DÁIL ÉIREANN

AN COMHCHOISTE UM CHOIMIRCE SHÓISÍALACH, FORBAIRT POBAIL AGUS TUAITHE AGUS NA HOILEÁIN

JOINT COMMITTEE ON SOCIAL PROTECTION, COMMUNITY AND RURAL DEVELOPMENT AND THE ISLANDS

Dé Céadaoin, 10 Samhain 2021

Wednesday, 10 November 2021

Tháinig an Comhchoiste le chéile ag 9.30 a.m.

The Joint Committee met at 9.30 a.m.

Comhaltaí a bhí i láthair / Members present:

Teachtaí Dála / Deputies	Seanadóirí / Senators
Joan Collins,	Róisín Garvey,
Claire Kerrane,	Paul Gavan,
Marc Ó Cathasaigh,	Eugene Murphy,
Éamon Ó Cuív.	Mark Wall.

Teachta / Deputy Denis Naughten sa Chathaoir / in the Chair.

Report of the Commission on Pensions: Discussion

Chairman: Apologies have been received from Deputy Paul Donnelly. Before I commence, I remind members participating remotely that they must do so from the precincts of Leinster House.

Today we convene to discuss the recently published report of the Pensions Commission. We are all aware that the State pension is valued by our society and it is the bedrock of the pension system in Ireland. It is extremely effective at preventing pensioners from falling into poverty, and we want to make sure that this remains the case into the future. However, a State pension should do more than protect a person from poverty. It should provide financial security while enabling the older person to continue to live a fulfilling and active life. It is also imperative that people who take time off for caring or homemaking reasons should be facilitated to do so, and their value and contribution to society recognised through the award of social welfare credited contributions for these periods.

There are clear challenges in ensuring the sustainability of State pensions for future generations, thankfully in part because people are living much longer. This has been known for many years and confirmed in the report of the Pensions Commission. The committee believes that in deciding the State pension age, the variations in 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. We also believe that workers must be given the option of continuing in work if they wish to do so, and there are widespread benefits to providing an option of working later. During these periods, they should have an option to pay PSRI if it is needed to receive full pension.

The Government has asked this committee for our views on the recommendations set out in the report. This follows on the from the committee's remit and our recent submission to the Pensions Commission. In this regard, I welcome Dr. Claire Keane, senior research officer at the Economic and Social Research Institute, ESRI, Dr. Barra Roantree, research officer at the ESRI, and Dr. Nat O'Connor, senior public affairs and policy analyst from Age Action Ireland. You are all very welcome this morning.

Witnesses are reminded of the long-standing parliamentary practice that they should not criticise or make charges against any person or entity by name or in such a way as to make him, her or it identifiable or otherwise engage in speech that might be regarded as damaging to the good name of the person or entity. Therefore, if the witnesses' statements are potentially defamatory in respect of an identifiable person or entity, they will be directed to discontinue their remarks. It is imperative that they comply with any such directions.

Witnesses are reminded that full parliamentary privilege only applies to those participating from within the precincts of Leinster House. Witnesses participating remotely should exercise caution in terms of their utterances accordingly and be attentive to the direction of the Chair in this regards.

Members are reminded of the long-standing parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the Houses or an official either by name or in such a way as to make him or her identifiable.

I call Dr. Keane from ESRI to make her opening statement. She will be followed by Dr. Nat O'Connor.

Dr. Claire Keane: I thank the committee for the invitation to be here today. I am an economist working as part of the ESRI's taxation, welfare and pensions research programme. As part of the Pensions Commission's public consultation, I, along with various ESRI colleagues, made a submission to the consultation summarising relevant ESRI and other research relating to issues on the financing and sustainability of the State pension, retirement and the qualifying age for the State pension and pensions and income adequacy in retirement.

