

Minister, Ladies & Gentlemen

Firstly I'd like to thank the Minister for inviting me to attend and participate in this Forum. I hope – as I'm sure everyone here does – that this event will help stimulate national thinking on this critical issue and even more importantly rapid decision.

It might help in terms of the arguments I wish to make, to preface my remarks by explaining my credentials.

I'm here to represent the view and experience of Irish Life; a key business division of the Irish Life & Permanent Group of which I am Chief Executive.

Irish Life has been selling pensions now for over 65 years and is the country's largest and most experienced company in this sector.

Indeed one line which we use in our advertising perhaps sums up our role in the industry here; nobody but the State itself pays pensions to more people in this country than we do.

Looking specifically at the personal, or retail, pension market which is so important to our discussions today, Irish Life is one of the few companies in this market which has made a success of PRSAs.

It's worth reflecting on this for a moment because Personal Retirement Savings Accounts, or PRSAs, were specifically created to facilitate increased pension uptake – particularly by younger people and those on lower salary levels ...and the success or otherwise of that initiative undoubtedly influences how people see the challenges ahead.

There's no doubt that PRSAs have received a generally poor press since their launch in 2003. Unfortunately the launch took place just as 1.1 million savers were straining to maximise their SSIA savings – in nautical term PRSA's were launched into the teeth of an SSIA gale. Almost from the start we saw bad mouthing of the products by a number of pension providers. A perception has arisen that PRSAs haven't been a success.

I beg to differ. The real failures in this project have not been the PRSAs. They have been those life and pensions companies who have failed to adapt the traditional business models to acknowledge the different approach needed for PRSAs.

Unfortunately, rather than change themselves, these companies have bad mouthed the product. It's a lazy attitude which does these companies no credit.

So why have we been successful in this area?

- We recognised at the outset that PRSAs would require a different approach to traditional pensions. That approach targets individuals both directly and through their employers and then provides a one-to-one advice service to those individuals.

- This has required a significant investment of time and resources – particularly time - as the task of engaging directly with individual employees is significantly more challenging than engaging with their employer organisations. But it's proved very effective.

Importantly our experience has been that this product has given us access to a new type of pension customer. And importantly our experience has been that these new customers have met the stated objectives for this product line of being younger than those who applied for traditional private pension products and typically earning a lower salary than traditional pension investors.

I believe that our experience of selling PRSAs – and our broader experience of selling pensions in Ireland for more than six decades – gives us a valuable insight into the promotion of pensions and the type of actions which Government could take now to increase the level of interest in these products.

In a moment I want to talk about my thoughts on how we might increase coverage where needed. But firstly let me define where I think that increased coverage is required.

It might help if we distinguish between three different categories of employees.

The first category, I would suggest, should not be a priority for intervention at this stage. They are the Well Off and they have proven themselves to be well capable of looking after themselves. Indeed they are adept at accessing very sophisticated pension products and the private pensions industry has proven its capacity for developing products for them.

It's certainly important that these individuals continue to be able to access these type of products into the future but I would argue they don't require additional intervention by policy makers at this time. The recent €5 million cap should ensure reasonable flexibility for this class and curb possible abuse.

The second category is the Low Paid. The priority here must be to continue to improve the level of State support these individuals receive by way of pensions because it is neither realistic nor "just" that the burden of providing for their retirements should be devolved from the State to these individuals. We must accept that the State has a responsibility to provide for these individuals in their retirement.

That leaves the middle category. Average Earners. And it's my contention that this is where the focus of our efforts should be.

These are the individuals for whom the State has an obligation to help avoid poverty and to encourage income replacement. So who are these people precisely?

This slide breaks down the category into a bit more detail. It identifies average earners working in large, medium and small companies and the self employed and it highlights how employees in these different categories of companies each fare.

What this tells us is that those in the public sector (virtually 100% coverage) and in large companies are pretty well looked after and that low pension coverage is mainly to be found amongst Medium and Small sized companies and the Self-Employed. Now put those three sectors together and you've got approximately 1 million people – approximately 70% of whom do not have any pension provision.

That – I would suggest – is where we must focus our efforts.

So – how do we increase pension coverage amongst this grouping?

Well firstly we mustn't lose sight of the fact that we already have a National Pensions Strategy - the National Pension Policy Initiative - which was published in 1998.

This national strategy set out the goal of supplementing the State pension with a voluntary private pension and increasing the attractiveness and flexibility of such private pensions in order to increase take up. This in turn led to the launch of PRSAs.

Since the launch of this original policy – and in the light of experiences with PRSAs – a consensus has formed around the need to simplify the voluntary system.

And more recently a new element has entered the debate which is the concept of Mandatory Private Pensions. This issue has come more to the fore as other jurisdictions have begun to experiment with the idea.

With respect to Mandatory schemes, my position is that they are:

- unproven,
- premature
- and a distraction

I believe that to move towards such a scheme at this time – with so many opportunities still available to us to increase the success of voluntary schemes - would be a serious and costly mistake.

There are a number of serious issues raised by mandatory pensions:

Firstly, of course, we already have such a scheme – PRSI....which is rightly regarded as little more than ordinary taxation.

Then there is the problem of adding to the cost of employment...unwelcome at any stage but particularly at a time of falling competitiveness for Irish industry.

And there are other issues....additional regulations and administrative overheads for business....enforcement difficulties in the sectors where we most need to increase coverage....the failed experience of the compulsory scheme which we already have in the construction sector and so on.

Cut a long story short....I'm not a fan!

So the question rightly arises....if I'm against compulsion....what am I for?

Well as a believer in the value of simplicity in pensions, let me set out a simple strategy.

