IIF Conference on Universal Pensions
Introductory remarks by Gerry Hassett, President of the Irish Insurance Federation
17th May 2013

Minister Burton, ladies and gentlemen, welcome to the IIF conference on Universal Pensions. We've a tremendous line-up of speakers this morning, and I'm really looking forward to listening to what they have to say.

As someone who has been involved in retirement planning for over a quarter of a century I'm passionate about ensuring that Irish workers fund properly for their retirement.

In fairness, Minister Burton has always made the Pensions element of her brief a priority and I've been impressed by her determination to listen to a diverse range of views in order to develop the right solution. Universal pension coverage is a critical element of any solution so it will be very interesting to hear her perspective in a short while.

My role here is to represent the views of the Irish Insurance Federation. We are the representative body for insurance companies in Ireland. This includes insurers serving both the domestic & International markets writing business from a base in Ireland. Our member companies employ over 14,000 people, and our Members currently look after the retirement savings needs of about 1,000,000 Irish employees.

I'd like to think we understand our market and what it takes to get Irish workers to save for their retirement. As pension experts, I think our members can play an important role in establishing universal pension coverage in Ireland.

Whilst it's imperative that any solution is as simple as possible, delivering a simple & effective solution is actually a complex undertaking. Our knowledge and expertise can and should be deployed to ensure that a Universal pensions system is implemented in a cost-effective manner. We stand willing and ready to play a constructive role in this debate.

I do want to touch on one issue this morning – that of pension charges. This is an area that pension providers in Ireland have come in for criticism, most notably in the recent PWC report on Pension charges which was commissioned by the Department of Social Protection and published last October. I believe this criticism is unfair and I'd like to explain why.

In their report PWC set a benchmark for pension charges which was based on UK norms. The key metric they chose was 'reduction in yield'. Essentially this measures the impact of all the charges levied on the employee in terms of how they impact on the investment return. For example, a reduction in yield of 1.5% p.a. means that the impact of charges would reduce the gross return on a fund from say, 6% p.a. to 4.5% p.a. It's a clean and concise metric – and one that is understandable to most non-pension observers.

I suppose part of me feels it a little unfair that our small market is being asked to compete with a market on the scale of the UK. I was questioned by a newspaper journalist on this recently and made the point that no one thinks it's unusual that your Irish Times costs €2 or Irish Independent retails at €1.90, whilst I can buy the Daily Mail for €1 and indeed the Daily Telegraph for €1.30. I think most people understand the dynamics of economies of scale on unit price, and accept that producing a paper in a market the size of Ireland is indeed more expensive.

It might surprise you then to learn that our industry is quite prepared to be benchmarked against the UK. The issues of scale remain, but this market is ultra-competitive and this competition has led to exceptional value for Irish employees.

PWC set the Stakeholder pension in the UK as their benchmark for charges in Ireland with a reduction in yield of between 1.0% and 1.5% per annum.

First, let's look at the Occupational pensions market. Employees here benefit from being part of a group – sometimes quite a large group, and also typically the employer pays for the cost of advice to the scheme separately. PWC calculated an average reduction in yield of between 0.5% p.a. to 0.9% p.a. on these defined contribution schemes, and commented favourably on this value to Irish employees.

In relation to personal pensions, the PWC study quoted an ‘average’ reduction in yield of 2.18%. If this were indeed the charges being paid today by Irish consumers, then they could quite rightly complain of poor value.

However, the 2.18% p.a. figure is entirely notional. It represents the fees a consumer could pay if their Adviser opted for the maximum commission options available. Given the competitive nature of the market this almost never happens.

If I look at my own company, we tend to benchmark our offerings versus the Standard PRSA, the charges for which are set by the Pensions Board. On average, Standard PRSA’s generate a reduction in yield of 1.4% per annum, which is well within the benchmark UK level. In 2012 about 90% of the personal pensions purchased by Irish consumers were at the 1.4% p.a. level or less – which is well within the benchmark range. .

So, 1.4% p.a. is the real figure in the market today – as opposed to 2.18% which is a notional figure. I hope my comments go some way in building on the analysis carried out by PWC in explaining how our industry works and the charges imposed in a live competitive market and we look forward to the continued dialogue with the relevant stakeholders on this topic.

IIF Members offer cost-effective pension solutions. The market is well served by many leading multi-national providers and their parents will tell you that Irish consumers receive exceptional value.

I do accept that charges are an area where consumers can get confused. I’d advocate greater transparency and consistency in how these charges are explained. Impending EU legislation will improve matters greatly here, but many of our members are committed to improving disclosure of charges in advance of this.

A feature of the Universal Pension model will be to drive these charges down still further. IIF Members stand ready to meet this challenge and provide the low-cost solutions required to meet the needs of all workers. We understand that this is the critical role we must play to become part of the solution.

I’d like to conclude with a few remarks on the importance of our debate here today. Some people will argue that the Government has more immediate problems to deal with and can leave the pensions issue for another day.

Unfortunately, the problem is that Ireland may be a young country now but it's getting older. There are six of us working today for everyone in retirement. As Stephanie and her OECD colleagues have pointed out, within 20 years that ratio will halve.

A failure to plan adequately for this entirely predictable outcome will result in most Irish workers relying solely on the State pension. However, this is a burden that the State can no longer afford. A recent KPMG study shows an alarming funding gap opening up in the social welfare pension. It's currently running a deficit of €1. 5bn a year, and this is only going to get worse as time goes on.

Everyone in this room understands the impact such a deficit can have on any pension scheme and how difficult it can be to plug these gaps into the future. That's why it's essential we address this problem today, and it seems to me that ensuring that more Irish workers put their own money aside for the future must be part of the solution

There's a real possibility that we use the current exchequer fiscal crisis as an excuse to do nothing for now. If we do, there's a very real risk is that in solving today's problem we create an even bigger one for the future. We simply can't allow this to happen.

What an appalling vista it would be, if the youth of Ireland, who inherited negative equity from the generation before them, were themselves condemned to poverty in retirement.

Ireland is a young country and I sincerely believe that her best days are indeed ahead of her. Universal pension's coverage is essential to delivering this outcome. I commend the Minister in showing leadership and vision on this topic. As the voice of Insurance in Ireland, the Irish Insurance Federation stands ready to play a constructive role in ensuring this future is secured.

Thank you