The commission was established in part as a response to public discontent with the proposed rise in pension age. The State pension age was due to increase to 67 in January 2021, having increased from 65 to 66 in 2014. This increase was in recognition of the sustainability issues surrounding the State pension. People are living longer and the population is ageing, so the old-age dependency ratio is set to rise substantially. The proposed age increase was paused while the commission examined the issue.

Regarding pension age, Dolls *et al*. 2017 estimate that across Europe, including in Ireland, the pension age would need to rise by five years by 2030 to offset the effect of demographic change. However, this is in the absence of any other change, such as tax or social insurance increases. The positive fiscal effect comes mainly through increased taxes paid by those working longer rather than the savings made on pension benefits.

In our submission we pointed out that increasing the retirement age is not the only way to address pension affordability, increased PRSI or income taxes or reduced State pension payments for current or future recipients would also help with affordability. Along with the proposed increase in pension age, the commission proposes increases in the self-employed rate of PRSI. This would help to equalise the treatment of income from self-employment and employment. They also propose other PRSI increases, all of which would help with the fiscal sustainability of the State pension.

Regarding the 2014 increase in pension age from 65 to 66, ESRI research from Redmond *et al.* examined this rise and found no evidence of a reduction in the retirement rate of 65-year-olds. Why was this the case? There was no real financial incentive to continue working until the age of 66, as retirees could avail of jobseeker's benefit for one year. An additional and very important issue is that of the retirement age stated in employment contracts and occupational pensions. These may take time to catch up with the policy change. The recommendation by the commission to align retirement ages in employment contracts with the State pension age is therefore an important one. In recognition of the fact that some people's contracts may require retirement earlier than the increased State pension age the benefit payment for 65-year-olds was introduced in 2021 to bridge the gap. However, it is likely that such a payment will continue to result in people retiring before the increased State pension age. Therefore, achieving improvements in the sustainability of the system via an increased State pension age is therefore likely to require reforms to such *de facto* pension payments.

The commission also recommends increased flexibility regarding access to the State pension, which would be welcomed. This would include deferred access to the State contributory pension with a resulting increase in the rate of payment received. This would allow those who want to work for longer remain in employment. Importantly, given the finding of Dolls *et al.* 2017, it would mean these people continue to pay income taxes for longer, helping the fiscal situation further. In addition, while many people may welcome retirement, others may experience negative impacts. Dave *et al.* 2008 found that in the US - there is similar evidence for Ireland - there are negative physical and mental health effects of retiring, particularly where retirement was involuntary, meaning where people were forced to retire at a certain age. Therefore, retiring at a later age may lessen or postpone poor health outcomes for older adults, raise their well-being and reduce health care services usage.

As well as increased flexibility, we also need to give people certainty regarding the State pension they will receive to allow them to plan accordingly. Difficulties currently exist for those planning for retirement as they may be uncertain as to the State pension amount they will receive as the move from the old yearly average approach to the new total contributions approach has not been fully implemented. The commission's recommendation that a full transition to the total contributions approach should occur as soon as possible is welcome, as well as confirmation on the calculation basis, that is, how many years or contributions will qualify someone for the maximum State pension. This would provide certainty to future retirees. It is also positive that it recommends the issuing of regular PRSI contribution statements that would inform those of working age of the State pension amount they can expect to receive. Therefore, people can plan for retirement accordingly.

Finally, the commission also examined the issue of pension adequacy. A key area of policy concern is the extent to which those who retire will have adequate resources to fund their retirement. Currently, the rate of income poverty among the older population is lower than for other age groups and the maximum State pension rate is higher than that of working age benefits. Why then are some of the over 65 group at risk of poverty? Up to one quarter of those receiving the State pension are getting below the top two rates, which can be explained by weak previous attachment to the labour market and periods of emigration. Thus, the proposal to allow people continue to pay social insurance contributions past the State pension age will facilitate people to plug gaps in their contribution history. We may also need to consider wider policy approaches, for example, the average pension income of retired women is 35% lower than that of retired men. Therefore, policies that seek to keep women in employment for longer, such as affordable quality childcare, long-term care services and flexible work arrangements will also be important.

