IRISH ASSOCIATION OF PENSION FUNDS

PRE-BUDGET 2014 SUBMISSION

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Firstly, the Irish Association of Pension Funds welcomes the clarity the Minister brought to the pensions sector in Budget 2013 last December. The Minister highlighted the importance of the sector and acknowledged that it is in everyone's best interest that the Government wishes to encourage as many citizens as possible to continue to invest in pension schemes.

The Minister confirmed that tax relief on pension contributions would remain at the marginal rate and that the pensions levy would not be renewed after 2014. Both of these have been key issues for our members. Any change to marginal rate tax relief would be hugely detrimental to the objective of encouraging people to save for retirement, as it would introduce a disincentive to save. The pensions levy, by the time it has ended in 2014, will have taken almost €2bn from the total pension savings of €80bn. That has been levied at a time when the biggest pensions issue facing the country is that not enough people are saving enough for their retirement.

There has been a further €416m in annual savings to the Exchequer as a result of reductions in reliefs and benefit limits introduced in Budgets 2011 and 2012. In addition, it is estimated that there has been an annual saving of €111m as a result of a general reduction in pension savings.

Together these form a hugely significant contribution to the Exchequer from this sector. The Minister also highlighted during the year that there have been more changes to the incentive regime for supplementary pensions since 2006 than in the previous 30 years. It is important that the sector can operate in a stable environment with no uncertainty about future changes. The areas that we believe should be addressed in the forthcoming budget are as follows:

1. The Minister announced last year that, from 1st January 2014, tax relief on pension contributions will only serve to subsidise pension schemes that deliver income of up to €60,000 per annum. We have been working with the Taxation Policy (Pensions) Group on the implementation issues relating to this proposal. If this is the approach the government takes, it is important that the proposal is implemented in a manner that has minimal impact on employment and economic growth objectives. It should ensure fairness between public and private sector employees, between the employed and self-employed, between those in defined benefit and defined contribution arrangements and between low, middle and high income earners. It should provide certainty, sustainability and incentives for employers and employees to ensure that the general working population (public, private and self-employed) is encouraged to supplement the State pension. In order to ensure that the system can be readily implemented and governed and easily communicated and understood, it should be simple and practical to operate.

   One of the key issues in ensuring this is the factor that is used to convert a pension to a capital value. The current factor of 20:1 bears no relation to the actual cost of providing pensions. This means that those in defined benefit arrangements can have pensions paid that do not breach the limits that those in defined contribution arrangements can never hope to achieve. Using a factor of 30:1 would ensure a greater degree of equity in most cases.

The Department of Finance and the Revenue Commissioners need to ensure there are sensible transition arrangements for those impacted by the new limit and there is continuous engagement with the pensions sector on the introduction of the measure. We also believe that the new provisions should also be accompanied by legislation that would allow individual members of schemes the option to opt-out of a scheme where that doesn't currently exist within the scheme's rules. Otherwise it is possible that individuals will continue to have to contribute to an arrangement where they are putting themselves above the limits which may not be of any actual benefit to them.

2. The State pension should be maintained at its current level. This is the foundation stone of the pension system and needs to continue its role of providing protection from poverty. With the re-emergence of price inflation, the Government should set out the timing for the likely re-establishment of the link with price inflation for the State Pension.

3. There are some technical inconsistencies in the tax treatment for different pension savings vehicles that need to be addressed. We need to simplify the pension system and ensure that the same rules apply to the differing means of saving for retirement. Establishing the new limit of pensions of €60,000 offers an opportunity to examine some of the existing limits and restrictions. For example, why are annual contribution limits necessary when there is an overall limit to what can be accumulated?

   Addressing these anomalies would reduce the costs faced by individual pension savers and there would be much greater efficiencies within the pensions system.

   We would therefore urge the establishment of a working group involving representatives from the sector and the various Government departments and agencies to simplify the pensions taxation system and remove the many anomalies that currently exist.