COMMITTEE ON SOCIAL PROTECTION,COMMUNITY AND RURAL DEVELOPMENT AND THE ISLANDS
SUBMISSION TO THE PENSION COMMISSION

Attached is the submission by the Joint Oireachtas Committee on Social Protection, Community and Rural Development and the Islands to the Pensions Commission detailing the Committee's consideration of the Total Contributions Approach and other pension related matters examined by the Committee. The Committee has issued 18 key findings and these are discussed in more detail throughout the document.

KEY FINDINGS OF THE COMMITTEE

The Committee has reached the following conclusions and makes the relevant recommendations: -

1. A State Pension should do more than protect a person from poverty. It should provide financial security whilst enabling the recipient to continue to live a fulfilling and active life;

2. The Committee agrees in principle with adopting a Total Contributions Approach for pension calculation, whilst retaining the current averaging model as a second option for reasons of equity;

3. The calculation should be based on 30 years contributions as opposed to 40 years in order to have a fair qualification for a state pension;

4. Carers should receive credits automatically as opposed to being 'awarded credits where they have an underlying entitlement';

5. Those providing foster care should also be able to receive a home-care credit that would go towards their pension;

6. People who take time off for home-making reasons (male or female) should be facilitated to do so, and their value and contribution to society recognised through the award of a social welfare credited contributions for these periods;

7. In relation to Widow's Pension the requirement of a marriage certificate to avail of the scheme leaves out a lot of people who were partners and/or co-habiting and this needs to be addressed;

8. The means test for the IQA should be radically reformed, particularly as it relates to capital;

9. In deciding the state pension age, the variations in the work people undertake should be taken into account as those working in manual employment have, in many cases, no practical alternative to retiring earlier than those in less physically strenuous employment. The Committee recommends the re-introduction of the State Pension Transition at 65;

10. Workers must be given the option of continuing in work if they so wish and there are widespread benefits to providing an option of working later. During these periods they should have a voluntary option to pay PRSI if they require same to achieve the full pension;

11. The issue of equity in regard to PRSI contribution rates for employers/employees and Class S contributors needs to be further examined;

12. The Department of Social Protection should review its level and content of correspondence to highlight the need for voluntary contributions;

13. Examination should also be given to extending the obligation to pay the A and S rates PRSI to any remaining employees and self-employed persons not liable at present to pay the full rate PRSI;

14. The means test for the State Pension Non-Contributory should be revised with higher thresholds of income allowed before a reduced payment is made and by a reform of the means of assessing capital. The exemption for earned employed income by persons in receipt of a non-contributory pension should be extended to self-employed income;

15. The fact that the proportion of persons in receipt of non-contributory State Pensions, which are 100% Exchequer funded, is decreasing steadily should be factored into any calculation of the State Pension Contributory into the future. Eventually virtually everybody will have some entitlement to a state pension contributory;

16. Credits should be awarded for those returning to full time education;

17. People in receipt of supplementary welfare for more than a year should be entitled to credit for this period on social welfare; and

18. Relevant legislative amendments should be considered in regard to flexible retirement in particular amending section 34 of the Employment Equality Act 1998.

INTRODUCTION

The Joint Committee on Social Protection, Community and Rural Development and the Islands welcomes the opportunity to make a submission to the Pensions Commission. This brief paper outlines the view of the Committee regarding the Total Contributions Approach and other key related matters.

The policies adopted by the State in terms of future pension provision will impact on all our citizens. Pension policy is also a crucial barometer of the value our State places on those who have given a lifetime of work in the service of our economy and our society. Mechanisms for the calculation of pension provision need to account for a variety of life circumstances and must be equitable in both design and application.

Key Finding:

1. A State Pension should do more than protect a person from poverty. It should provide financial security whilst enabling the recipient to continue to live a fulfilling and active life.

TOTAL CONTRIBUTIONS APPROACH

The Committee agrees in principle with adopting a Total Contributions Approach for pension calculation. However, in moving to the Total Contributions model we must ensure that a rigid structure is not unfair in practice. The estimate savings on moving to the new model may be modest in and of itself.[1] Equity must be ensured by any new approach to pension calculation.

Key Finding:

2. The Committee recommends that we maintain the current contributions model alongside the new structure for a period of time, so that we afford the greatest entitlement and provide choice.

The Total Contributions model working as the sole system of calculation would, for instance, disproportionately affect some women negatively. In addition, the current yearly average rate methodology has produced anomalies for people who previously worked abroad.

[1] KPMG Actuarial Review of The Social Insurance Fund 31 December 2015 .

Key Finding:

3. The Committee recommends that the specific model that benefits each individual worker should be retained as a second option for a period of 20 years, i.e. a phasing out of the current calculation methodology rather than a sudden halting would be preferred.