- One. Improve the State Pension payable to lower paid workers. They are the most vulnerable people in the community and the least able to help themselves. So let's deal with that and increase the State Pension to ensure that they have adequate resources in their retirement.
- Two. Do what we set out to do in the National Pensions Policy seven years ago. Supplement the State Pension with a voluntary scheme.
- Three. Don't mess around trying to paper over the cracks. Learn from what has worked with the SSIA's and create a really attractive voluntary scheme.

The lesson here of course is to mimic, as much as we can, the SSIA scheme which has been such a fantastic success.

A quick comparison.

- Same 12 month period....June 2001 to June 2002... around 50,000 new individual pensions taken out.
- But over the same 12 months, 1.2 million SSIA accounts opened.

Why?

The SSIA's worked for four reasons.....all of which are relevant to the pensions agenda.

1. The simplicity of the concept.
2. The immediacy of the incentive
3. The reasonable access rules
4. The ease of purchase.

In essence my message is to follow through on the current strategy. Don't let an illusory search for a silver bullet blind us to the fact that increasing pension coverage was not going to be an overnight success.

Let's go back for a quick moment to the National Pensions Policy Initiative in 1998.

- Introduce a simple portable pension.
- Simplify the tax system
- And adapt the regulations to take account of this new environment.

We've progressed the introduction of a simple portable product through PRSAs but we've still not progressed the simplification of the tax system or eased up the regulations. In fact in some ways the opposite has happened.

The National Pensions Review – published in February – reviewed this strategy and effectively endorsed the original approach. Significantly, it also identified the SSIA experience as the key to improving the incentive scheme for pensions.

For our part Irish Life strongly endorses this approach. Indeed in November of last year we commissioned a major research study to explore how people in our key target groups (30 – 50 years of age with no pension at present) might react if the SSIA lessons were brought to bear on the pensions agenda.

Firstly that research highlighted that average people just do not understand the value of tax relief.

I don't say this with any enthusiasm, because that failure reflects not just on government but also on my industry which has invested significant sums in trying to communicate the considerable tax advantages which do exist for pensions with little apparent success.

That survey also highlighted the low degrees of likelihood of people in this category taking out a pension in the current year.

And then it explored what might happen amongst this group of people if we introduced the kind of SSIA inspired changes I've suggested.

The important thing to note here is that these changes are not about increasing the incentives for saving into a pension. They are about re-packaging the incentives so that the people who we want to target can understand them.

The impact of this repackaging would be extraordinary.

For example, the survey found that if we introduced a focused incentive which would give pension savers a €1 top up or tax credit for every €2 they saved themselves then the percentage of people who would class themselves as either very or extremely likely to take out a pension this year would increase from 21% of the sample to 55%.

Compared to the SSIA incentive this looks extremely attractive. However, this new incentive would cost the Exchequer about the same as the tax and PRSI reliefs that are currently available for an employee who pays standard rate tax.

If you don't believe me the numbers to back this up are in the hand outs.

Now if we go one step further and re-package the same level of incentive the current tax system offers higher rate tax payers we are looking at an incentive which matches contributions euro for euro.

This strengthens commitment levels even further with those who describe themselves as *extremely* likely to take out a pension increasing from just 9% to 36% - a huge rise.

The lesson is clear. People understand and hence value the SSIA incentive model. They neither understand nor value the current tax incentive model for pensions. And most importantly, they have demonstrated a clear enthusiasm to see the SSIA model applied to the area of pensions.

One further question which we asked is also instructive. We have developed a short term savings habit and the challenge is to convert this into a long term habit. In this instance we decided to explore whether the possibility of enabling pension investors to access some of their savings earlier than currently allowed would encourage take up.

Bottom line is it does!

The key question we posed was how likely you would consider yourself to be to take up a pension this year if you were allowed to cash in 30% of your pension savings at the age of 45.

The result was that the number of people describing themselves as either very or extremely likely to do so increased from 21% under the current restrictive approach to 39% under an easy access approach.

And again this change can be shown to be cost neutral to the Exchequer.

This year's National Pension Review identified the importance of the lessons learnt in the SSIA scheme. To my mind the priority now must be to grasp these lessons to heart and implement the changes we've identified.

The important thing to remember is that these proposals are flexible – they can be targeted at low income earners....and they need not require additional funding from the Exchequer.

However, if the Exchequer were to increase the value of incentives to target the lower paid they could do so very effectively. A €1 for €1 incentive capped at €250 a month (increasing with inflation) could provide a 40 year old with a pension of 32% of average earnings at age 65. And this is on top of the State pension.

What is definitely required however is a more imaginative approach to regulation because in addition to the changes mentioned, we also need to make the purchase of a new model pension as simple as the purchase of an SSIA was five years ago.

So - to close, let me make the following points:

Firstly we shouldn't be bounced now into making a hasty decision which we end up regretting. Our position is not as critical as that facing other countries and we have a much healthier savings habit than many other countries.

Secondly the SSIA experience has given us a blueprint for change in the pensions industry.

Thirdly we already have a strategy of State pension supplemented with voluntary provision. I for one, think its too soon to abandon that in favour of some unproven mandatory scheme – which other countries facing more pressure on this issue than we are – are still only experimenting with. If nothing else, surely it makes sense to let these countries experience how such a system operates for real before we decided to throw our lot in with them.

And finally we need to commit not to revising our pensions strategy but to sticking with it. Adapting it certainly (in the light of recent experiences) but not abandoning it.

Sometimes the easiest decision in the world is to create a new strategy for an old problem and the hardest decision is to stick with what we are currently doing.

I know the Minister is personally committed to the pension's agenda. And I'm sure he has the courage to be innovative around the current strategy rather than wanting to appear radical for the sake of radicalism.

End.