Chairman: I thank Dr. Keane for her contribution. I now call on Dr. O'Connor.

Dr. Nat O'Connor: I thank the Chair and committee for the opportunity to speak today. Age Action is the leading advocacy organisation on ageing and older people in Ireland. We advocate for a society that enables all older people to participate and to live full, independent lives. In addition to my remarks today, we have provided a detailed written submission to the committee and we are happy to follow up with members on their queries.

A State pension is one of the signature policies of a civilised society. It recognises that most older people do not have the means to provide an adequate income for themselves. The current State pension system is vital, but flawed. It fails to provide an adequate income for many people, especially women, such as those who worked rearing children or as carers, as well as those who are counted as dependants of their spouse, not as pension recipients in their own right. The Pensions Commission makes useful suggestions to reduce the pension inequality experienced by carers in particular, although the commission did not have the remit to look at all inequalities in the system.

It is not a crisis that more of us are living into older age; it is a success story. Most people can look forward to many years of healthy older age. However, like many successes, there is a price to be paid. The question for policymakers is simple. Will you will fund an adequate State pension for all of us when we age, or will you shrink the value of the State pension by lowering the rate or raising the pension age?

Age Action agrees with the Pensions Commission that the State pension should be the bedrock for income in older age and that it should continue to be funded annually from tax and social insurance. People have paid their social insurance on the basis that the State pension will provide a basic, but adequate income in older age. Yet we know from those who have contacted Age Action that the lived experience of many older people is a weekly struggle to make ends meet. We know from our budget analysis that inflation has reduced the spending power of the State pension by more than €10 since January 2019, and the €5 increase next year will only make up for half of that lost spending power, while inflation is projected to continue to rise.

We can define adequacy using evidence like the minimum essential standard of living, supplemented by costs that are particular to people in older age, such as healthcare costs. We need a comprehensive study of ageing and the costs associated with ageing so the State pension can be rooted in that evidence. Age Action agrees with the Pensions Commission about benchmarking and indexation of the State pension against prices and against earnings. This is done across Europe, and it is essential to prevent older people from falling behind as the economy develops.

The Pensions Commission makes recommendations for raising social insurance over time, including self-employed and employers' PRSI, which are among the lowest in Europe. More detailed analysis is needed of these proposals, not least an audit of the likely effects on equality of outcome for older people. For example, it would be unjust to force retirees such as former semi-State employees to pay PRSI on a modest occupational pensions when they have no entitlement to the State pension.

As expected, given their terms of reference and the programme for Government objectives, the commission reintroduces the proposal to raise the State pension age, starting at 66 years and 3 months in 2028 and culminating at 68 in 2039, or potentially older in later years. This proposal remains premature. How can we move the State pension age when a large proportion of employment contracts have a mandatory retirement age of 65? How can we propose people work until 68 when many people in their 50s and 60s find it difficult to get job interviews due to ageism?

The commission has also not made a compelling case that changing the State pension age will save a great deal of money. The Department of Social Protection's analysis is that the payment of alternative forms of welfare will negate much of what savings might be achieved.

The commission rightly identifies the problem of mandatory retirement clauses forcing people out of work a year before they have any State pension entitlement. At a minimum, these should never be lower than the State pension age. Age Action calls on the Government to go further and to ban compulsory retirement altogether, allow people to keep their jobs for as long as they wish if they are fit to continue work and do more to root out ageism in the labour market, which makes it so hard for older people to find new opportunities.

Age Action has a vision of a fair and flexible State pension system. This should allow people to stop working once they have done a lifetime's work, which the commission suggests is 40 years of contributions, and in older age everyone should have an adequate income to live in dignity. They should have the security of knowing their pension income is indexed to the cost of living and earnings, so that it will rise along with the rest of the economy.

