Joint Committee on Employment Affairs and Social Protection

Thursday 14th June 2018

Opening Statement of the Dept. of Employment Affairs & Social Protection

Good morning. I'd like to thank the Committee for the invitation to appear this morning.

I am joined by my colleagues Ms. Helen McDonald and Mr. Robert Nicholson who are Principal Officers in the Pensions Policy division of the Department.

In this statement I will seek to set out and address changes that have occurred in the area of pensions and related payments since the Committee published its own report on State Pensions in July 2017. In short there have been three main areas of material change, those being measures introduced in Budget 2018, the measures announced by the Minister towards the end of January earlier this year to deal with people impacted adversely by the 2012 rate band changes, and the publication of the Government's Roadmap for Pensions Reform in February. I'll take each of these in turn.

Budget 2018

In Budget 2018, the rate of the State pensions was increased by €5 per week and proportionate increases were provided for those on reduced and qualified dependent payments. That brings the full-rate State Pension Contributory payment to €243.30 per week and the full-rate State Pension Non-Contributory payment to €232.00 per week. These increases became effective in the last week of March earlier this year.

In addition, a Christmas bonus of 85% was applied to all core long-term social welfare payments including pension payments.

A new Telephone Support Allowance of €2.50 per week was also introduced for those living alone who receive Fuel Allowance. This measure is specifically targeted at the most vulnerable pensioners to provide them with access to personal alarms or phones for security. It is also aimed at encouraging social contact and minimising social isolation for those living alone. Payment of this new allowance began last week and benefits approximately 126,000 pensioners.

The Fuel Allowance payment was increased by 1 week from 26 weeks to 27 weeks. As the Committee is aware this was subsequently extended by a further week as a once-off measure to assist people during the unseasonably cold weather at the start of March. Although not a specific Budget 2018 measure, since October 2017, recipients of the Fuel Allowance can now opt to receive it in two lump sums (in October and in January) rather than as a weekly payment. This facilitates people buying fuel in bulk and availing of any special offers or discounts on the purchase of the particular fuel that meets their specific needs. To date, in excess of 58,000 people have benefitted from this measure.

Finally, a further provision of €10 million was made to maintain and enhance the Free Travel scheme for the approx. 915,000 direct beneficiaries. The purpose of the extra provision is to facilitate more private commercial operators joining the scheme for the first time, existing participants sustaining existing routes and adding more of them, and operators returning to the scheme where they had previously withdrawn. This

provision also allows for the discount applied on free travel payments to Bus Éireann-Expressway to be reduced from 40% to 30%, putting it on an equal footing with other commercial operators participating in the free travel scheme.

That summarises the measures set out in Budget 2018.

TCA 2012

On 23 January earlier this year, the Government agreed to a proposal that will allow pensioners affected by the 2012 changes in rate bands to have their pension entitlement calculated by a new interim "Total Contributions Approach" (TCA) which will include up to 20 years of a new HomeCaring credit. This approach is expected to significantly benefit many people, particularly women, whose work history includes an extended period of time outside the paid workplace, while raising families or in a caring role. It will make it easier for pensioners assessed under the yearly average model, to qualify for a higher rate of the State Pension (contributory). This interim TCA (which we refer to as T12) will ensure that the totality of a person's social insurance contributions - as opposed to the timing of them - determines a final pension outcome.

Under the new arrangements a person who reached pension age after 1 September 2012 and has a 40 year record of paid and credited social insurance contributions, subject to a maximum of 20 years of the new HomeCaring credits, will qualify for a maximum contributory pension where they satisfy the other qualifying conditions for the scheme. Crucially, unlike the existing Homemakers disregard system, periods of

home-caring before that scheme was introduced in 1994 may be recognised under the new scheme.

Up to 10 years of other credits, for example when unemployed or ill, may also be used, subject to the total number of credits not exceeding 20 years. So, for example, a person might receive a maximum pension based on 20 years paid PRSI contributions, 5 years jobseeker credits, and 15 years HomeCaring Credits, over a 50 year period.

The interim TCA for pensioners assessed under the 2012 rate band changes, comes into effect from 30 March 2018. Pensioners do not need to contact the Department at this juncture. Instead, the Department will invite almost 50,000 pensioners, who were assessed under the current rate bands in place since 2012, to have their pensions recalculated under T12 to determine if they qualify for a higher rate of entitlement.

The Department has established a dedicated unit to progress this initiative. That unit is currently designing and developing the required processes, procedures, legislation, IT solutions and staffing needed to implement it. Once that work is completed the Department expects to send out these invitations near the end of the year and to begin payments, including arrears for any period from 30 March 2018, from Quarter 1 of 2019.

