Submission to the Department of Finance on Supplementary Pensions Reform

October 2018

Introduction:

Chambers Ireland is the largest business network in the State. With members in every geographic region and economic sector in Ireland, we are well positioned to understand the concerns of businesses and represent their views.

With just over one third of private-sector workers currently contributing to a pension scheme, the future of pension provision in Ireland is a significant risk to the quality of life of our workforce. Chambers Ireland has consistently highlighted the threat that inadequate pension provision for private workers poses to our future economic stability and overall wellbeing. Current contributions to the State pension fund will not be enough to pay the levels of benefits necessary for an adequate standard of living for future retirees. As pensions savings have failed to recover since the financial crisis and it is now necessary to introduce reforms to the system which will encourage employees to plan for their future security.

In our Pre Budget Submission, published earlier this year, we recommended that the tax relief on pension contributions currently in place must be retained. Given the low level of workers currently saving into a pension scheme, this tax relief must be kept as an incentive to encourage increased numbers of savers. To remove it at this point in time without an alternative pension system in place would hinder uptake and affect mainly middle income earners. Further, Chambers Ireland is supportive of an auto-enrolment pension scheme with a realistic lead-in time for businesses as an incremental approach will give business a chance to adjust and plan for their future.[1]

Consultation Questions:

For the purposes of this submission, we would like to take this opportunity to highlight several recommendations in respect of Question B4 and Question B6 in the Consultation Paper, relating to financial incentives for lower to middle income earners and the tax treatment of pension at various stages

B4. What form of financial incentives for supplementary pensions, alternative to existing ones offered by the State, would better encourage lower and middle income earners to save for their retirement?

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[1] http://www.chambers.ie/policy/budget-2019-submission.html

The gender pay gap in Ireland is approximately 13.9%, however, the pensions gender gap is believed to be 32%[2]. In addition, research carried out by McKinsey[3] has shown that women are at risk of having a lower their standard of living on retirement.

The gender pension gap is a consequence of a range of cultural norms which result in women spending less of their lives in paid employment when compared to me. Addressing pension and labour market policies in a holistic way can contribute positively to the reduction of the gender gap in pay and pensions. As noted, one of the biggest risks to the future prosperity of our citizens is a lack of adequate pension provision amongst private sector workers. Increasing the coverage rate, especially for women, will be crucial if we are to protect against pension poverty in the future. One way of doing this is by facilitating both women to remain in active employment after having children, through provision of affordable childcare and increased parenting equality, more people will be able to prioritise pension savings.

Focusing on pension policy, we have previously called for several reforms to be introduced to encourage more workers to enrol in private sector pensions. For example, regulations governing pensions should be made flexible to allow workers to gradually transition into full retirement allowing part time work or job sharing.

As women tend to be lower and middle income earners, and considering the above, the following changes to taxation could be considered to help more women opt for a supplementary pension, which will subsequently narrow the gender pension gap. For example, we ask for the Department to consider making available the application of tax credits/top ups to pension pots during periods of time when a person is on unpaid maternity, parental or paternity leave.

B6 – Should changes be made to the existing tax treatment of pensions in any of the following stages?

- *Tax treatment of employee contributions*
- *Tax treatment of employer contributions*
- *Tax treatment of growth in pension funds*
- *Tax treatment of drawdown of pension*

Improving Ireland's environment for entrepreneurs is key to building up Ireland's indigenous business base and supporting the growth of Irish SMEs. Since supporting a higher level of saving for retirement is clearly important to long-term economic stability, we believe there is scope to increase flexibility in the existing tax relief system to encourage increased saving and saving at an earlier stage in life. With respect to employee contributions, feedback we have received from our member Chambers supports the view that Government should maintain the existing level of marginal tax relief; adjusting the age/earnings limits on tax reliefs to support higher contributions at an early stage in the working life; allowing unused relief to be used by spreading the entitlement to claim relief over previous years; and reducing the burden on entrepreneurs.

[2] Source: 2017 Report on equality between men and women in the EU.
[3] McKinsey 'Is Ireland's population ready for retirement?' 2015

Finally, while we are supportive of the introduction of Auto-Enrolment as a way of increasing pension coverage and adequacy, and we will be making out views knows on this matter in the sperate consultation opened by the Department of Finance, we think it is important to highlight that any decision made concerning the reform of supplementary pensions should not be made in isolation from proposals on Auto-Enrolment.