Policymakers have a moral responsibility to ensure the State pension is adequately funded through fair and progressive increases in taxation and social insurance. Everyone should have the choice to continue working for as long as they wish if they are fit to continue work. Some people need to continue working due to housing costs and other demands. Nobody should be forced to give up their jobs against their will, and no one should be forced to accept inferior terms and conditions at work because of their age. The success story of healthy ageing and longer lifespans is a great achievement. It is now up to policymakers to take the necessary steps to fund an adequate State pension, so that everyone can look forward to full participation and social inclusion in older age.

Deputy Marc Ó Cathasaigh: I thank Dr. Keane and Dr. O'Connor for their presentations. There is much to this. I will begin with general questions and might come in later with more specific questions. Do we accept the basic premise that there is a problem and a deficit with funding ongoing pension provision, about which something must be done? Dr. O'Connor diverged slightly, in not wishing to push for an increase in the pension age, saying that it was premature. As well as that, I point to pages 12 and 13 of the Pensions Commission's report, which outlines the four options that the Pensions Commission laid before the Government. It made a recommendation about package four. Do the witnesses concur that those four options are the best four mixes that we could take from the report? Do they concur that the fourth option - which, to be reductive about it, is a little bit of everything - is the most workable? Do the witnesses think that something essential has been missed about what we could do for pension provision?

Dr. Claire Keane: As we stated in our submission to the Pensions Commission, there can be a combination to tackle the problem. We can clearly acknowledge that there is a problem, which is not just in Ireland. Ireland has a slightly younger population than other European countries, so we have a little more time before this becomes an issue, but we know that the old age dependency ratio will rise substantially. We will have fewer workers relative to the number of older people. What do we do about that? If we do nothing, if we do not touch retirement age or think about the rate of payment, then more taxes and PRSI will have to be levied on the working age population if we are going to avoid not having enough to fund pensions. That in itself is not neutral. If more taxes are imposed on the working age, there will be a distributional impact. We know that there are lower homeownership rates and affordability issues for younger people, so there are intergenerational issues to account for.

In deciding what the right thing to do is, there are three main levers, which are changes to the pension age, changes to taxes and PRSI, or changes to the rate of the benefit. The commission has come out strongly against changing the rate of benefit, citing the poverty reduction from the old age pension. We know that the elderly poverty rate is lower than that of other age groups. The pension has a significant impact on protecting older people from poverty. Changes to the rate of payment have been taken off the table, so therefore we are looking at a combination of increasing pension age and increasing PRSI. International research states that, by 2030, if we do nothing else, we would have to increase the pension age by five full years, which is substantial. The research is not calling for that but is pointing out that that is what would be needed. The commission has proposed an increase in the retirement age, but not to that extent, and also an increase in PRSI. It is important to acknowledge that significant numbers of people may not want to retire at 65, and tackling the problem with contracts will be important.

Dr. Nat O'Connor: It is not a problem that people are living longer but there is a challenge with how we fund the pension. Looking at the figures in the Pensions Commission's report and its annexes, if the pension age is changed, as is recommended in the report, it covers less than 16% of the overall increase in the cost of the pension. Paying for the State pension will cost 2.5

times as much by 2050 as it does now. If we increase the pension age, thereby shrinking the amount of pension that people get, we will still have to pay twice as much as we do now to fund the pension. Funding the State pension is a significant challenge, a large proportion of which falls on the social protection system and on the amount of social insurance that is paid. We can slightly lower the cost by raising the pension age, unless we raise it radically. That reduces the entitlement that people get by reducing the number of years they get it for, effectively shrinking what people gain from the system, even if they have paid into it for 40, 45 or 50 years. That is why it is different and why we put the emphasis on social insurance.

Deputy Marc Ó Cathasaigh: While reducing the pension payment might be mathematically legitimate, I think everybody on this committee, the Pensions Commission and probably the ESRI as well would not regard it as an outcome that we want. The State pension plays an important role in protecting older people from poverty.

