mr. Tim Duggan: We do. We have done quite a bit of analysis on this and we will see what way we can best package it for the committee. We are reasonably assured regarding our calculation of €290 million, or thereabouts. When one thinks about it, one notes it is close to double the increase given in the budget right across the board. It is a very substantial amount of money.

There are a couple of other issues, including cost and policy choices. If there is €290 million to spend, one must decide where it is to be spent and whether there are other more pressing matters, as in the pensions space and other spaces in the social welfare budget, or more generally in other Exchequer expenditure areas. Therefore, many policy issues arise over how largesse of the amount in question might be spent. There is also the issue of equity. As we have said on a couple of occasions, societal norms are changing and have been changing quite significantly over the past 20 years plus. I hate to pit men against women because I actually have some friends who are in the homemaker or carer role who are male and who, as a consequence, get as exercised about this as female friends. It is the case, however, that the circumstances of people who are now working and spending quite significant amounts on child care and making contributions must be balanced with those of people who are not paying large sums on child care and so on. That equity issue has to be teased through also

Senator Alice-Mary Higgins: I would be very cautious on that.

Mr. Tim Duggan: I am just saying it is an issue and that is raised by people.

Senator Alice-Mary Higgins: A huge amount of unpaid care is provided and is still being provided by all the women in Ireland.

Mr. Tim Duggan: I agree wholeheartedly with the Senator. I am just saying the phenomenon exists and it is a matter we have to tease through when we are examining this.

On the total contributions approach, we are obviously very mindful of the potential disadvantage it could cause for women if it were just effected on a straight *pro rata* basis. This is because of some of the factors we have mentioned already. I refer to the typical work patterns that many women have experienced over the years. As I stated, norms are changing quite dramatically. To use a horrible word, “millennials” have an entirely different approach from that of 30 or 40 years ago. The breakdown is that approximately 48% of people paying PRSI are women. It is reaching a greater equilibrium, so to speak. Most couples are working now. Certainly, the numbers are going in that direction.

Even after paying for child care, most families are better off with two wages if both partners are in a position to work. That means circumstances in 30 to 40 years will be different from those than pertain now or did pertain. In planning a total contributions approach, because it will be a very long-lived system more than likely, we have to plan it on the basis of what now exists and will exist over the coming years. Equally, we have to try to ascertain what circumstances will look like in 25, 30 or even 50 years. It seems, on the basis of our analysis to date, that this will not be a rigid fix system and that there may be a degree of variability to allow for changes in demographics and people's working patterns that have emerged in recent years. That must be properly reflected when people reach retirement in the decades ahead. That said, it is our current thinking as we try to plan this that a pretty significant allowance for homemaking and caring is likely to feature. We do not see any other way of designing a system like this.

We are keenly awaiting the upcoming actuarial review of the Social Insurance Fund because it will help us enormously in trying to work out costings and approaches that might be appropriate to the envelopes available to us. The Chairman did not use these words but I believe he was wondering what a system like this would look like on a cost-neutral basis. That is precisely one of the points we are trying to tease through at present. The actuarial review is due to kick off shortly. While it will take until well into next year to have it completed, we hope the initial data coming from it will be relevant to this study. In fact, that has been agreed and, therefore, it will be given priority. We hope that, by the middle of 2017, we will be in a position to engage in very serious stakeholder consultations on possible approaches to this. It will obviously include this committee. We will prepare materials for the members in that sense to kick off some of the discussions. Once we have the costings from the actuarial review and some of our own design work done, whereby we can project the costings a bit better, we intend to try to make them available to members in a form that is as easily digested as possible. This stuff is quite confusing and one can get easily bamboozled with columns of figures. We will try our best and then set out what we believe to be the priorities in developing a system of this nature. We have done a lot of work on it already but we are critically dependent on seeing what emerges from the review.

I cannot answer the question directly because we are still going through all the information.

Chairman: I thank Mr. Duggan for his honesty.

Mr. Tim Duggan: The current thinking is that this might be implementable from approximately 2020 onwards.

Chairman: On a dual basis?

Mr. Tim Duggan: We have not yet landed on whether it would be on a dual basis and whether choice would be provided, or whether there should be a drop-dead date and a pick-up date. We have still to tease through the implications of doing one or the other. The current thinking is that, in a pure sense, from 2020 onward we will switch over to a total contributions approach. I am not for a second going to pretend that is an absolute date that has been fully agreed. It really depends on where we end up in 2017 in terms of the design and consultation, the associated changes to the design and how we can get through a legislative process. It is a matter of what is considered reasonable by various stakeholders in terms of a lead-in time to allow this to happen, including whether there should be parallelism. It is a little early to give definitive answers but within six months we will be able to have very detailed, decent conversations with the members on this.

Chairman: I am not being smart with Mr. Duggan in saying it may well be a little early but it is important that the questions be flagged so the analysis will be done in a timely fashion and so the Department will have a view. I realise this is only a small meeting but the Department should have a view on the thought process so the information coming to us will be based on the questions raised today. I take the point that it is early days but the study being done needs to reflect some of the comments heard today. We do not have definitive answers. The information the Department provides will help this committee to form its policy position.

Mr. Tim Duggan: I fully agree with the Chairman. I said when I met him before that we would be delighted to have any input from any of the members because it does help us with our thinking and allows us to be sure we are not forgetting avenues that need to be explored. I would appreciate any information at all from the committee, including the contributions today, of which we have taken note.

Chairman: This meeting has run for a little longer than might have been expected. My apologies for the earlier interruption with the Dáil vote. The Department's contributions, the answers and, more importantly, the continuing engagement with the committee in this process is much appreciated. We will conclude for today. We are adjourning until some date in January 2017. The clerk of the committee will be in touch with members to arrange that exact date. Once again, I thank Mr. Duggan and his officials.

Mr. Tim Duggan: We thank the Chairman.

The joint committee adjourned at 12.40 p.m. *sine die.*