

# €275 billion...€275 billion...€275 billion...

Following Ireland's spectacular economic rise and subsequent dramatic fall, we have had to get used to some really big numbers. Our frame of reference has moved to tens of billions and the General Government Debt is expected to hit €200bn in 2013.

But there is another big number that should be of concern for all of us and it is the amount that we should already have put aside for the future needs of our population in retirement. At present we have some €80bn in pension funding. But I believe that if we funded pensions on a basis that each generation stands on its own, that each generation is not reliant on passing the cost to future generations, we would need to put aside some €275bn now.

So how do we get to that number? An annual income in retirement of €15,000 does not look like an overly ambitious target. You can expect to live for above 20 years in retirement. So you would need a fund of about €300,000 when you retire, to fund your lifestyle.

To build to a fund of €300,000 over a 30 year period from age 36 to 66 takes an average annual contribution of about €7,500 per annum.

The following table includes a projection of the Irish Population in 2011.

## Summary of Population Projection (000s)

Age Group	2006	2011	2021	2031	2041	2051	2061
Children (0-19)	1,165	1,242	1,408	1,372	1,316	1,366	1,367
Working Ages (20-64)	2,644	2,880	3,120	3,318	3,411	3,238	3,287
Over Pension Age (65+)	472	538	750	1,019	1,337	1,733	1,815
Total	4,281	4,660	5,278	5,709	6,063	6,337	6,469
Pensioner Support Ratio	5.6	5.4	4.2	3.3	2.6	1.9	1.8
Total Support Ratio	1.6	1.6	1.5	1.4	1.3	1.0	1.0

Source: Green Paper/Mercer 2007

So let's assume there are two million people currently between the age of 36 and 66. To stop things getting worse we would need two million ongoing contributions averaging €7,500 per annum totalling €15 billion per annum.

But we have also to make up for the lack of contributions in the past. At an average age of 48 the fund that should have accumulated is around €100,000. That gives us a total required fund of €200bn for these hypothetical contributors. In addition, there are approximately half a million people who are aged over 66. Assuming that these pensioners require €150,000 each, then the fund required for them is a further €75bn. In total, we should have accumulated assets of €275 billion.

In 2011, we have accumulated only €80 billion, to meet these liabilities. So our overall shortfall is almost €200 billion.

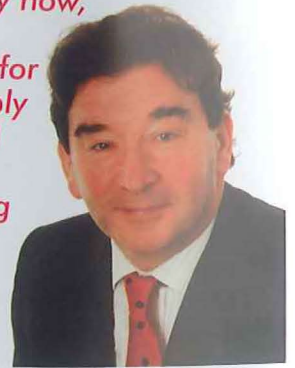
Assuming there is an additional €5bn a year to fund the shortfall, we get to a required national contribution of €20bn a year to give a stable funding position.

These numbers are startling and no government is going to move to generating that amount of pension savings anytime soon. However, if in the long term, the funds are not put aside, then the only area that can give is the amount of income available for people in retirement to live on. In reality the country is funding for future pensions at a fraction of the €15,000 per annum level.

It is against this background that the major incentive of tax relief is under threat. Tax relief on pensions for the very wealthy

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...Brendan Johnston, Director of Pensions, Zurich Life.



has been a distraction that has damaged the prospects for all and could easily be addressed by fund thresholds and maximum contributions. The current path for pension tax relief over the next few budgets will lead to pensions becoming undesirable for a large number of people. We need to encourage people to save for their retirement yet the treatment of tax relief is going in completely the wrong direction.

However one thing for sure is that whatever happens to tax relief there is still a very big need for people to save for retirement. Unless our government pushes pension savings in a big way now, the amount of State money available to provide for adequate pensions will simply not be sufficient. People will need to look to their own resources rather than having a reliance on future State provision.

We need a political system that sees past the next election to the long term benefit of the population. Ultimately the focus of the population, politicians and the press needs to move from the urgent issues of the moment to address the slow and predictable descent into poverty of our future pensioners.

The calculations I have made are clearly back of the envelope but I would challenge anyone to come up with alternative sustainable solutions to more funding and/or lower benefits. As an industry we should monitor the assets and funding shortfalls that are arising in the country on a macro basis and aim to get public opinion on the side of long term provision, as opposed to short term political convenience.

