Comments introducing response to Whelan & Hally paper to SSISI
Brian Woods and Colm Fagan 25 May 2023

Brian Woods and I appreciate the invitation to speak at this afternoon's meeting of the SSISI.

First, to introduce ourselves. We are both retired actuaries. In past lives, we occupied senior positions in the financial service industry, however some might now classify us as poachers turned gamekeepers.

Over the last four years, we waged a high-profile and very public campaign against the mis-selling of certain financial products. We successfully fought off no fewer than four "cease and desist" letters from a leading firm of solicitors acting for a major seller of such products – without spending a cent ourselves on legal advice. We also took on the Central Bank for its poor supervision of sales practices for such products. That campaign culminated in a paper to the Society of Actuaries in Ireland in November last. I'm pleased to report that our efforts finally paid off. We've put paid to such sales practices –forever.

We are now engaged in another high-profile campaign, trying to persuade government to commission an independent evaluation – hopefully by the ESRI - of a new and radically different approach to auto-enrolled pensions, an approach which delivers close to double the value for money of the scheme put forward by the DSP. Last year, it won joint first place in an international competition sponsored by the UK Institute and Faculty of Actuaries. One of its main planks is the complete removal of an entire layer of adviser costs, before, at and after retirement.

In short, we are definitely not cheerleaders for the financial services industry. Despite that, we disagree strongly with much of what Shane and Maeve have written.

This response focuses on our disagreements with their first recommendation, which purportedly aims to create a level playing field in terms of tax relief between auto-enrolled and conventional pensions.

We are all agreed that the 1 for 3 top-up for AE is considerably less valuable than the 40% relief for a higher rate taxpayer under a conventional pension. The recent report of the Joint Oireachtas Committee (JOC) on AE commented on this in Key Issue 9. The JOC report included an example which showed that foregoing 60 of take-home pay under a conventional pension secures a pension contribution of 100, which is 25% higher than the 80 secured by the AE 1 for 3 subsidy. Such differential treatment is clearly wrong.

Shane and Maeve say that there are just two ways to right that wrong. There is a third way, which Brian suggested in his submission to the JOC, and was included in their report. It is the most sensible solution by far. I would even go so far as to say that it is the only solution that makes sense. We don't know why Whelan & Hally's paper makes no reference to it, none whatsoever. Were they just not aware of it, or were they aware of it OK, but decided to ignore it because it didn't fit their narrative?

Brian’s solution, which ensures equal treatment of AE and conventional pensions, is to grant all AE contributors the same 1 for 3 top-up. They can also claim relief as they would for a conventional pension, but negative tax credits eliminate double relief, in much the same way as Revenue uses negative credits to tax social welfare pensions. This is the simplest and fairest way to ensure equal treatment of AE and conventional pensions. In fact, it’s the only way. Other suggestions just don’t work or create more problems than they solve.

Shane and Maeve’s proposal that all pension tax reliefs be abolished and replaced with a 1 for 3 subsidy would be unfair to higher rate taxpayers in the private sector relative to their counterparts in the public sector. It would also be unfair to higher rate members of DC schemes relative to their counterparts in DB schemes. Their proposals for addressing these knock-on inequities in order to create a level playing field between public and private sector workers and between members of DB and DC schemes verge on the ridiculous and are completely unworkable in practice.

Finally, I believe that the new smoothed approach to auto-enrolment that we are proposing, and which we claim delivers close to double the value for money of that proposed by the DSP, achieves the value for money for ordinary contributors that Shane and Maeve crave, in a manner that is fair to all. We would be pleased to present it to the SSISI and have it subjected to similar forensic scrutiny that I’m sure we’re going to see today for Shane and Maeve’s paper.

Thank you.