Irish Association of Pension Funds

Budget Submission

October 2003

INTRODUCTION

The Irish Association of Pension Funds (IAPF) has prepared this submission with a view to making constructive observations and recommendations which the IAPF believe will be useful to the Minister and his officials in framing the forthcoming budget. The recommendations concern the following:

1. INDIVIDUALISATION OF TAX BANDS

- The individualisation of tax bands was introduced by the 2000 Finance Act and further extended in the 2001 and 2002 Finance Acts. IAPF believe that the effect of individualisation has been to disadvantage the tax treatment of single income couples as opposed to working couples. Consideration should be given to creating a framework whereby the state pension can be treated as the income of either partner.

- It is noted that retired married couples are not in a position to take advantage of the individualised tax bands. A likely consequence of further moves towards individualisation may increase the proportion of married pensioners subject to the higher rate of income tax as compared to the proportion of those still in the work force. A particular anomaly arises when an individual who is receiving the State Retirement Pension or Old Age (Contributory) Pension is in receipt of additional payment in respect of a qualified adult dependant. Under the current regime, no allowance is made in tax bands for this additional payment. The additional payment should be treated as income of the spouse under the individualisation rules.

2. INCOME IN RETIREMENT

- IAPF believe that the Government should continue its commitment to a stable taxation system for pension provision. In particular, pension savings should continue to be afforded the greatest tax incentives given the unique long-term investment pensions represent and the ultimate capital accumulated will be used to provide an income in retirement.

- IAPF recommend that the new retirement options be extended to Defined Contribution (DC) schemes. This would greatly assist the attractiveness of pension funding in such schemes and complement the wider agenda of increasing pension coverage for all.

- IAPF believe that the on-going education of current pension scheme members who, before retiring, may have been familiar and reliant upon fixed salaries and wages as to the investment risks associated with ARFs will be highly important to ensure that the availability of ARFs (or extension thereof) does not expose pensioners to excessive risk of an inadequate income in retirement.

- IAPF recognises the value of the Minister's objective in providing for the establishment of an AMRF where an individual does not have a minimum guaranteed retirement income of €12,700 per annum. However, the IAPF believes that the minimum income requirement of €12,700 per annum is pitched at a very low level and makes no allowance for the increase in earnings or the cost of living since its introduction in 1999. In addition, it is of considerable concern to the IAPF that the alternative to the minimum income requirement is a minimum capital requirement of €63,500 (which is again not linked to inflation). Such a capital amount is wholly inadequate to meet the minimum income objective of the Minister for any individual aged less than 65 years without an immediate entitlement to a State pension. Consequently, IAPF recommends that (i) a revised minimum income retirement income of €15,000 per annum be introduced and (ii) the minimum capital requirement of €84,000 be introduced, for the AMRF. As a bare minimum, the original amounts should be linked to inflation without delay.

- IAPF believe that if an ARF and AMRF are set up and the holder subsequently meets the guaranteed minimum retirement income hurdle due (for example, to a pension coming into payment), it should be possible for the holder to change the status of the AMRF to an ARF.

- IAPF suggest that provision be made to enable the encashment or conversion to ARF status of an AMRF prior to age 75 years in circumstances where an individual attains the minimum guaranteed income level after his/her AMRF has been set up e.g. in circumstances where the individual has substantial guaranteed deferred income at the time he/she sets up his/her AMRF.

3. Personal Retirement Savings Accounts (PRSAs)

- IAPF believes that the tax treatment of employer contributions to PRSAs is over-complicated and inconsistent with the treatment of employer contributions to normal occupational pensions schemes. In short, the employer BIK may act as a barrier in promoting PRSAs.

- IAPF believes that employer contributions to PRSAs should be encouraged and would recommend that as few obstacles are placed in the way as possible. IAPF believe that the existing PRSA model will place an unnecessary burden on Revenue Payroll systems.

- IAPF believe that the existing ceiling amount on earnings of €254,000 for individuals should be adjusted for inflation from 1999 and linked to inflation for the future.

4. NOTES on Simplification

- IAPF is committed to continuing its work with the Revenue Commissioners and the Pensions Board to develop proposals, which would encourage simplification of the current regulatory and revenue regime governing occupational pension schemes with the objective of enabling the introduction of greater flexibility for members and sponsoring employers of occupational pension schemes. IAPF believe that a structured approach to the improvement of our current system can achieve greater flexibility without threatening the benefits of this system enjoyed by pension scheme members (both in public service and the private sector), employers and the State.

About the IAPF

The Irish Association of Pension Funds (IAPF) was established in 1973 and is a non-profit, non-commercial organisation. Our members provide retirement security to over 200,000 employees, pay pensions to nearly 70,000 people and are responsible for some €50 billion in retirement savings.