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iapf
the voice of Irish pensions

Mr. Michael Noonan,
Minister for Finance,
Department of Finance,
Government Buildings,
Mount Street,
Dublin 2.

29th April 2011

Dear Minister,

Following a meeting yesterday with officials from your Department, I am writing to you on behalf of the Irish Association of Pension Funds in relation to the Governments proposal to impose a 4 year levy on the savings of pension savers.

The IAPF is a representative organisation for occupational pension schemes in Ireland; we do not represent an industry, but Pension Schemes that provide retirement saving plans for over 260,000 employees and 90,000 retired members.

We have been advised that a proposed levy of pension savings is to fund the Government's jobs initiative and will entail the following:

1. A levy of between 0.5% and 0.6% of the pension scheme assets of all pension savers including savings in occupational defined benefit and defined contribution schemes, approved retirement funds, retirement annuity contracts and PRSAs.

2. This levy will be applied for a period of 4 years from 2011 to 2014 and is intended to raise €450 million per annum over this period.

3. Legislation will be enacted which will permit the benefits of pensioners in defined benefit pension schemes to be cut.

4. This measure is solely being targeted at private sector pension savers - there will be no levy on long term savings accumulated through other vehicles or the benefits provided to members of unfunded schemes including the €120b of public sector pension's commitments. The proposal appears to completely exempt these groups for this new tax.

IAPF's View on the Levy:

The IAPF remains strongly opposed to a levy on pension savings for the following reasons:

- You will be aware from the Pension Regulator, Pension Schemes are in crisis, and many DB pension schemes are in a precarious position with the security of members benefits under significant threat. The majority of DB Scheme members have already taken a significant cut in their benefits and many Schemes are struggling to meet Minimum Funding Standards. Unlike the previous time when a levy was proposed, pension schemes and their members are simply not in a position to sustain a levy of this nature.

- There is a visible and increasing anger within the population at the already grossly inequitable situation between the pension regime of the average private and public sector employees. The suggestion that this levy might be imposed on private pension schemes members is blatantly discriminatory and further compounds the unfavourable treatment of one sector of society already struggling to make provisions for their retirement, while they fund €5b per annum through their current and future taxes, to meet the cost of generous public sector pensions.

- The State has gone to considerable lengths to safeguard bank deposit savings. Pension savings are merely another form of savings and are being singled out to fully fund this initiative. If the intent is to levy the savings or wealth of Irish citizens to support employment generation activities, the application of any levy should be broader than pension savings. If the rationale behind the levy is to recover some of the tax relief granted in the past, then it must be applied equitably across those in the private and public sector, who have benefited from pension tax relief.

- As has been already been well documented in various Government Reports, private sector workers are not saving enough to provide an adequate income in retirement, while many have made no provision whatsoever. What we need is a "***Pensions Initiative***" encouraging more people to save for retirement. However, with the cost to members of purchasing annuities coupled with recent poor investment returns and the constant threat for ordinary workers of losing tax relief on their pension savings and now a proposed levy on those pension savings makes it almost impossible for the average individual to afford or trust the State that saving for the long term is viable and will be protected as with other deposits.

- The levy undermines the principle of funding for retirement and would favour unfunded pension promises or shorter term savings vehicles instead, with consequent implications for the financial security in retirement for individuals.

Potential Fallout from the Introduction of the Levy:

The raiding of private pension savings by the State will be very damaging to pension provision in Ireland and will impact over a quarter of a million people including many elderly people who are already in a very vulnerable position.

We believe the fallout from the levy would be very serious, and we urge you to give full consideration to the consequences of this proposal on ordinary private sector workers and pensioners and follow an alternative path for your revenue generation needs.

1. Many pensioners in the private sector are now on fixed rate pensions as a result of deficits in DB schemes having removed index linking provisions. Tens of thousands of pensioners will suffer a cut on their pensions due directly to the actions of the Government. This would extend to pensioners on very basic levels of benefit. This is in a period where inflation (which they are no longer protected against) is starting to have an impact on pensioners.

2. The levy will undoubtedly result in further reductions in benefits for other members and, indeed, will likely precipitate the closure (in deficit) of some schemes. The levy is significant as it is equivalent to a 10% reduction in the investment return permitted by the Pension Regulator for recovery plans and the resulting scale of benefit reductions may be greater than this in some schemes. The introduction of the levy will push some pension schemes into wind up. As you are aware from the Pensions Regulator the majority of pension schemes are insolvent, this would mean that active and deferred members in these schemes would crystallise very substantial losses due directly to this action, the Waterford Glass workers are an example of the reality for private sector workers.