Deputy Claire Kerrane: I thank the witnesses for their presentations on such an important issue. I have a question for Dr. Keane from the ESRI. In her submission, she pointed out the possibility of reducing State pension payments for current recipients. Could she expand on that? Has she a figure in mind? Where did that come from? We have to acknowledge that while the current rate, before the €5 increase, is €248.30, many pensioners are on much less than that. No citizen of the State is an individual in the eyes of the social protection system. A wife or a husband is a qualified adult, and those people do not get a pension in their own right. Many people are on reduced pension rates. I think it would be a bad move to reduce pension rates and I would not like to see that even be proposed. I ask Dr. Keane to expand on that.

The witnesses mentioned the issues with mandatory retirement. I do not know if this has been made a bigger issue than it actually is. Legislation was passed in this House, not for the first time, in 2016 to ban mandatory retirement in employment contracts. It passed unanimously. Issues arose relating to the Constitution and the retrospective nature of doing this for employee contracts. I feel that we need to move on that. I would love to hear any suggestions the witnesses have about how to move that forward. It will allow people who want to, and are willing and able, to work on. It is not just for financial reasons that they might choose to do so, since a job is all that some people have and they want to work on, with a social aspect being involved too. Where we allow them to work on and they choose to do so, they can continue making their contributions and paying PRSI, which is important.

Reduced pensions for women are an issue, which is referred to in the ESRI's opening statement and has been raised by Age Action. I note that in its submission to the commission, Age Action stated that the transition to the total contributions approach, which is the only way that the State pension will be calculated, is not straightforward, and I agree. We need to look carefully at how that approach has worked for carers and women who have taken time out of work to rear children. We need to make sure that that approach works and that it benefits people compared with the averaging. I know that there were many issues with the averaging too. Will the witnesses comment on the total contributions approach?

Dr. O'Connor mentioned in his opening statement that we need to do more to root out ageism in the labour market. Will he expand on what we can do? I agree that there is an issue.

On the adequacy of the State pension, the minimum essential standard of living was required €252 this year, according to the Vincentian Partnership for Social Justice. The State pension in January will barely reach that and slightly beyond. Again, not everyone on a State pension receives the full amount, and that is the problem.

Linking the State pension to earnings, the cost of living and whatever else has been mentioned. Where does Age Action think the rate of State pension needs to go in terms of a figure in the next couple of budgets? I assume what is meant is the minimum essential standard of living plus in the case of the State pension.

Dr. Nat O'Connor: I will start by discussing ageism in the labour market. For starters, compulsory retirement is at 65 years in many employment contracts where you do not even have an entitlement to the State pension. The Employment Equality Act offers less protection to a worker once that person passes the age of 65. It is possible to discriminate on age grounds after that point, so even if a person is in employment in his or her late 60s and 70s, he or she is less well protected by that Act. That is a structural change that needs to be made.

It is simply the fact that, anecdotally, we receive many approaches from people who are in their late 60s and early 70s who need to work to meet whatever costs. They have the skills, motivation and an ability to work, but as soon as their age comes up, the door closes. We know that more than half the people over the age of 55 who are unemployed are long-term unemployed. The evidence exists, and more research is needed, that there is a problem in terms of older people getting access to jobs and opportunities in the labour market. We need to bring about both attitudinal and cultural changes. If we are going to have a fair and flexible retirement system where many people will work into their late 60s and 70s, then you need a culture change that normalises that, makes it a choice that people have and that employers keep their doors open.

The Deputy asked about mandatory retirement. Again, the Pensions Commission identified that this is still an issue that needs to be further addressed. For contrast, this matter was addressed in the United States in the 1970s and 1980s to rule out compulsory retirement comprehensively. Ireland is looking at a similar problem 35 or 40 years later.

On the minimum essential standard of living, yes it is a plus on top of that because we know many older people face additional costs, sometimes significant costs, to do with healthcare or disability. We know people in rural areas can face a lot of costs to do with transport, particularly if they are not able to drive at a certain point. We know, if people are retired for 20 years, capital costs are a major issue in terms of home repairs, especially insulation and energy efficiency in the home. We do not have an exact figure, which is why we have called for a long time for a comprehensive study of the cost of ageing. Recently the State conducted a study on the costs associated with disability. We now need to build on that by doing a comprehensive cost of ageing study.

