17 Kildare St.,
Dublin 2.
29th September 2021

Mr Paschal Donohoe TD,
Minister for Finance,
Department of Finance,
Government Buildings,
Upper Merrion Street,
Dublin 2.

Dear Mr Donohoe,

You will be aware that ISME and a pensions technical group met with officials of your Department on 7th October 2020 concerning the issue of pensions equity for private sector workers; and last February, we launched our pensions equity challenge. As we advised your officials last year, it is in no one's interest to mount a legal challenge where parties can come to a level of mutual agreement on principles, and that remains our position now. In the meantime, we have, with our colleagues in Brokers Ireland, consolidated a pensions "white paper," which sets out the principal areas in which we identify inequities between public and private sector pension savers.

The attached paper is self-explanatory in setting out the very material differences that exist between public and private pension savers in terms of form of scheme (DB or DC); relative risk exposures; methods of levy of chargeable excess tax; additional superannuation contribution; encashment options, valuation multipliers; calculation of fund thresholds; tax treatment of additional voluntary contributions; fiscal burden and earnings cap. While it is understandable in complex tax systems such as ours that there are "winners and losers" in individual areas of taxation, it is noteworthy in the areas of pensions tax treatment referred to above that *every single one* of them materially and significantly favours workers in the public sector.

EXCHEQUER IMPACTS

We acknowledge that encouraging pensions take-up in the private sector via EET pension savings arrangements impacts the Exchequer. These impacts are set out every year in the Revenue Ready Reckoner[1] and in the Revenue's "Costs of Tax Expenditures."[2] Neither publication recognises the imputed cost of contribution to public service pensions, and the tax measures proposed regarding pensions would only impact those public servants who contribute to AVCs.

Tax relief on pensions contributions is a material cost to the Exchequer, but it is dwarfed by the Exchequer contribution to public service pensions. Currently, only one of the 45 voted current and

[1] https://www.revenue.ie/en/corporate/documents/statistics/ready-reckoner.pdf
[2] https://www.revenue.ie/en/corporate/documents/statistics/tax-expenditures/costs-tax-expenditures.pdf

capital expenditures in the national accounts is attributed to a departmental pension spend.[3] We believe we will only have full transparency on Exchequer expenditures when this practice is extended to all Government departments and agencies. Nonetheless, the latest actuarial review of public service pension liabilities shows an unfunded liability of €149.6bn, and a cost to taxpayers of 1.1% of GDP in 2019.[4] Achieving equity for private sector workers will not be remotely as expensive, since the burden is borne by workers themselves and their employers.

Lastly in terms of Exchequer impacts, we wish to address the narrative that private sector pensions savings evade or avoid taxation. While it is true that a 60-year-old worker earning €100,000 who diverts the (permissible) 40% of income into a pension will pay less tax across her lifetime as an income earner and as a pensioner, this is true because a €100,000 income earner pays more tax than the combined tax levied on a €60,000 earner and a €40,000 earner. In other words, it is a function of the progressivity of our taxation system, not of the generosity of our pensions system. Pensions are tax deferred, not tax avoided. Furthermore, the tax paid on the private sector DC pension will be far smaller because (a) our tax system is so highly progressive, and (b) the DC pension accruing will be far smaller than its public sector DB equivalent. Adequate pensions coverage is a socially desirable goal as well as an objective of Government policy, and the replacement level of our contributory old age pension is totally inadequate for many self-employed and PAYE workers. Therefore, an element of support by the Exchequer via the taxation system is justifiable as well as sustainable.

ACHIEVING EQUITY

While equity between public and private sector workers can be achieved by levelling up or down, you will note from the conclusion of the attached white paper that "*this paper is not suggesting that the current favourable pension tax regime relating to the public sector be curtailed*." However, it is no longer tenable that private sector workers should be so severely penalised by the taxation system in their efforts to try to generate a pension even approaching that of a public servant on the same salary.

We also recognise that the State's current fiscal situation mitigates against a rapid amelioration of pensions inequity through levelling up. However, it also is most difficult for private sector workers to countenance the maintenance of this inequity while transfers of national income to the Exchequer to fund the "Bigger State" are increasing, while the public sector pay gap is so large, and while Government willingness to moderate public sector expectations appears so subdued.

The desire by much of the electorate for ever-increasing state spending is not matched by a willingness to pay for it. Pensions reform therefore presents Government with an opportunity to address the blinkered view of private sector pensions savings as a "tax expenditure" or a burden upon the Exchequer. Given the significant deficits in our stock of social housing and infrastructure, private pensions present a real opportunity to generate significant amounts of capital for State expenditure at reasonable rates of return, which do not require the constant imposition of ever-larger national debt on the following generations.

---

[3] https://www.gov.ie/en/publication/21287-finance-accounts-2020/
[4] https://www.gov.ie/en/press-release/024d8-minister-mcgrath-publishes-actuarial-review-of-public-service-pension-liabilities/

Acknowledging that all the equity measures proposed in this white paper cannot be achieved in Budget 2022, we consider the following to be immediately deliverable:

1. Maintenance of marginal rate relief on pension contributions.
2. Retrospective indexation of the income threshold back to 2011 when it was reduced to its current level, based on the average weekly public service earnings (excluding the semi-states); with annual indexation thereafter based on the same index.
3. Recognising that unlike public sector earnings, those in the private sector (especially for the self-employed) can be lumpy and variable; in this respect, we wish to see the earnings limit operated on a five-year rolling average, reconciled annually.
4. Where a chargeable excess tax liability arises for a private sector worker, that it be may be discharged under the same terms as those available to a public sector worker with the same liability.
5. Express, as a separate Exchequer vote, the pensions expenditure of every Government department, agency and entity where the pension liability is underwritten by the taxpayer.

In addition, we would welcome the opportunity to meet with your Department to discuss and agree a program of reforms that would reduce and ultimately eliminate the remaining inequities between public and private sector pension savers in the following three budgets prior to the next General Election.

Yours sincerely,

Neil McDonnell

Neil McDonnell
Chief Executive

CC Michael McGrath TD DPER
John Hogan, Secretary General, Department of Finance
David Moloney, Secretary General, Department of Public Expenditure and Reform
Emma Cunningham, Assistant Secretary General, Department of Finance
Colm O'Reardon, Assistant Secretary General, Department of Finance
Colin Menton, Assistant Secretary General, Department of Public Expenditure and Reform
Ciaran Blackall, President, Brokers Ireland
Diarmuid Kelly, CEO, Brokers Ireland