3. The alternative to benefit reductions in DB schemes is that employers would bear the cost through increased contributions which effectively represents a significant tax on jobs. A levy that was intended to increase jobs will lead to job losses in many multinational and indigenous companies as employers who may have to reduce the work force if they are to bear the additional cost. This will be an own-goal when it comes to jobs creation.

4. There will also be jobs losses from within the pensions industry as a result on this levy and the continued uncertainty on the future on pension provision in Ireland. As stated earlier, the IAPF does not represent the pensions industry and the implications for that industry and employment generally should be discussed with the relevant industry body and IBEC.

5. Private pension funds belong to the member. A raid on the savings of any individual will inevitably greatly undermine the confidence of the saver in the security of all forms of their savings and potentially accelerate the fall in private sector deposits in Irish Institutions.

6. It is likely there will be a move to transfer pension funds overseas. This development could also extend to a further weakening of confidence in investing any savings in Irish institutions.

Ordinary workers have seen the elite in politics and banking walking away with lottery style pensions, and the current cabinet will be insulated from this measure and will not have their pension levied. Are ordinary workers, already carrying the burden of national debt to have their pensions, their future, now raided?

<u>Possible Alternatives:</u>

Given the fragile position for Pensions Savings at this time, it is imperative that pensions funds are not levied which will further weaken their regulatory funding position. If there is a requirement to raise what amounts to €1.8 billion in cash over the next four years, we strongly believe that a levy which is a straight loss of funds to pension schemes and impacts so hard on savers should be the least desirable and absolute last option. The IAPF believes there are workable alternatives that will not have the same devastating impact on pension savings and pension provision in the country.

It the interest of fairness and equity we request on behalf on pension savers that no such levy is announced until alternatives are fully explored. The IAPF is committed to working with your department, in the very short term, to look at alternatives that will achieve your cash raising objectives and will be less damaging to pension provision in Ireland and not have the adverse publicity and consequences. Areas such as:

1. The establishment of an Infrastructure Fund where Pension Schemes are requested to make a specific allocation, this would have a real impact on job creation in Ireland. Venture capital funds were always well supported by pension's funds in the past. These we believe would be good vehicles for real job creation and not deteriorate further the funding position of Pension Funds.

2. Providing easier access to pension savings has also been suggested. This could be done for example by granting a once-off option to cash in AVCs or amounts of savings up to certain limits, subject to payment of tax at a rate such as 30%. This would be far more acceptable to individuals as it would release on a limited basis, long term savings to meet short pressing needs while delivering cash required for the Government's initiatives. It also would release savings to stimulate the wider economy.

3. Rather than raiding Pension Funds, funds could be required to "loan" on a long term basis to the state. Pension Schemes could be required to invest a similar amount to the proposed levy in long dated Irish Government bonds that are re-payable many years into the future. Again this would give cash to the Government without the short term need to repay it, but the savings would not be lost to pension schemes and further reduce the solvency of these schemes. An extension of this principle would be for Pension Funds to secure pensions in payment through the purchase of Sovereign Annuities.

We believe that these measures would generate your required cash flow and create thousands of jobs in the first 12 months. We would emphasise, **in looking at alternatives it is critical that money is not lost to pension funds and that members do not believe that their pensions savings are being raided by the State**. We strongly believe these measures would be far more equitable and less likely to provoke an adverse reaction and cause further destruction of pension provision in this country. With the loss of the majority of the NPRF and the entire assets on the non commercial state, the imposition of the levy on pension funds will be seen as the precursor to the raiding deposit account savings.

<u>Wider tax relief issues:</u>

The IAPF is very conscious of the commitments in the memorandum of understanding with the European Commission, the EU and the IMF relating to savings to be achieved from changes to tax relief. To meet this target while maintaining the critical need to incentivise saving for retirement, is already very demanding.
We are strongly of the view that it is in the best interest of pension provision in Ireland that any measures that arise in relation to the jobs levy will need to be reflected as part of the requirement to produce the €940 million ongoing savings set out in that memorandum. Let there be no misunderstanding, the potential double hit of making changes of that size while at the same time applying these temporary measures to pension savings to support the jobs initiative will inevitably spell the death knell for private sector pension savings in Ireland with massive consequences for future generations to come.

Given the seriousness of the issue we would request an urgent meeting with you to consider these issues and possible alternatives.

Yours sincerely,

Marie Collins

Marie Collins
Chairman, Irish Association of Pension Funds