



February the 25th has come and gone and the votes are long in and tallied. The eagerly anticipated Irish General Election saw an impressive 70 per cent of the voting public turn out to cast their vote. The opportunity to decide who would be tasked with leading Ireland out of the economic doldrums was not to be missed.

As expected, Fianna Fáil was unceremoniously booted out of the driving seat of Government. Their departure from power came as no surprise to the Irish people. They are officially the worst performing Government in the history of the State: in power throughout the glory days of the boom, right through the dark years of the economic crisis, eventually surrendering Ireland to the EU-IMF Bailout in the dying months of 2010. The extent of the monumental failure of Fianna Fáil at the polls, at one time the most dominant party on Ireland's political landscape, is manifested in their representation in the Dáil (Irish Parliament) as they

The centre-right way forward?



Rachel Mallon asks what a new Government in Ireland might mean for the future of pension provision

managed to secure a mere 20 seats.

After Fianna Fáil's defeat, the debate turned to whether Fine Gael would secure an overall majority. They always looked to be the clear winners however it quickly became clear that a power sharing agreement with Labour would be the likeliest outcome. For a week and a half following the election we waited impatiently as Fine Gael and Labour decided on a plan for government.

However the die has now been cast and a Fine Gael-dominated coalition with Labour are leading Ireland toward a future aligned somewhere in the centre, with centre left Labour balancing the centre right Fine Gael.

But what of their pension policies? Both parties published different proposals for pension saving and associated taxation in their election campaigns. As partners in government, which of their respective

	Labour	Fine Gael
Employer	<ul style="list-style-type: none"> ● Undefined tax relief cap on contributions 	<ul style="list-style-type: none"> ● Equal tax treatment for employer contributions to PRSAs, as those to occupational pension schemes. ● No employer PRSI relief on pension contributions
Employee	<ul style="list-style-type: none"> ● Undefined tax relief cap on contributions ● Undefined reduction in tax-free lump sum ● Including pension tax relief in the minimum effective tax rate ● Reduction of maximum pension fund 	<ul style="list-style-type: none"> ● Keep State Pension at current level ● Increase to 66 the age for eligibility for State Pension in 2014 ● 0.5% contribution rate (temporary) on annual basis for all pension funds ● DC pension funds will be made accessible to scheme holders, with any withdrawals subject to tax ● Reduce the standard fund threshold for public and private sector workers to €1.5 million ● Set tax free lump sum to €250,000 ● Undefined increase in the cost of notional annuities for DB, final salary schemes from 2011 ● Undefined increase in the 'deemed distribution rate' on large ARFs ● Application of marginal rates of income tax to ARFs (on death of beneficiary) ● Cap taxpayer contributions to existing public and private sector pension schemes that deliver pensions of more than €60,000 in retirement



policies can and will remain and which will fall by the wayside? And while the details are being ironed out how long will the previous Government's policies remain in effect?

There may be more questions than answers at the moment and the worry is that much of these important pension issues will be far down the new Government's list of priorities. The terms of the bailout and rate of the EU-IMF loan overshadow much of Dáil debate. A look at both parties' campaign promises and their respective manifestoes gives some insight as to what could potentially become reality. Included in the table (opposite) is a statement of their plans for pensions and related tax, for employers and employees. It is clear where there could be cause for disagreement and inaction, given the disparity and lack of clarity as to what some of the policies will amount to in real terms.

In addition, they don't always make reference to whether elements of the previous Government's four year recovery plan, published last December, would remain and for how long in the face of these new policies. The Plan included some rather harsh measures, many of which would impact severely on those wishing to save for retirement. They seem to be potentially prohibitive because, if realised, could serve to actively discourage pension saving – something the Fianna Fáil Government had previously admitted was a large-scale problem and which it had campaigned to redress in recent years.

The previous Government's plan was to stagger a reduction of tax relief on employee pension contributions to the standard rate of 20 per cent by 2014. This was met with resistance by the pensions industry. Many worry about how severely affected the already hard

hit middle-income earner would be with such a severe reduction.

But have Fine Gael or Labour any better plans?

Labour claimed that they would introduce an as yet undefined tax relief cap on employee pension contributions. Unfortunately this doesn't really inspire much confidence and is representative of a lot of what Labour has set out. For the most part they seemed to be quite reticent about giving much in the way of tangible figures with regard to pensions.

On the other hand, Fine Gael has at least offered more fully-realised alternatives to the previous Government's recovery plan. An example is their approach to employee pension contributions; instead of reducing the tax relief they plan to introduce a seemingly mandatory 'temporary, annual 0.5 per cent contribution for all private pension funds'. While the overturning of the phased reduction in tax relief would be welcomed, the use of the word 'temporary' is of some concern. It's not stated just how long the private pensions would be dipped into – one year, three years, indefinitely? Taking from the pension pots of those who have diligently saved over the years in the hopes of providing a decent standard of living when they stop working hardly seems any more amenable than reducing the tax relief.

Labour's opaque pension policy is further exemplified in their plan for the reduction of the maximum tax-free lump sum, because they don't actually say what the reduction would be. Fine Gael has stated that they wish to set the tax-free limit at €250,000 which is higher than the current €200,000 introduced by the previous Government in January 2011. So far Labour's lack of definitive

policy means that they can support Fine Gael's position on certain issues if they want to, but to what extent they would wish the policies to go is yet to be understood.

One of Fine Gael's more controversial policies is to allow DC savers early access to their pension funds, the rationale being, that it could solve some of their more immediate financial worries. Perhaps this shouldn't come as a surprise – using funds specifically earmarked for pensions to help pay for a wholly unrelated debt elsewhere seems to be a widely accepted political fix

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and very popular across the water in Whitehall. All of the major parties' manifestoes stipulated that they would tap the National Pensions Reserve Fund for use in various programmes to boost the economy. The Fund was initially set up to meet the projected rapid increase in cost of Ireland's pensions from 2025.

Will these well-meaning attempts be enough? Perhaps the new Government will take its lead from their predecessors and ask the pensions industry to come up with a fairer and more sustainable way forward. Whatever the true outcome, our industry is currently waiting with bated breath: all eyes on the Dáil!

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