**STATEMENT TO THE OIREACHTAS COMMITTEE ON SOCIAL PROTECTION BY DAVID BEGG IN RELATION TO THE CONFIRMATION PROCESS FOR CHAIR OF THE PENSIONS AUTHORITY**

**INTRODUCTION**

In the public discourse which has attended my appointment as Chair of the Pensions Authority nothing at all was said about the challenges to public policy posed by the requirement to ensure that the pensions regime is sustainable into the future.

I therefore welcome the opportunity to set out my views to the committee.

**ABOUT THE PENSIONS AUTHORITY**

The Authority supervises compliance with the Pensions Act by scheme trustees, PRSA providers, registered administrators and employees representing some 150,000 schemes with 730,000 active members holding more than €80 Billion in investment assets and over 226,000 individual PRSA contracts with over €4.6 Billion in investment assets. The Authority is responsible for setting and implementing the funding standard for Defined Benefit pensions. It can initiate legal action against trustees who are in breach of provisions of the Pensions Act. It monitors compliance by trustees of occupational pension schemes and, as an alternative to prosecution in the courts, can impose on the spot fines on trustees who do not conform with the various requirements of the Pensions Act. The Authority has had a continuing policy of seeking compliance through co-operation with trustees rather than by recourse to legal action, although such action is taken where necessary.

The principal objective of the Authority is to support a sustainable pensions environment that will provide adequate and reliable pensions for retired and older people and that achieves wide coverage. The Authority aims to achieve this by:

* Supporting the interests of members of occupational pension schemes and personal retirement savings account holders through effective regulation by supervising the operation of pension schemes and PRSAs;
* Providing relevant information and guidance to the public and those involved with pensions;
* Providing advice and technical support to the Department of Social Protection.

The Authority is wholly funded by fees levied on occupational pension schemes and PRSA providers.

The Authority comprises an independent Chairperson appointed by the Minister for Social Protection and two ordinary members, appointed on the nomination of the Minister for Social Protection and the Minister for Finance.

**THE EVOLUTION OF PENSIONS POLICY OVER TIME**

In the 1990s the principal objective of pensions policy was to extend coverage of occupational pension schemes.

Occupational pension schemes, where they existed, performed well from a return on investment standpoint. In some cases employers were able to take a contribution holiday in Defined Benefit (DB) schemes.

However, with the collapse of the dot.com bubble in 2001/2002 market conditions began to change. Equity values fell sharply affecting return on investment. This coincided with evidence of increasing longevity affecting annuity costs.

It was evident to me at the time that this was a critical juncture with major implications for pensions policy. In my capacity as General Secretary of Congress, I initiated discussions with the Department of Finance in 2003 with a view to prompting an appropriate public policy response. Initially this was not forthcoming but persistent representations led to the establishment of a pensions review body in 2005 and ultimately a green paper in 2007 intended to identify the choices available to government. It included some discussion on the possibility of a mandatory second-tier pension to complement the state pension but this was not pursued at the time.

The strains on Defined Benefit schemes were exacerbated by industrial restructuring and by changes in the accounting standards, particularly the introduction of FRSI7. The latter required pension liabilities to be stated on the balance sheet of a company. The result was that shareholder pressure pushed companies in the direction of Defined Contribution schemes.

The main difference between a Defined Benefit and Defined Contributions scheme is that the former requires an employer to fund a specific pension promise to an employee, usually to fund up to half pay, less social welfare benefits, on retirement. The latter involves no specific employer commitment and a person’s pension depends on the amount of pension the money his/her pension pot can buy on retirement.

In effect, changing from DB to DC changes the risk from employer to employee, and ultimately to the State because no developed country can allow its elderly population to fall into poverty and indignity in their final years.

As already mentioned these trends were identified by me in their embryonic state in 2003. Unfortunately they accelerated in the intervening years resulting in large scale abandonment or closure of DB schemes to new entrants.

Given the importance of the issues for employees this development led to major industrial disputes including, inter alia; The Banks, ESB, RTE, Aer Lingus, DAA and Waterford Glass. I was involved in the resolution of many of these disputes.

The Irish Airlines Superannuation Scheme will illustrate the complexity of what was involved. The scheme was a joint one involving four employers and six trade unions. There were several classes of beneficiaries including retired staff, deferred staff, serving staff and staff who had resigned and were re-employed. There was a deficit of €720 million in the fund. The ultimate resolution also involved the Trustees, the Pension Authority and the High Court. It required a complete restructuring of the scheme and an injection of €200 million in new funds.

My involvement was quite complex because I was General Secretary of Congress and a Director of Aer Lingus. Thus I had to craft a solution that, at least to some degree, satisfied shareholders, serving staff and deferred pensioners. It took three years to work it out.

A great deal of what was said in the Dail in relation to this particular case was a travesty of the truth. I am willing to discuss my involvement in finding solutions to a range of pension problems over the last few years for as long, and in as much detail, as the committee wishes.

I hope that the committee will accept that, contrary to what has been asserted, I do have some knowledge of pensions.

**STRATEGIC CHALLENGES FOR ACHIEVING SUSTAINABILITY OF PENSIONS FOR THE FUTURE**

The most important concern is that half the population have no pension coverage other that the state old age pension.