Chairman: The Government has asked the public for their views on research through the Creating our Future initiative. Has Age Action made a submission to Creating our Future asking that this specific piece of research be carried out? That would help to move the agenda along.

Dr. Nat O'Connor: We have not at this stage but we probably will.

Chairman: Age Action has until the end of the month to do so.

Dr. Claire Keane: I will start and Dr. Roantree will discuss the total contributions approach.

On the rate, we were standing back and being very objective about this and saying you have three levers, mainly the pension age, the amount people get paid, or increasing taxes and social insurance. We certainly were not suggesting a cut to the rate. We were just acknowledging that the elderly poverty rate is lower than other age groups and the rate that older people get is higher than working age benefits. Recognising that, elderly poverty would be 87% if the State pension did not exist, and it is brought down to under 11% once that State pension comes in. We very much recognise the poverty protection the pension provides, so we are not suggesting a cut in the rate.

It is quite right to acknowledge that we have a quarter of people who receive below the top first or second rate. We need to think about why that is. That is mainly driven by people having gaps in their work history. It can be people who have been abroad or it can be people who have taken time out for caring. We need to think about what other policies would help tackle that, particularly the gender pensions gap. There we are thinking about things like policies that would provide affordable, quality childcare. We know we have extremely high childcare costs. While some people might decide to take time out for childcare, others may be forced because financially they cannot afford to pay for childcare. Therefore, childcare is very important, as is flexibility. It may be that people, both men and women with children, may not want to work part time, or people who are caring for dependants such as elderly relatives etc. may want to have flexible work time or the option to work reduced hours. Rethinking how we think about work is very important. Perhaps in light of the pandemic and remote working, positives could come out of those. We are certainly not suggesting a cut to the rate. We are suggesting we need to look and see why it is some people get lower rates - they are the people who are especially at risk of poverty - and to tackle those issues.

In terms of working for longer, having flexibility in the system, whereby if people are close to being able to qualify for the maximum rate but do not have enough contributions, there is the ability to stay on and continue paying contributions, will be very important.

I will hand over to Dr. Roantree because he is going to talk about the yearly average and total contributions approaches and the importance of certainty around that.

Chairman: That is an issue that is close to all our hearts.

Dr. Barra Roantree: I will add to what Dr. Keane said before discussing the total contributions and yearly average approach. In research we have done in the ESRI over recent years, one group we pointed out who were at a high risk of poverty among retirees, although the overall at-risk poverty rate and deprivation rates are lower than for other age groups, are those who live alone in the years before retirement. That is a group the Government has recognised on foot of this research, and they are ones we need to be particularly concerned about. From that point of view, increases in the living alone aspect in recent years are quite welcome in that they are very well targeted towards a group we might be especially concerned about of being at higher risk of poverty or deprivation among retirees.

Ultimately, there will be some winners and losers from going from the current career averaging system towards a total contributions approach, TCA, system. A point we made in our submission to the Pensions Commission when public consultation was open was that, ultimately, this is something on which there is a need for much greater certainty. We were meant to move to the TCA system several years ago and that decision has been repeatedly pushed out. That generates real uncertainty for people who will retire in the years ahead about how much they will get in retirement. A few Deputies have commented on the importance of looking through the details of this matter, which is incredibly important. It would be good to see more research on who will gain and lose from this. Not much has been published on that as far as I am aware.

At the same time, there is an imperative to move relatively quickly towards the TCA system, if that is what we are going to move towards. Otherwise people will face this uncertainty in that they do not know what they will get in retirement, and that is not a good situation in which to be. Given the long-running nature of the pensions system and if we expect people to be able to provide resources for themselves in retirement on top of the State pension, that is a decision that very much depends on how much they think they will get in retirement.

