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Chambers Ireland,
Dublin 2

Dear Minister McGrath,

Chambers Ireland is grateful to the minister for allowing us the opportunity to comment on the proposals to alter the Standard Fund Threshold.

Chambers Ireland are national Champions for the Sustainable Development Goals and it with a consideration of the Decent Work and Economic Growth Goal (SDG 8) that we are responding to this consultation. There is much to consider regarding the prominence of the issue of the Standard Fund Threshold. Much has been made of the looming pensions cliff and the aging of our population. It is a fact that the vast majority of the population have not funded their pensions adequately to provide for their retirements. With the marked decrease in home ownership and the increasing costs of housing working-age people are able to save less into their pensions. On the state side, the liabilities associated future state pensions and public service pension payments are largely unfunded. As a result, it can be expected that the number of people who are likely to be impacted by the current Standard Fund Threshold will amount to a relatively small share of the total population.

It has been suggested that the principal reason for this consultation occurring relates to problems within the public service regarding the value of the pensions that officials are receiving, and that individuals may be more willing to take promotions if they were to see their pensions benefit. It is concerning that public servants take this view. The number of people outside of the public sector who are likely to benefit from a change to the Standard Fund Threshold are few and are likely to diminish in the coming years. It is hard to see how the same claim could be reasonably be made regarding public sector workers.

In many ways, the issues which arise out of the existing Standard Fund Threshold do not directly affect the private sector and amendments to the Standard Fund Threshold will have an immediate impact on very few of the 80% of workers that are working in the private sector. Therefore, the impact of this to workers and businesses in the private sector is likely to be negligible unless it induces an increase in the net present value of future public sector superannuation costs. Regarding the extent of these indirect effects of changes to the Standard Fund Threshold – should those changes precipitate an increase in the number of high-value public sector pension claims then they are likely to be create considerable liabilities for the taxpayer and so changes that are in excess of the rate of inflation should be very carefully and independently assessed.

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There is some value in the argument that the Standard Fund Threshold should have been indexed against the Consumer Price Index – given that that was the initial government position and would have been a factor in peoples' consideration when making their long-term decisions regarding their pensions funding. As a result, the introduction of a retrospective adjustment to the Standard Fund Threshold that is linked to the Consumer Price Index may be warranted. As a result of the evident political challenges associated with this indexation, in future this indexing should be automatic, and it should also adjust downwards should our country experience a period of deflation.

Far more pressing for our members is the need to review the pension contributions that private sector workers can make. As has been noted, we are living in shock prone times and private sector individuals can expect to experience many shocks to their income over their lifetimes. However, the contributions that they can make to their pensions are severely limited by policy in a way that does not affect the public sector. Given that many private sector workers will not always be employed they can experience significant income shocks that can greatly undermine the value of their pension funds.

For example, people are required to spend much more time in education today than was once typical. Entire sectors of our economy are dependent on people with PhDs. Achieving a PhD can often involve a decade in training (from bachelors through masters and beyond can often take longer). During such training they are unlikely to be able to make significant contributions to a pension, and almost certainly not enough to benefit from tax rebates. Even under the proposed auto-enrolment system, such people are unlikely to be earning enough to receive employer and government contributions.

Similarly, people who have established their careers and have to exit from the workforce for a period of time, whether that be for caring, illness or education, will significantly reduce their earnings. Within households this can have a dual effect where not only is the income of the individual who is not in the workforce reduced, the total household income is reduced which often means that the partner may not be able to make pension contributions while that other person is not themselves earning. There ought to be a mechanism by which people who are unable to contribute to their pension as a result of very normal life experiences, such as becoming a parent, should be able to pre-emptively or retrospectively adjust their contributions and still receive rebates on their taxes. If we want people to contribute more fully to their long-term well-being though making pensions contributions then we need to ensure that they can make contributions when they are able to. Given that in 2022 the majority of workers[1] were earning less than €40,000 annually, and that 70% of people in the 25-29 year age bracket were earning less than that, and that fewer than 5% of the

[1] https://www.cso.ie/en/releasesandpublications/ep/p-eaads/earningsanalysisusingadministrativedatasources2022/distributionofearnings/

younger cohort were earning €40,000 or more it is fair to say that most workers are unable to get significant benefits from the exiting tax rebate.
This limits their potential savings in two ways, firstly the amount of savings that younger workers can make – and receive tax relief on – is negligible, and should they receive it, almost all of the tax relief is likely to be at the 20% rate. Limiting the tax relief that younger people can avail of to 15% is a perverse disincentive to saving when their pension contributions result in an 80% reduction in income at the margin. Furthermore, anyone who has the misfortune of graduating at the wrong part of the economic cycle may not only experience the immediate impact of unemployment or underemployment affecting their incomes, but may also result in long-term reductions in income[2] which means that it takes them even longer to earn enough to get a higher-rate rebate on their pension contributions.

