



Congress Submission
To the Joint Committee on
Education & Social Protection

Reform of Pensions, including implications of the EU
White Paper on Pensions

Irish Congress of Trade Unions
31-32 Parnell Square, Dublin 1
www.ictu.ie

February 2014

Executive Summary

- Throughout the pensions' crisis the State and pensions' regulatory system failed pension scheme members.
- The Government and Regulator clung resolutely to a funding standard that artificially overvalued liabilities.
- The Government raised levies on schemes, which is a confiscation of pension savings and served to undermine schemes at the worst possible time.
- By signalling that Defined Benefit Schemes (DB) would be forced to build-up large reserves, the State and Regulator encouraged the flight from DB which will result in massive losses to members.
- Most DB schemes are now closed to new members.
- A growing number of DB schemes are closed to future service accrual.
- DB schemes are winding up at an accelerated rate, all involving losses to members.
- Some schemes may be saved by Section 50 applications but members will lose significant amounts of benefits.
- Nearly all Section 50s result in no further increases to pensions in payment. This will result in people slowly slipping into poverty from the moment they retire. If high inflation returns the fall into poverty will be rapid.
- There is nothing to suggest that the losses in (DC) schemes have been any less severe than the losses suffered by workers in DB schemes.
- The move from DB to Dc is not a reform - it is a transfer of risk from capital to labour.
- The European White Paper will have little effect in Ireland unless officialdom takes on board the urgings for reform to be fair and involve social dialogue.

INTRODUCTION

Thank you for the invitation to speak to your Committee in regard to 'pension reform'. Congress is concerned that this term has become a euphemism to cover policy and regulation failure, the transfer of pension risk from employers to workers, and neo-liberal attacks on social security provision for the elderly.

Scope of this paper

Congress will comment on some aspects of current pension policy as follows:

- The crisis that has unfolded in recent years with regard to Defined Benefit (DB) occupational schemes and specifically the failure of the regulatory system.
- Defined Contribution (DC) schemes have not proved to be value for money or performed any better than DB.
- The implications of the EU White Paper.

How Did the Crisis in DB Provision Develop?

Before the economic crisis in 2008, Defined Benefit (DB) pension schemes in Ireland were already under significant pressure. In 2005 Congress published *Pensions Problems & Solutions** which highlighted the fall in equities over the previous three years and signalled problems ahead for DB schemes.

(*Available to view or download at the following link:

http://www.ictu.ie/download/pdf/irish_pensions_problems_solutions_may_05.pdf)

Throughout the pensions crisis - which began before the financial crisis - the State and pensions regulatory system failed pension scheme members. At times both appeared to be actively working against the best interest of scheme members. In 2008 the Regulator suspended the Minimum Funding Standard, a move that was welcomed by all stakeholders. It appeared as if a breathing space was being given so that steps could be taken which could ease the pressure on sustainable schemes. It gradually became apparent that officialdom had no intention of dealing with the systemic problems. Rather, it adopted a position that the problems were a matter for individual schemes and the trustees of those schemes. As trustees grappled with mounting problems, they were left in the dark for nearly five years as to what rules would be applied going forward.

Gradually Congress developed a consensus amongst the main stakeholders including IBEC, the IAPF and the Society of Actuaries, seeking changes that would help schemes survive. Most of our suggestions were ignored or were dismissed out of hand by an officialdom that either did not believe the extent of the crisis, or did believe, but felt it was no concern of theirs.

Throughout this crisis officialdom has appeared indifferent to the views and the interests of the workers who own the pension funds. Recent changes to the Priority Order are most welcome but will only serve to bring some equity in the closure of distressed schemes. The Waterford Crystal workers made a major breakthrough by puncturing the notion that pension funds in difficulty is not a concern for Government. This victory, however, has not had much impact on the attitude of public officials.

The Response of the Government

The Government and Regulator clung resolutely to a funding standard that artificially overvalued liabilities and further increased uncertainty by announcing that DB schemes would be required to hold significant risk reserves going forward. Meanwhile the Government raised a levy on all schemes including those in trouble. One consequence of this was to promote an attitude amongst employers that pension schemes are far more trouble than they are worth.

The Pension Levies

When it was initially introduced as a funding mechanism for job creation, the pension levy of 0.6% of fund assets was to apply for the 4 years 2011-14. The cost of the levy has generally been passed on to members (who have seen their benefits reduced by up to 2.4% over this period). Despite reassurances to the contrary, the levy did not cease in 2014 and has been extended for at least a further year at a new rate of 0.15% but with a combined charge of 0.75% of pension fund assets (or 3 times the amount of the controversial property tax) applying in 2014. It remains to be seen how schemes will manage these extra levy costs and whether members will experience an apparently never-ending series of cuts to their benefits as a result of this State confiscation of pension savings.

How Unions & Employers Responded

Unions, employers, trustees, and pension professionals tackled the problems with great creativity and in a spirit of problem-solving rather than adversity. Many imaginative and inventive solutions were agreed that saved schemes that otherwise would have gone under. However, nearly all the solutions arrived at led to significant losses for members and deferred members. Coupled with the financial losses was the collapse of confidence in pensions generally.