There are some welcome measures suggested in the report compiled by the Pensions Commission that would provide greater certainty, such as regular statements of entitlement and what that will likely get you in retirement. While that is to be welcomed, there is a need to move towards this TCA system, if that is the system it has been decided towards which we are going to move, and to provide the details, at least, on that, what that will provide and how we are going to transition towards it. Again, transition arrangements can be introduced and were, I think, fleshed out in the Pensions Commission report.

Senator Eugene Murphy: I thank Dr. Keane, Dr. O'Connor and Dr. Roantree for their comments and presentations.

I very much support the comments made by my colleague from County Roscommon, Deputy Kerrane, about women who took time out to raise children. Those women worked, but they worked in the home. Their situation needs to be rectified, and the situation of carers is very important as well.

I am very glad Dr. Keane and the ESRI have clearly stated they are not talking about cutting the pension, because that is something none of us wants to think about, and certainly I would oppose that very strongly.

I want to reflect for a moment the negative feeling of men and women who have had retirement imposed on them. Dealing with people in my own county of Roscommon, I was shocked by how upset they were about that. I am sure the Chairman, Deputy Kerrane and other members would agree with me on this. It was only when people started to break down in my clinics I realised how hard it was for them. I wanted to comment on that. I agree with what our guests have said.

Has Age Action Ireland received many calls regarding income adequacy and pensioners? That is a big issue for them. Many pensioners have a lot of costs and the cost of living has risen dramatically. Many more pensioners are facing a lot of financial tight corners. I would not say total difficulties but they are certainly in a tighter arena.

As a final point on this area, when our guests talk of poverty among people aged over 65 years, have they any data on how it refers to men versus women? I think there is a greater number of women suffering from poverty in that age bracket than men. It is a very good discussion. If I could get some clarity and comments on the questions I have asked, I would deeply appreciate it.

Dr. Nat O'Connor: On income adequacy, we conducted a survey before the budget. We sent it out in paper form and online and got over 270 responses from people across the country. As the Senator can imagine, there was a variety of circumstances but many people were finding it difficult to meet the cost of living. There was a huge amount of concern over energy prices and we have seen 10% and 12% increases announced recently, with some utilities announcing increases twice in a one-year period. The cost of insurance is a big concern for people, especially those in a rural area who need to keep a car on the road. People cannot afford to replace their car but even maintaining it is a significant cost in rural areas where it is an absolute necessity for people so they have their independence. Home insulation or any kind of retrofitting is very expensive and people are concerned about how to address those costs. There is also private health insurance. Not everybody has it, but many people go without very basic necessities because they feel they need to keep their private health insurance. People have raised many issues with the cost of living with us.

A fourth lever available to us to ensure income adequacy in older age is looking at these prices. In other jurisdictions, utility companies have a cap on how much they can raise prices by in a single year. We have already introduced rent control zones here. We know from the last census that one older person in 50 is now renting in the private rental sector. That is a risk going forward. Of course, rents rise very quickly and that is not captured by either the EU-level harmonised index of consumer prices, HICP, or the minimum essential standards of living. Prices in the private rental sector are increasingly affecting older people. Thus, there are quite a lot of costs people are worried about but we can do things to control those costs through policy as well as looking at the actual amount of money they get.

On poverty among older people, those living alone are statistically more likely to experience problems with poverty. One person may be looking after a household with one income where previously there were two before a spouse passed away. It is disproportionately women who end up living alone because we know that especially past the age of 90 years, women outnumber men on a two-to-one basis.

Chairman: Does the ESRI want to add anything there?