If the state wants people to have a particular retirement income when they retire then, there should be much more flexibility in allowing them to make contributions when it is possible for them to do so. Given that private sector workers may experience considerable variations in their income this would allow them to rebalance contributions during affluent years when they were able to compensate for years when they were unable to make a contribution. It would be relatively simple to allow people to make contributions up to a certain (index linked) value, which they could use to claim tax relief, over the course of their career while linking any tax rebate to the year in which they are making the contribution.

In the case of someone who is taking maternity leave, depending on the timing of the child's birth this could easily negate the higher level of tax rebate entirely for that person for two years. For people who have even longer-term caring commitments the lifetime impact on income can be considerable in two ways: Not only is their income reduced while they are limited in their capacity to earn – they will then, should they return to the workforce, earn at a much-reduced rate relative to their counter factual who did not have to take on caring responsibilities. Caring in Ireland is highly gendered with 60% of carers being female[3]. Two thirds of carers are also in the 40-64 year-old age group which are those years where one is able claim pensions tax relief for a larger proportion of one's income. This reinforces multiple inequities that carers experience. Even with respect to the auto-enrolment, a third of working women in Ireland work part-time[4], accounting for two-thirds of those that are in part-time work. Given that it is very unlikely that people who have an extended period of part-time work will be able to make any contributions towards their pensions, there ought to be a facility for the partners of those who are caring to make contributions on behalf of that person who has taken on caring responsiblities.

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[2] https://www.nber.org/digest/nov06/career-effects-graduating-recession
[3] https://www.cso.ie/en/releasesandpublications/ep/p-cpp4/census2022profile4-disabilityhealthandcarers/carers/
[4] https://www.cso.ie/en/releasesandpublications/ep/p-lfs/labourforcesurveyquarter32023/employment/

While a less vulnerable population than carers, those who are in self-employment can experience similar fluctuations in income as those who have disrupted careers. Setting up a business often requires investing savings in that business (as opposed to investing them in a pension) and may also result in multiple years of underwhelming income while the business is trying to grow. And many businesses don't as most businesses fail. While entrepreneurs will often return to business formation, creating more new businesses, they are also having to factor in many more years of being unable to make substantial contributions to their pensions. It may be that they these entrepreneurs not return to being self-employed and that they have little or no long-term benefits from attempting to start their own business should they become employees again. At present, there is no way for them to overcompensate in later years to make up for the years in which they had an income that was too low to claim a tax rebate in. What affects women in employment doubly affects women that are self-employed, while some employers are able to offer their employees top up to their income while the are on maternity leave this is not possible for women who are creating their own jobs. Whereas employees have entitlements to many forms of increased leave those who are self-employed do not benefit, often sick-days, parental leave, or other disruptions to work just mean a lower income.

There are a multiplicity of issues which pertain to how we fund private sector pensions that the department ought to consider at the earliest opportunity, especially given how the current discussion regarding the Standard Fund Threshold highlights the discontinuity between private sector pensions and public sector pensions.

Kind Regards,

Shane Conneely,
Director of Policy,
Chambers Ireland

Regarding the questions that pertain directly towards the Consultation on the Standard Fund Threshold:

1. The recommendations of the Commission on Taxation that the SFT be benchmarked at "an appropriate and fair level of estimated retirement income."

    This is not an issue which affects a large number of private sector workers. Those that it does affect are likely to be able to benefit from professional advisory services which can help them to effect a tax-efficient pension outcome.

