The Joint Committee on Social Protection, Community and Rural Development and the Islands

Department of Social Protection: SOCIAL WELFARE (AMENDMENT) BILL 2023

Opening Statement by

Tim Duggan, Assistant Secretary General

Thursday, 27 September 2023

Introduction

Good Morning everybody.

I would like to thank the members of the Committee for the invitation to appear before you today and discuss the General Scheme of the Social Welfare (Amendment) Bill 2023.

I am joined today by my colleagues Orlaith Mannion, Principal with responsibility for Legislation and Planning and Colum Walsh, Principal with responsibility for Pensions Policy.

Background

As the Committee is aware, the Commission on Pensions was established in November 2020 to examine the sustainability of the State Pension system and the Social Insurance Fund (SIF). This was done in fulfilment of a Programme for Government commitment. Essentially, the purpose of establishing the Commission was to review the evidence as to the necessity for changes to the State Pension system and, if it determined that such changes were required, to give its recommendations as to the precise nature of those changes.

The Report of the Commission on Pensions was published on 7 October 2021. Following publication of the Report, the Government engaged in detailed consideration of the recommendations, including seeking the views of this Committee. In September of last year, the Government issued its response to the recommendations and set out its plan for implementation. Part of the implementation is now provided for in the draft Heads of the General Scheme.

The Draft Heads seek to introduce three key measures in the reform of the State Pension (Contributory), along with a number of necessary consequential amendments to give effect to these. The three areas are:

- Enhanced pension provision for long term carers of incapacitated dependents,
- A system to allow people to defer drawing down their State Pension (Contributory) pension up to the age of 70, and
- Changes to how State Pension (contributory) is calculated.

So, I propose to sketch out the broad parameters of each of these elements as contained in the General Scheme.

Enhanced pension provision for long term carers of incapacitated dependents

Firstly, the Government has acknowledged the important role that carers play and is fully committed to supporting them in that role. In that context, the Programme for Government committed to (and I quote) "examine options for a pension solution for carers, the majority of whom are women, particularly those of incapacitated children, in recognition of the enormous value of the work carried out by them".

So, at present, HomeCaring periods and Homemaking Disregards only apply and deliver value if a person has a minimum of 10 years paid PRSI contributions from employment/self-employment.

While this is believed to be fair and appropriate in the case of child-rearing, it may not be sufficient to deal with people who have to devote a large part of their lives to caring for an incapacitated relative. People who leave the workforce early to care for an incapacitated child or other relative can find it difficult to accrue these 10 years of paid contributions. In addition, periods spent caring can reduce the overall number of 'reckonable' contributions that a long-term carer can accrue.

The Pensions Commission felt that the role of long-term carers and the value they deliver to society needed to be recognised in the pension system. In considering the issue, it particularly noted that the burden of caring, and the consequential loss of pension entitlement, falls disproportionately on women (e.g., 80% of Carers Allowance recipients and 93% of Domiciliary Care Allowance recipients are women.)

Accordingly, and having considered approaches in other countries, it recommended that long-term carers of incapacitated people should be given access to the State Pension (Contributory) by having retrospective contributions paid for them by the Exchequer for gaps in their contribution history arising from that caring. Long-term carers were defined as those caring for 20 years or more.

The Draft Heads are designed to give effect to this recommendation by defining long-term carers for the purposes of being attributed contributions to cover the gaps in their social insurance record where they have cared for an incapacitated dependent for more than 20 years. Long term carers will be able to register their caring periods with the Department to ensure that the contributions are awarded.

A system to allow people to defer drawing down their pension up to the age of 70

Secondly, while the Government decided not to increase the State Pension age, it recognises that there is a trend to people working longer. In this context the Programme for Government committed to (and I quote) “Introduce a system to enable people to defer receipt of their state contributory pension on an annual basis, to include actuarial increases in payment (and to) facilitate those without a full social insurance record to increase their retirement provision by choosing to continue making PRSI payments beyond pensionable age”.

Accordingly, the Government agreed that provision should be made to allow people to extend their working lives and defer access to State Pension, where they have capacity to do so.

In return, such people will receive an increased state pension payment calculated on an actuarial basis. The benchmark reference State Pension age will remain at 66 years (as will entitlement to ancillary age-related benefits such as free-travel) but people drawing the pension at or after the age of 67 will receive an increased rate of payment for each full year that they defer drawdown.

Introducing pension deferral arrangements will also enable people who do not have a full contribution history to improve their contribution record.

As a consequence of introducing a system of deferral, the Draft Heads also provide for the payment of PRSI by those who choose not to draw down their State Pension (Contributory) and for access to a range of Working Age Schemes, which currently cease at age 66, to be extended to those who choose to defer.

Changes to how State Pension (contributory) is calculated.

Thirdly, and as the Committee is aware, the Interim Total Contributions Approach and Yearly Average are calculation methods for the State Pension (Contributory) payment rate with the "best of both" calculations currently being used.

The Pensions Commission recommended the full transition to a Total Contributions Approach only and the abolition of the Yearly Average approach to be implemented as soon as possible with a transition period of 10 years. The transitional arrangements are to avoid a 'cliff edge' effect and to soften the impact of the move on the first cohorts. During this transition period, individual pension rates will be based on the best of the Total Contributions Approach on the one hand, or a rate based on a mix of the Yearly Average and the Total Contributions Approach on the other. The proportion accounted for by Yearly Average will reduce from 90% to zero over 10 years and the proportion accounted for by Total Contributions Approach will increase commensurately.

The Pensions Commission also recommended that the current model of Interim Total Contributions Approach (also known as the Aggregated Contribution Method) should become the definitive Total Contributions Approach, i.e., 40 years – or 2,080 contributions – required to qualify for a maximum State Pension (Contributory) payment rate. This includes provision for 10 years of PRSI Credits and 20 years of HomeCaring periods, but with a cap of 20 years of combined PRSI Credits and HomeCaring periods.

The Total Contributions Approach is a fairer and more transparent system where the person's lifetime contribution will be more closely reflected in the benefit received. This approach will eliminate the anomalies inherent in the current Yearly Average system, e.g., where a person joins the social insurance scheme at 55 and gets a full pension versus a person who has worked on and off for 39 years since school and may get a 90% pension.

It is proposed that the transition will be on a phased basis over ten years commencing in 2025.

I hope the combination of this short summary of the objectives of the measures and the Explanatory Notes in the General Scheme have given the Committee the information it needs to consider these provisions, but my colleagues and I are more than willing to address any queries, clarifications or concerns you may have.

Thank You.