In 2010, the Government set out its framework for comprehensive reform of the pension system. It committed that a "total contributions requirement of 30 years contributions for a maximum pension will be introduced".

However, when the last Government introduced carers credits in a bid to address the issues raised by the reduced payments for pensioners, without the full averaging requirement and an alternative Total Contributions Approach, it decided that 40 years contributions would be required to qualify for a full pension under the Total Contributions Approach. There is difficulty with the proposed 40 qualifying years for a full pension. For example, a 40 year target will not recognise the impact of historical issues in the contribution records of older workers. Specifically, comprehensive social insurance coverage is less than 30 years in place and pervasive societal norms kept the vast majority of married women outside of the workforce long after the marriage bar was revoked in 1973.

Key Finding:

4. The Committee holds the opinion that the pension assessment should be calculated on the basis of 30 years of contributions.

In a recent actuarial review of the financial position of the Social Insurance Fund, which covers a 55 year period from 2016 to 2071, three out of the four scenarios costed for the introduction of the Total Contributions Approach are calculated on 30 qualifying years. The Committee acknowledges that in 2010, the qualifying years required to receive the full State pension in the UK was significantly reduced from 44 years for men and 39 years for women to 30 years for both to address this very issue.

The Committee supports moves to provide pensioners with greater income certainty on the value of their pension via legislation and the indexation of pension rates. Consideration should be given to the option of index-linking future increases in the pension to increases in prices taking account of goods and services disproportionally consumed by older people.

Another key consideration is that pensions have still not reached the 34% of wages benchmark as put forward in the Pension Framework. Establishing this benchmark and index linking pensions to both wage increases, and pricing, could have a 'double-lock' effect to ensure pensioners' income is not eroded by the gradual increase in the cost of living.

The application of calculation must account for the important role of carers as well as work in the home. The Committee is of the opinion that:

- Carers should get their credits automatically as opposed to being 'awarded credits where they have an underlying entitlement',
- Carers who were not employed (did not pay PRSI) but did 'work' in the home (caring for children) should be entitled to a full State pension, and
- Carers who continue to provide care for more than 20 years should not be capped in getting their pension credits.

Key Finding:

5. Carers should receive credits automatically as opposed to being 'awarded credits where they have an underlying entitlement'.

The Committee considered the situation of families that provide foster care and is of the opinion that those adults should be able to receive a home-care credit that would go towards their pension.

Key Finding:

6. Those providing foster care should also be able to receive a home-care credit that would go towards their pension.

The Committee discussed the value and contribution to society made by those who take time off for home-making reasons (male or female) and is of the opinion that their contributions to wider society should be recognised.

Key Finding:

7. People who take time off for home-making reasons (male or female) should be facilitated to do so, and their value and contribution to society recognised through the award of a social welfare credited contributions for these periods.

The Committees discussed the issue of the requirement to provide a marriage certificate to avail of the Widow's Pension. The Committee is of the opinion that this excludes those who were partners and/or co-habiting and that this needs to be addressed.

Key Finding:

8. In relation to Widow's Pension the requirement of a marriage certificate to avail of the scheme leaves out a lot of people who were partners and/or co-habiting and this needs to be addressed.

The means test for the Increase for a Qualified Adult (IQA) should also be changed particularly as it relates to capital. At present where the dependent adult has an income of over €100/ week the allowance is reduced and where the income is over €300/ week no payment is made.

Key Finding:

9. The means test for the IQA should be radically reformed, particularly as it relates to capital.

Also, the way capital is assessed causes major problems. To give an example of two couples that have accumulated €240,000 in savings based on the earner's income and lump sum over a lifetime at work.

Example:

Couple 1. Invest the money in Joint names. In that case the person for whom the IQA is been claimed is deemed to have savings of €120,000 (1/2 of €240,000)

The first €20,000 is disregarded. The next €20 is assessed as income of €30 per week. The next €80,000 is assessed as income of €320 per week

Total weekly income €350/per week which is over the threshold of €300/week and in such case no IQA is paid.

On the other hand, if the person who earned the money invested the money in their own name, which they would be entitled to do as they earned to money, the full IQA would be payable.

Once the joint savings and investments are over €110,000 the IQA is reduced.

RETIREMENT AGE

In Ireland there is no statutory retirement age with the age of retirement specified by individual employment contracts. Retirement age has traditionally been set at 65. However, the age at which the state pension could be claimed has been 66, and was set to increase to 67 in 2021, and to 68 in 2028. Therefore, anyone born after the year 1961 may have to wait until the age of 68 before they can claim the state pension. If the move to 68 years takes place it will leave Ireland with one of the oldest pension ages in the European Union, despite having the youngest age demographic of any Member State.