The concept of a mandatory second tier pension as mentioned in the green paper is now under active consideration but there are many issues to be resolved. Experience in other countries suggests that it is difficult to make this work effectively for lower paid workers or people in precarious employment. Moreover, it may be hard to get contributions up to an adequate level to provide sufficient income replacement in retirement.

The alternative approach would be to significantly improve universal provisions via the existing State structure. This implies a major diversion from tax expenditures, in the form of incentives for personal provision, into direct state expenditure. This, of course, would have implications for the viability of existing occupational schemes.

Occupational pensions coverage varies from around 90 per cent in the public sector to 41 per cent in the private sector with an overall coverage amounting to 51 per cent.

Ireland is unique in having a very large number of pension schemes, 150,000. Of all pension schemes in Europe, half are in Ireland (Netherlands, for example, has 400 schemes). Pension funds of €90 billion equate to approximately half of Ireland’s GDP and are the third highest in Europe after the Netherlands and UK.

At the beginning of 2011, there were 1,103 DB schemes subject to the funding standard. By the end of September 2015, this number had reduced to 725. Of this number 59 per cent meet the funding standard. Almost all of the 725 defined benefit schemes remaining are closed to new entrants and a significant minority are closed to the further accrual of benefits.

The continuing decline of DB schemes accelerated during the financial crisis. However, a recovery in investment markets helped nearly half of the DB schemes to meet the minimum funding standard in 2013 and most of the others to submit a recovery plan. However, recent stock market volatility, and the uncertain future for the Chinese economy, is a cause for concern.

The problem with DC schemes is that risk resides with the employee and contributions tend to be much lower that for DB schemes with the attendant risk of pension inadequacy in retirement. Even if a person retires with a decent DC fund they are confronted with very difficult choices.

They can buy an annuity to secure a guaranteed income or take the chance that they will not live long enough to exhaust the fund at the chosen draw down rate.

Unfortunately, annuities are now very expensive. The typical cost of buying an annuity at 65 years of age with no provision for future increases in August 2015 was €241,000 per €10,000 of annual income, representing a 40 per cent cost increase over the last five years.

Defined contribution pension schemes and PRSAs are highly vulnerable to poor investment decisions. In many cases individuals and trustees are poorly equipped to make these decisions or, in the case of trustees, to advise on them. Clearly this is compounded by the exceptionally large number of schemes. It militates against any possibility of ensuring that trustees acquire the skills to advise members on investment decisions ranging up to 40 years ahead.

Risk and uncertainty cannot be removed from pension planning. Apart from investment decisions, account has to be taken of demographic factors. This includes population levels, migration flows, changes in the age profile and longevity. Migration flows are one of the key variables that show greatest volatility.

Current assumptions about births, deaths and migration flows suggest that in 2046 25 per cent of the population will be aged under 20, 51 per cent aged between 20 and 64, and 24 per cent aged 65 or over. But this could be wrong and future planning for uncertain outcomes requires the development of policy options which allow for flexibility to accommodate widely varying outcomes.

The current pensions landscape in Ireland presents a picture which is not sustainable. Considerable reform will be necessary to make it so, not least in relation to the number of occupational and private pension schemes in respect of which Ireland is an outlier in Europe.

The first pillar mandatory social insurance pension, the state pension, will remain central because of its role in preventing poverty in retirement. Around 90 per cent of elderly people receive a social welfare pension and these pensions account for 62.7 per cent of their retirement income. Social transfers reduce the ‘at risk of poverty’ rate for those over 65 from 88.3 per cent to 12.2 per cent.

**THE EUROPEAN DIMENSION**

There are considerable variations between welfare state models in Europe but mostly they were designed to cater for social risks that have since changed quite dramatically. The most obvious change relates to demographics and the evolution from a male breadwinner related risk profile to the feminisation of the labour market and the caring issues that arise therefrom. Indeed, high lifetime labour force participation at high levels of productivity is the single most important macro-economic prerequisite for maintaining living standards while sustaining inclusive welfare states, and thereby citizen wellbeing.

For this reason the functioning of labour markets has a direct bearing on pensions. For example, projections about the impact of artificial intelligence are quite worrying. A recently published report by the World Economic Forum suggests that increased automation and artificial intelligence in the workforce will lead to the loss of 7.1 million jobs over the next 5 years in 15 leading economies, while helping create just 2 million jobs over the same period. Moreover, in the United States in 2012, figures from Department of Labour statistics show that the average tenure in a job was 4.6 years. Were that to become the norm in Europe it would pose profound challenges for pensions provision.

Deepening European integration, if it happens, will surely bring a greater EU influence to bear on pensions policy-making in Ireland. At present, proposals for a revised directive governing occupational pension schemes (the ‘IORPs II’ directive) are being considered by the European Parliament. It is likely that it will require a more intrusive regulation of the governance of occupational schemes in Ireland than is provided for under current legislation.

As a matter of interest, I have written about social investment in the context of European integration in a book to be published by Palgrave Macmillan next month.

**CONCLUSION**

The task of regulating the Irish pensions regime is one which requires a balance between security and viability in circumstances of fragility and uncertainty about the future. Frankly, it will be a formidable challenge.

My suitability for the position of Chairman of the Authority has been discussed at length, if not in depth, in recent weeks. Obviously my own view is subjective. I am attaching a copy of my Curriculum Vitae upon which you can make your own judgement.