The Funding Standard was re-imposed in June 2013, without anything significantly helpful having been done in the five year hiatus. Due to the successful strategy of officialdom in decentralising the problem to the level of the individual scheme, it is hard to know how deep the crisis has become. However, this is what we *do* know:

- There has been acceleration in scheme windups, with 25% of schemes expected to wind up by the end of 2013.¹
- Most DB schemes are closed to new members.
- A growing number of DB schemes are closed to future service accrual.
- Many schemes do not meet the MFS. Some have been, and more will be, saved by Section 50 applications but this will involve major losses of pension benefits that workers have earned and paid for. This will add to the crisis of confidence referred to above.
- Nearly all solutions involve no further increases to pensions in payment. People will slowly descend into poverty from the moment they retire. If high inflation returns the fall into poverty will be rapid.
- The Labour Court and the LRC are dealing with an array of pension disputes. If these disputes are settled it is likely that many will be resolved on the basis that no further contributions will be made to the DB scheme and massive losses of accrued entitlements for the workers affected.

Unions have developed great expertise in influencing and indeed constructing Section 50 applications which seek to defend accrued and future core benefits. It is a remarkable achievement to convince active members to stay with a scheme, to continue to make substantial contributions and accept lower benefits in a climate of declining confidence. Few well informed workers believe their pension funds savings are safe.

Defined Contribution Schemes

There is nothing to suggest that the losses in DC schemes have been any less severe than the losses suffered by workers in DB. Trustees of DB have been forced to crystallize now. The losses in DC are masked until the worker retires. All that has happened is the risk has been transferred from capital to labour. There is nothing to suggest that the current regulatory regime can any better protect DC members. Nobody has monitored the underperformance of DC, the very low level of employer contributions to DC schemes, the losses of DC value during the financial crises, or the traditional over exposure of DC to equities. Many thousands of workers took the rational decision and stopped paying into pension funds which are not safe, ineffectively regulated and subject to state confiscation. Neither has there been a review of the failure of orthodox assumptions of what constitutes high, medium, low, or even appropriate levels of risk.

¹ LCP Ireland Pensions Accounting Briefing 2013 P.6

The European White Paper

There is little new in the White Paper and it can be summarised in a few bullet points. According to its authors:

- We are living longer and we have to stay in work longer and save more for retirement.
- We need safe, sustainable complimentary savings systems.
- The move away from DB to DC is described as a 'structural reform'. *(Congress sees it as shifting of risk from capital to labour and consequently a major deterioration in workers' pension conditions.)*
- The crisis clearly demonstrated that the ability of pre-funded pension schemes to mitigate risks and absorb shocks needs to be improved. *(The White Paper gives no specific suggestions as to what can be done in this regard.)*
- The acceptance of 'reforms' depends on whether they are perceived to be fair.
- Genuine dialogue bringing together Governments, social partners and other stakeholders is necessary to build a consensus on policies to create opportunities for working longer.

Congress regards our complimentary saving systems whether DB or DC as far from safe and our pension regulation system has utterly failed to protect the funds or the interest of scheme members. How can complimentary savings be safe as long as we have a defective regulatory system and a Government that reserve the right to confiscate accrued funds as it sees fit?

With the race towards DC the risk will not be mitigated but the shock will be absorbed by the workers alone. Our 'reforms' to date are grossly unfair and inequitable and there has been no attempt to involve the social partners in building a consensus to create opportunities for working longer.

Conclusion

The recent pension changes in relation to the Priority Order are late in the day, but are very welcome. They at least bring an element of certainty in place of the confusion which reigned supreme for the past five years. Stakeholders now know that they will get no further help from Government or the Regulator. The only area of doubt remaining is whether Government can kick the habit of raiding workers' pension savings for opportunistic purposes.

Nonetheless, stakeholders can make reasonably informed decisions regarding the future. Unfortunately, many more schemes will move towards windup involving huge losses for the workers concerned.

Those who are responsible for directing public policy on pensions and getting us into this mess, successive Governments, public officials, and the highly paid doyens of risk management orthodoxy, got it totally and utterly wrong. Yet they suffer no consequences. They keep the Rolls Royce pensions.

The burden of their failure is borne by workers and former workers. Most workers who have lost out have so far borne their losses stoically. Perhaps this is because they feel no immediate pain. In a decade hence when workers, who contributed huge amounts of income to their pension, are sunk in poverty, the pension's time bomb may finally detonate.

The White Paper has nothing to offer except perhaps the suggestion that reform should be fair and involve social dialogue with the social partners.

Experience to date in relation to the pension age and public pension entitlement suggests that officials in Ireland have no intention of being fair. 'Pension reform' in Ireland involves taking as much as possible from the vulnerable while ensuring the elites are cossetted. Making social dialogue a dirty word means unfair 'reform' can be imposed on citizens without ever having to consider the hardship that results for individuals.

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