There needs to be a balanced outlook with regard to future pension cost projections. A recent forecast by the Fiscal Advisory Council suggested a deficit of 5.8% Gross National Income by 2050 due to age related spending increase of which half would be due to pensions.[2]

[2] Irish Fiscal Advisory Council, Long Term Sustainability Report, Fiscal Challenges and Risk 2025-2050, 2020.

However, these figures are based on an assumption of just 1% economic growth per year between 2030 and 2050. To put this in perspective even in the 1980's -the worst decade of economic growth in recent times- average economic growth was much better than this.

If that projected growth rate was to increase by 0.1% between 2030 and 2050 the deficit would fall to 4.9% by 2050. If the growth rate increased by OECD projections of 1.4% annually, the deficit would fall by more than half to 2.2% Another factor to bear in mind is that Ireland currently has the lowest tax ratio in EU.

Changing demographics, rising pensioner numbers, and falling birth rates are being experienced across Europe. A number of countries are attempting to address the fertility rate with various measures such as tax incentives and paid parental leave. Such policies could be examined further in the context of the social insurance fund on this State.

It is not just age ratio that is a factor in any projected shortfall in the Social Insurance Fund. Other factors must be considered in calculation such as Gross National Income per worker. Future outlooks and projections on the workforce must take a broad view. Due to technological change (particularly artificial intelligence), as well as transitioning towards carbon-free economies, the work force in 20-30 years might look very different from now, and that should also be accounted for when provisioning for the future pension system.

Realistically PRSI rates may have to rise and further analysis must be given to this issue. Rates should be reviewed on a regular basis to make sure the Social Insurance Fund remains in credit. It is important to note the fact that the rate of social contributions from employers across Europe is significantly higher than in Ireland and the benefits which workers receive in this State from the Social Insurance Fund differs greatly from our European counter parts.

On an actuarial basis, with the extension of benefits to the self-employed, the self-employed contribution to benefit ratio is much lower than the combination of the employee and employer contribution to benefit ratio.

Considering the societal effects, the data available, and the diversity of our workforce the case for a raising of the retirement age is far from clear. There are conflicting projections over how much savings would be realised if the pension age was increased. There is a wide disparity of figures across IFAC[3], and the Department of Social Protection[4] over future pension

[3] Irish Fiscal Advisory Council, Long Term Sustainability Report, Fiscal Challenges and Risk 2025-2050, 2020
[4] Pensions Data: 24 Nov 2020: Written answers (KildareStreet.com)

costs. In addition neither set of figures takes account of additional costs of the new retirement allowance.

Increasing the pension age is a blunt instrument that does not take account of the fact that for many people, after a lifetime of physical toil, a requirement to work on to 67 or 68 would have a detrimental impact on their health and well-being. The Committee is of the opinion that a better alternative would be to develop a more flexible retirement age structure giving choice to people as to whether they wish to continue working or not.

Key Findings:

10. In deciding the state pension age, the variations in the work people undertake should be taken into account as those working in manual employment have, in many cases, no practical alternative to retiring earlier than those in less physically strenuous employment. The Committee recommends the re-introduction of the State Pension Transition at 65.

11. The issue of equity in regard to PRSI contribution rates for employers/employees and Class S contributors needs to be further examined.

12. Examination should also be given to extending the obligation to pay the A and S rates PRSI to any remaining employees and self-employed persons not liable at present to pay the full rate PRSI.

ONE SIZE FITS ALL APPROACH

A rigid application of a single retirement age is not a fair reflection of the many variations in today's working environment. A one size fits all model is no longer fit for purpose. We need to consider those working manual jobs, and those wishing to retire earlier or later in life
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Workers must be given the option of continuing to work if they so wish. Compared to the rest of the OECD countries, Ireland has a higher retention rate of older workers[5], and there are widespread benefits to providing an option of working later. Certain States also incentivise later retirement through lump sum payments or tax breaks. Those opting to continue working beyond their retirement age should be allowed pay PRSI.

Key Finding:

13. Workers must be given the option of continuing in work if they so wish and there are widespread benefits to providing an option of working later. During these periods they should have a voluntary option to pay PRSI if they require same to achieve the full pension.

