Chambers Ireland Submission on a Universal Retirement Savings System

19 May 2015

Introduction

Chambers Ireland represents the largest network of businesses in the State. With almost 50 Chambers located in every major town and city in the country, we are uniquely positioned to understand the needs of the business community.

We welcome the opportunity to feed into this consultation. Our views set out in this submission have been structured in accordance with the questions posed for consultation.

1. **A Universal Retirement Savings System**

- *What do you believe the broad policy goal/s of a universal retirement system should be?*

  The broad policy goal of a universal retirement system should be to expand pension coverage to as much of the working population as possible. The coverage should be viewed as complementary to the State pension. The combination of a State pension and any new universal retirement system or private sector should be sufficient to provide individuals with a reasonable standard of living over the course of their retirement.

- *Should the system be mandatory for all workers without supplementary pension provision or should people be auto-enrolled with an option to opt out within a certain window?*

  We believe the system should be mandatory for all workers without supplementary pension provision, with very limited categories of opt-outs permitted. This will ensure that pension coverage is increased to as broad a range of workers as possible. It will also serve to reduce the administrative burden of operating the system.

- *Who do you think should be included/exempt? Please give views on what you believe the parameters of membership should be (for example income level, age, occupational status or other parameters)?*

  Membership should be universal with the default position being that an adult employee in full time employment is a member of the system. However, if an individual can demonstrate that they already participate in a pension scheme that provides adequate provision for retirement, it should not be the case they are required to duplicate their existing pension arrangements (or indeed undermine their existing rate of contributions). Those workers with existing schemes deemed adequate should be exempted.

  Exemptions could also be considered based on specific classes of occupation, for example those that can demonstrate that they have the capacity and skills to independently manage their own asset portfolio to ensure adequate pension provision. Any systems of exemptions should be strictly limited in order to ensure that the vast majority of workers participate in the scheme.

– *Do you believe a new system should be phased in over time, and if so, what criteria would you consider appropriate for the phase in process?(e.g. employer size, occupational sector)*

We believe that a phased introduction should be avoided and that a universal implementation process should be planned. This will have the benefits of:

- Reducing the costs and administrative burden of managing multiple phases of implementation.
- Avoiding confusion amongst workers and companies as to who is affected by a particular phase of the introductory process.
- Increasing the acceptability and understanding of the system amongst individuals as all workers will be subject to the requirements of the system simultaneously.

– ***What target % coverage rate should the scheme aim for?***

We note how Irish private pension (occupational and personal) presently only cover 41% of the employed population. Increasing the coverage rate – in particular of women, low-income earners and young people – will be important to reach adequate pre-retirement replacement rates to protect against pension poverty in the future. While the current rate of coverage is in line with those observed in other OECD countries with voluntary private pensions, it is lower than the rate found in countries with mandatory coverage. We believe that pension coverage should be increased to as broad a range of workers as possible and note how mandatory coverage percentage rates in peer countries such as the Netherlands, Finland and Australia constitute 88%, 74.2% and 68.5%, respectively.[1]

– ***What target % of pre-retirement income replacement rate should be aimed for (combining the State and universal pension)?***

Currently, Irish gross pension replacement wages after retirement are among the lowest in the OECD standing at 36.7%. We consider it appropriate that the rate of pre-retirement income, at minimum, is brought in line with the OECD average of 54.4% when combining the State Pension and mandatory contributions.

We nevertheless acknowledge how international evidence suggests that a sustainable replacement rate may be as high as 80% of pre-retirement income. Consequently, the target pre-retirement income replacement rate for Ireland should reflect other public policy decisions, such as the provision of medical cards for pensioners, provision of free public transport, fuel allowances etc. Should any of these policies be reversed, it would require the target replacement rate to be reassessed to effectively protect against poverty in retirement.

– *What should be the role of the State in establishing and operating the system?*

The State must play an active role in the monitoring and ongoing prudential oversight of the operation of the system. Private sector services providers should be utilised for investment

[1] http://www.oecd.org/ireland/OECD-PensionsAtAGlance-2013-Highlights-Ireland.pdf

and ongoing management of funds. It is important that any State involvement in the operation of the system does not crowd out private sector service providers. The primary role of the State should be in the effective monitoring and oversight of the system. (There is also a strong argument for involving Revenue in the system as a centralised collection authority. Please see below.) The benefits of competition between providers will ensure that value for money for members and the State is achieved.