    Where Standard Fund Threshold does arise, it typically involves the self-employed that are seeking to liquidate property and transfer those assets into their pensions or alternatively those who are selling ongoing businesses to others. In those situations it is often possible for individuals to benefit from regulatory arbitrage through moving their tax residency to another jurisdiction. It is unclear as to what the long run benefits to the exchequer regarding the proposed increase to the Standard Fund Threshold may be.
    Our members in the financial services sector would welcome and increase to the Standard Fund Threshold as it would allow them to retain the custom of certain, relatively high-net-worth, clients. But the broader effect to the private sector would be marginal and the benefits would be limited to a rarified group of individuals.

    The momentum for the increase to the Standard Fund Threshold seems to be driven by the public sector and the increases in taxes associated with the increased and unfunded liabilities associated with public sector pensions are likely to have a considerable impact on the working population for a considerable period of time.

    The current life expectancy at 65 in Ireland is circa. 20 years[5], therefore increasing the value of public service pensions will tend to accrue liabilities that will extend over a period of time that may be more than 50% of that person's total working life.

    That said, recent years have been volatile. It was envisaged that the value of the Standard Fund Threshold should track inflation and that adjusting it was irrelevant up until 2020 as a result of the low-inflation economic environment. Since 2020 however we have seen CPI increase by almost 20%. This has created considerable uncertainty for those that were in the closing years of their pension.

[5] https://www.cso.ie/en/releasesandpublications/er/ilt/irishlifetablesno172015-2017/

Chambers Ireland view is that the Standard Fund Threshold should track inflation and that this should be an automatic process to avoid future scenarios where inflation or deflation would rapidly affect people's pension funds and where political responses may not be sufficiently timely.

2. The relevance of the rationale for the SFT in the context of the current pension landscape and the factors that may impact the SFT's role as a limit on tax-relieved pensions.

    An element to consider is the degree to which the current level of the Standard Fund Threshold impacts individual's willingness to remain within the workforce. There is an extraordinary scenario, which only impacts those within the public sector, where individuals are unwilling to seek advancement within their organisations because while their added responsibilities will be remunerated while they in their job, it will not materially affect their long-term pension entitlements. This speaks to a very peculiar distortion within the public sector working practices that is beyond the terms of this review.

3. The impact of any change to the SFT on the overall tax expenditure associated with pension provision and its associated distribution, and the need for equity in treatment across taxpayer groups and between public and private sector workers.

    Total taxes, of all kinds, per worker were circa. €38,650 in 2022. A pension with a value that is equivalent to the current Standard Fund Threshold would receive annual payments of almost €70,000. Given this, each person in receipt of a public sector pension that is valued in excess of €2m will require the total receipts of at least two workers to support such an income. Given that 80% of workers are private sector, and that the vast majority of them do not have anything approaching the Standard Fund Threshold in their pension fund, and that many have to endure costs of living – particularly in housing - that are unlike anything that the pre-2013 civil service cohort experienced, it is hard to see how the existing circumstances will persist over the decades during which such pension claims are to be made. A continued increase in the number of workers will be needed, and this will have to be accompanied by a significant reduction in the scale of the pension claims that are to be made by the public sector. This does however introduce a concern regarding the intergenerational equity associated with the general regime and any effort to increase the Standard Fund Threshold beyond the rate of inflation. There is a risk that an increase in in the Standard Fund Threshold will be used to justify an additional transfer to a

generation that has already been granted conditions that future generations of public servants will not be able to attain – never mind the private sector workers who are ultimately the ones that will carry the burden of such these increased liabilities out into the 2040s.

4. The current calibration of the SFT including potential impacts on net pension at retirement and consequential impacts on recruitment and retention in the public and private sector.

   The Standard Fund Threshold is not a factor that has an effect on recruitment in the private sector.

5. The rate at which the SFT should be set having regard to economic factors including changes in the Consumer Price Index and wage inflation since 2014, the cost of the tax expenditure and its distribution, and the Department's Guidelines for Tax Expenditure Evaluation.

   Chambers Ireland agrees with this proposal, but argues that it ought to be automatic, and that should we enter into a period of deflation, this automaticity should also reduce the Standard Fund Threshold in line with deflation.

6. The operation of the SFT regime including the inputs and valuation factors which form part of the methodology and the chargeable excess tax.

   Chambers Ireland does not have a view on this.

7. Options for payment of Chargeable Excess Tax when it arises.

   Chambers Ireland does not have a view on this.

8. Options for simplifying the SFT regime.