In many European countries there are examples where there is flexibility on retirement age. For example, when a certain amount of years contributions is made, retirement can be availed of, or where an earlier retirement is taken a reduced payment is provided. Also earlier retirement is available for specific workers in physically arduous work. Of particular concern with a rigid mandatory retirement age is its effect on manual workers:

> *"The policy shift towards longer working lives may prove particularly challenging for workers in arduous and/or hazardous jobs"*[6]

> *"Workers aged 55–64 are still almost twice as likely to experience a fatality as workers under 55 when economic sectors are held constant. Further, when economic sectors are controlled, workers aged over 65 are almost four times more likely to experience a fatality than workers under 55"*[7]

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[5] ERSI, The Ageing Workforce In Ireland Working Conditions, Health and Extending Working Lives, Oct 2019.
In 2015 the retention rate for employees aged 60 to 64 was 58 percent in Ireland compared to 49 per cent across the OECD
[6] Retirement regimes for workers in arduous or hazardous jobs in Europe, A study of national policies, European Commission 2016
[7] ERSI, The Ageing Workforce In Ireland Working Conditions, Health and Extending Working Lives, Oct 2019.

A more flexible system, accounting for different working conditions needs to be considered. Relevant legislative amendments should be considered in regard to flexible retirement in particular amending section 34 of the Employment Equality Act 1998.

> "*In Ireland workers with hard working conditions are likely to use Illness benefits and Invalidity pensions to exit the labour market*."[8]

Key Finding:

14. Relevant legislative amendments should be considered in regard to flexible retirement in particular amending section 34 of the Employment Equality Act 1998.

Forcing workers on to alternative social welfare payments is not a solution. A structure accounting for contributions made and type of work conducted must be considered.

Examination should be given to upgrading the rate of the newly announced pre-retirement payment for those between 65 - 66 to bring rates to state pension levels. The net cost of this is small as the people involved would already have a right to a social welfare payment.

Class S contributors are almost equal beneficiaries of the current system as employees. There is a certain inequity between contributions and contributions made by the self-employed.

Key Finding:

15. The Department of Social Protection should review its level and content of correspondence to highlight the need for voluntary contributions.

The Committee also considered the issues of adults returning to full time education and those in receipt of supplementary welfare payments for long periods of time.

[8] Retirement regimes for workers in arduous or hazardous jobs in Europe, A study of national policies, 2016

Key Findings:

16. Credits should be awarded for those returning to full time education.

17. People in receipt of supplementary welfare for more than a year should be entitled to credit for this period on social welfare.

FARMERS IN RECEIPT OF FARM ASSIST PRE-2007

Farmers in receipt of farm assist pre-2007 were precluded from paying self-employed social insurance contributions. Some did so, not realising they could not be assessed for pension purposes.

Job Seekers Allowance, subject to certain rules, entitles a person to Social Insurance Credits. The same should apply to Farm Assist, on a retrospective basis and where SI contributions were made these should now be treated as qualifying payments as social insurance contributions.

STATE PENSION NON-CONTRIBUTORY

In assessing the cost of pensions against the Social Insurance Fund it must also be taken into account that non-contributory State Pensions are paid out of Exchequer funding and not out of the Social Insurance Fund. Over the years, as the obligation to pay Social Insurance has been extended (including to the self-employed and public service), more and more people, proportionally, reaching pension age have an entitlement to a contributory State Pension as compared to a non-Contributory State Pension. This has reduced the direct Exchequer cost of pensions over the years and this trend is likely to continue.

The main groups now coming to pension age who will not have an entitlement to contributory pensions are small farmers and fishermen who were in receipt of fish assist or farm assist payments. The means test rules for this group of people, diminishing as it is, is very severe and unfair.

Example:

It reduces the pension on a virtual €/€ basis for any self-employed income over €30/week

Savings of €60,000 over a lifetime or inherited are treated as income of €110/week

Savings of €100,000 over a lifetime or inherited are treated as income of €270/week and would on their own disqualify a person from receiving any non-Contributory State Pension.

It is clear there is an inevitable additional pension expenditure cost for future pension planning which the committee recognises. This can be dealt with by a combination of approaches:

1. Increasing social insurance contributions as necessary,
2. Generating higher growth in order to increase revenue,
3. Incentivising optional longer working, and
4. It should be noted that many people who work after state pension age pay 40% income tax on their state pension, as pensions are taxable, and this should be taken as an offset to the cost of pensions in any consideration been given to raising the pension age. If the pension age is raised this tax income would be lost.

Key Findings:

18. The means test for the State Pension Non-Contributory should be revised with higher thresholds of income allowed before a reduced payment is made and by a reform of the means of assessing capital. The exemption for earned employed income by persons in receipt of a non-contributory pension should be extended to self-employed income.

19. The fact that the proportion of persons in receipt of non-contributory State Pensions, which are 100% Exchequer funded, is decreasing steadily should be factored into any calculation of the State Pension Contributory into the future. Eventually virtually everybody will have some entitlement to a state pension contributory.