Roadmap for Pensions Reform

On 28 February the Government launched its comprehensive Roadmap for Pensions Reform 2018-2023. The Roadmap details a series of 43 specific actions, presented under six strands that, which taken together, will modernise our pension system while continuing to target resources at those most in need. These strands are;

Strand 1 - Reform of the State Pension

Strand 2 - Building Retirement Readiness – a New Automatic Enrolment System

Strand 3- The EU IORP II Directive & Reform of Supplementary Pension Structures

Strand 4 - Measures to Support Defined Benefit Scheme Sustainability

Strand 5 - Measures to Further Reform Public Service Pensions

Strand 6 - Supporting Fuller Working Lives

For the purposes of this morning's meeting, I will concentrate briefly on those measures relating to the State Pensions area and Auto Enrolment.

Reform of the State Pension

The Roadmap confirms the Government will introduce the 'Total Contributions Approach' (TCA) for all new claimants of the State Pension (Contributory) from 2020. To this end, the Minister recently launched a public consultation process on TCA and Departmental Officials will, next week, brief Oireachtas members and their staff as part of this process. It is important to note that, contrary to some erroneous reporting in the media, no decisions have been made on key elements of the TCA such as number of years of contributions and/or credits required for a full pension, how self-employed persons who weren't in the social insurance system prior to 1988 will

be dealt with, and what transitionary arrangements may be necessary or suitable in the introduction of the system. The Minister has made it clear that she is keen to hear people's views of these before determining recommendations for Government – hence the public consultation process.

The Roadmap also sets out how the Government will explore how future increases in State pension payments will be formally linked to the consumer price index and average wages – this requires study to determine what elements need to be included in calculations and over what periods.

Furthermore, the Roadmap sets out the Government's commitment to no further increase in State pension age before 2035 at the earliest (beyond the increases to 67 and 2021 and 68 in 2028 already legislated for) and any future changes in the State pension age after 2035 will be linked to increases in life expectancy. Again, contrary to some media reporting, Ireland will not have the highest pension age in OECD countries by 2028. While Ireland has legislated for a specific age, quite a number of other OECD and EU countries have complicated formulas linked to life expectancy which will result in some of them having the same or higher pension ages.

There are also proposals in the Roadmap to provide individuals with the capacity to defer receipt of the State Pension (Contributory) on an annual basis up to the age of 70. In return, an actuarial adjustment would be applied to increase the rate they receive when the pension entitlement is drawn down. The objective here is to expand 'cultural norms' and perceptions around retirement age and support a positive ageing environment where older people are, to the greatest extent possible, encouraged and

provided with greater flexibility to work to, and beyond, the normal retirement age. In addition, the Roadmap sets out how consideration will be given to flexibility with respect to the age at which people who do not have the requisite number of contributions for a full-rate State Pension may make social insurance contributions beyond State Pension age.

An Automatic Enrolment Supplementary Retirement Savings System

Finally, to address Ireland's supplementary retirement savings gap, the Government has confirmed that by 2022, it will begin implementation of an 'Automatic Enrolment' retirement savings system. Whilst employees will maintain freedom of choice to opt-out should they so choose, the objective of this reform is to encourage personal long-term saving for retirement purposes and to help individuals avoid, what will otherwise be, unwanted and significant reductions in living standards at retirement. An 'Interdepartmental Programme Board' has already been established to strategically steer this work and it is intended to launch an Automatic Enrolment 'Strawman' proposal in the near future which will act as the basis for a national consultation process.

The Government has already made it clear that it is determined that the State Pension is and will remain the bedrock of the pension system in Ireland. Accordingly, any AE system will supplement the State pension. It will result in members making defined contributions into personal accounts which will be supplemented by contributions from employers and the State.

However, many of the details of design are yet to be determined and will be set out in the Strawman. While not an exclusive list, these include matters such as the preferred operational structure and governance of the system, the target membership, the contribution rates required, the financial incentives to be provided by the State, the range of savings/investment options that will be available to members, the terms for opt-out, re-enrolment etc., and the options available for subsequent drawdown of pension. While suggestions for each of these will be made in the Strawman, they will not be definitive and will be provided to help stimulate debate, discussion and hopefully some degree of consensus. We expect that public consultation to begin in the near future and to run until Q4 of this year. It is intended that it will include a number of fora to bring people together for discussion and debate.

I hope this gives the Committee a sense of the changes that have occurred over the past year and an overview of the major reforms planned over the coming months and years. My colleagues and I will be happy to try and answer any questions the Committee may have.

Thank You.