
Government to make beleaguered private pension savers pay 57% more for their retirement...

While public sector workers continue to enjoy unaffordably generous pensions paid for by the same private sector workers

"Impose 0.6% levy on public sector as suggested by Fine Gael manifesto"

5 July, 2011

If the government's well publicised plans to reduce income tax relief on pension contributions (from 41% to 20%) are implemented in this year's Budget, the cost of funding for hard-pressed private savers will increase by a staggering 57%* compared to a year earlier.

It's a well documented fact, that private sector pension funding is already woefully inadequate and the average private sector worker will be at least 3.5 times worse off than their well-heeled public sector peer in retirement. *(The average public sector pension is about €21,000 p.a. compared with its paltry private sector equivalent of €6,000 p.a. **)*

"How can we persuade people to save into their pension if it costs them almost 60% more? Why would you save into a pension when tax relief is offered at a paltry 20% on your contributions and 49% is payable on your retirement income? said Nigel Dunne, chief executive, Standard Life Ireland."

"The final straw is that you tell private savers they will have to stump up for the eye wateringly generous public sector pensions of their peers while they save towards a relatively impoverished retirement**. The injustice of it towards the private sector is jaw dropping," he said.

Dunne said that private sector retirement funding would be killed off. He also said that if implemented, this policy would end any hopes that hundreds of thousands of private sector workers may have had, of owning a decent pension like their well to do public sector peers.

"To avoid further exacerbating funding the nation's pensions' time bomb# and putting huge pressure on the government to increase state pensions in the future, **income tax relief at 41% must be maintained**," he said.

Public sector pensions unaffordable – impose levy of 0.6% as suggested by Fine Gael manifesto...

The Comptroller and Auditor (C & AG) general's report 2010 shows the accrued costs of public service pensions now stands at a staggering €129bn.

It costs €2.3 billion to pay public sector pensions in 2009 and €5.4bn in accrual costs or a total cost of €7.7 billion for 2009. There are approximately 380,000 public servants on the payroll, 100,000 of whom are retired – see notes****). The total equivalent cost for the private sector is approximately €2bn for 810,000 individuals.

“The national bailout of c €85 billion pales by comparison with the national liability of outstanding public sector pensions. This enormous number has been overlooked for far too long and must be tackled,” said Dunne.

Fine Gael’s manifesto proposed that the 0.6% levy could be imposed on public sector pensioners in addition to private sector schemes.##

“That would be a start,” said Dunne. “The estimated amount raised would be €46 million but importantly would provide reassurance that the public and private sector are treated more fairly. We must not overlook the principles of fairness for the sake of convenience.

It’s breathtaking that the government deems it fitting to force the private sector to pay for lavish public sector pensions for themselves (and their officials) - whilst preventing them from savings towards such a pension for themselves.

Dunne added that it was not acceptable that one section of society becomes relatively wealthy in retirement at the expense of the other’s relative impoverishment**.

Ends.

Notes for Editors

*49% includes income tax relief of 41% + PRSI + health levy of up to 8%. (PRSI + health levy eliminated in 2011 Budget last December)

49% to 20% to fund €100 of pension saving

49% relief costs €51

20% relief costs €80

Increase cost is €29, $29/51 = 56.9\%$

The estimated public sector pensions bill was: €1,965,784,000 for 2009 (Analysis of Exchequer Pay and Pensions Bill (Table XIII), Department of Finance, July 2009). 90,508 pensioners equates to an average public sector pension of approximately **€21,000.

The average private sector worker’s pension fund is approx. €90,000 (source IAPF). Life Offices estimate the average pension fund at retirement of between €120,000 and €150,000. Source

Professional Insurance Brokers Association, Sep, 2010. €135,000 + €90,000 divided by 2 = €112,000 times 5% annuity = €5,625 – rounded to €6,000).

#Irish people are living longer and subsequently need greater pension funding. “To date longevity has increased by a minimum of about an extra two years each decade,” said Dr Ian Goldin, director of the Oxford Martin School (established to identify and respond to future global challenges and opportunities) Goldin previously worked for the World Bank, the EBRD and the OECD Development Centre in Paris.

The government is storing up major retirement funding problems for the future when workers already either don’t save at all or don’t save enough into a pension.

Workers earning a relatively modest €32, 801 p.a. or more qualify for income tax relief at 41% of their pension contributions.

##Fine Gael Manifesto p.67:

“A temporary, annual 0.5% contribution for all private pension funds, so that older beneficiaries of past tax relief make some contribution to deficit reduction. An equivalent reduction could be applied to public and private sector defined benefit entitlements”

**** Source: Analysis of Exchequer Pay and Pensions Bill, Department of Finance, June 2010

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