- *If you consider that the system should operate on the basis of auto-enrolment with opt out, should there be a requirement for automatic re-enrolment and if so, after what period of time?*

  N/A. We believe the system should be mandatory.

2. Operational Matters

- *What are your views on who should collect contributions and who should administer the system?*

  If the system is to be an earnings based scheme it would make sense for contributions to be collected at source by Revenue. Employers and employees are used to dealing with Revenue in relation to payroll deductions and there is a considerable level of understanding of the processes involved. The use of Revenue as a central collections agency will assist in keeping the establishment and administrative costs down.

- *Who should have responsibility for paying benefits?*

  Private sector pension providers should be responsible for paying the benefits to members of the system.

3. Investment Management Structure

- *What range of investment choices should be available?*

  In order to ensure that the system is not overly complex there should be a limited number of investment choices available. Nonetheless, it is important that there is at least some element of choice within the system to provide members with control over their investments.

  Given that the system may be State mandated and universal, it is important that robust risk management structures are devised to ensure that investment opportunities with an appropriate level of risk are included in the scheme.

4. Scheme Design

– *What are your views on State incentives for universal retirement savings (e.g. tax relief, direct subsidy etc.)?*

The use of a direct subsidy rather than tax relief as a method to incentivise savings may aid in the general acceptance of a mandatory system. A direct subsidy is often less complex and more easily understood than systems of reliefs against tax. A direct subsidy is also likely to encourage a more positive response and increased acceptance amongst employees to a mandatory system.

Maximum portability should be ensured to allow scheme members to transition from employment while maintaining a single pension fund account. This will ensure stability of contributions, transparency as to fund value and certainty for the member on what the ultimate benefit will be accrue

It is also important that each member of the scheme should have an individual account that is easily comprehensible and easily accessible. In order to incentivise ongoing contributions or additional voluntary contributions over any prescribed minimum, members of the scheme must be able to identify with their individual savings.

– *Should members be able to take 'contribution holidays' and if so under what circumstances and for how long?*

We consider contribution holidays contrary to the purpose of the scheme, and so we do not believe that members should be able to avail of such.

– *Should members be able to access part of their funds and if so, in what circumstances and to what extent?*

As a general rule, members should not be able to access any of their funds nor take 'contribution holidays'. This would run contrary to the rationale for the establishment of such a scheme. There may be some dispensations granted in particular cases where hardship can be demonstrated and access granted to a portion of an individual's savings. This could be in the form of a loan model, whereby the individual takes a 'loan' from their pension savings, or an option whereby any additional savings above the minimum contribution can be accessed.

- *Should additional incentives (or disincentives) be utilised to encourage individuals to stay in a scheme and keep retirement savings intact (i.e. not to opt out/not to seek early access to funds)?*

Depending on decisions made around early access to the savings or the availability of contribution holidays, there may be a case for a loss of some or all of any direct subsidy/tax relief on any portion of the savings accessed early by a member. The potential loss of the benefits of subsidy would incentivise participants to maintain their funds within the scheme until maturation.

5. Other

- *How would you ensure that a new universal retirement savings system would not operate to the detriment of existing voluntary pensions arrangements?*

Those who already hold appropriate coverage through private sector schemes could be exempted from participating in the system. There must also be appropriate consideration given to ensuring that any direct state subsidy via a mandatory system must not distort the market for private pension provision.

One model which may be worth considering is a three pier solution similar to that below:

i. State Pension financed through tax and social insurance contributions
ii. Mandatory Contributions financed at source from pay packages
iii. Privately funded pensions

- *What would you see as the likely costs and broader economic impacts of such a system?*

The loss of a percentage of disposable income from employee's pay packets will have some impact on both consumption rates. There is likely to be a stronger impact on savings rates as individual's view a new mandatory pension contribution as a replacement for savings.