Dr. Claire Keane: I will just make a very quick comment. The Senator was talking about enforced retirement and the research certainly shows the effects this can have. The paper I cited was on the US but we have similar evidence for Ireland. It shows the negative mental and physical health effects are worse for people who are involuntarily retiring, in other words, people forced to retire at a certain age. There is a wider thing to think about there. From the person's point of view it would be positive for his or her own well-being to stay on in employment and not be forced to retire. There would be physical benefits as well. There would be benefits for the health system as we would not have as much usage of it. The really key thing with people staying longer in work if they want to is they are then paying income tax and social insurance for longer, so that is all quite positive. I totally agree with what Dr. O'Connor was saying about not having those enforced retirement ages. That is going to be really important, especially as we will face a labour shortage if we do not have increased participation of older people. If we have fewer and fewer young people working then we are going to have to draw down that expertise of older people and have them participate.

On the gender gap, as Dr. O'Connor pointed out, women are more likely to be living alone and therefore more likely to be in poverty when they are older. There is a continued gender gap in occupational pensions as well. We have lower participation rates of women which feeds through their entire lifetime. It is improving. If we look at the proportion of men and women who are getting the State contributory pension, there has been a large gender increase there with many more women getting that pension. That is reflecting rising female participation. It is going to be something important. Challenging the things stopping increased female participation will be important.

Senator Paul Gavan: I thank both speakers for their presentations. It is very important to welcome the fact that they both acknowledged the importance of the flexibilities we need with the pension system.

The question I want to raise relates to the key issue of the pension age. I have a concern I want to put to Dr. Keane and Dr. O'Connor to see what their response might be. There are huge numbers of workers who are physically wrecked or exhausted from a lifetime of working. I am thinking of construction workers, workers in our meat factories and workers in retail. I refer to the idea that they will not be able to retire at 65 or 66 and must work until 67, or indeed 68 if we follow one particular path set out in the Pensions Commission's report. What are those people to do? If we really buy into the idea of flexibility, surely we must also buy into the idea that it works both ways. That means people who are tired after a lifetime of hard work should be able to retire at the current retirement age at the very least. We are talking about a huge amount of the workforce here. This is a large section of factory, construction and retail workers. It does not seem morally right to suggest they must work on to the age of 67 or 68. Our guests might give me their comments on that.

I ask Dr. Keane to comment on Dr. O'Connor's point that the savings from increasing the retirement age do not add up to a huge amount when we factor in the replacement payments typically made in the form of social welfare payments. Those are the points I wanted to raise.

Chairman: We might start with the ESRI and then hear from Dr. O'Connor.

Dr. Claire Keane: The Senator is quite right there will be people who are not physically or mentally able to continue working to an increased retirement age. We already have the situation that people are unable to reach the current retirement age. There is an alternative system of illness or disability payments if people have poor health. There can be an all-or-nothing approach to working whereby a person works full-time or not at all. On facilitating people to work part time, many employees who talk about retiring early show a preference for perhaps reducing their hours. It is about not having people retire fully and having part-time work available. Increased flexibility away from the State pension but also in work would be quite important. We could think of people who may have lower levels of educational attainment and started working aged 17 or 18. If 40 years is the target for contributions, the Pensions Commission suggests that people who have made their 40 years of contributions could potentially be able to retire below the mandatory retirement age as they have made their full contributions. That might be one way to help that group. I am sorry; I have gone blank on the Senator's second question.

Senator Paul Gavan: That is okay. I was asking Dr. Keane to comment on Dr. O'Connor's point that the so-called savings from raising the pension age actually do not amount to as much as is perceived because in many cases there are replacement social welfare payments, like those Dr. Keane just outlined, for illness or unemployment, for example. Maybe Dr. Keane could comment on that. It strikes me there seems to be a significant emphasis on potentially raising the pension age when the potential gains are not that good as well as the fact it is fundamentally unfair on working people who have given a lifetime of work.

Dr. Claire Keane: I think we have to do something with the pension age or else we need to increase taxes and social insurance significantly. The full burden would fall there. There is also the issue of intergenerational fairness. Work would need to be done if we are not going to touch the pension age. We would need to look at what realistic taxation and social insurance increases we need. Dr. Roantree and I work on the SWITCH tax welfare model. We would be able to look and see where it would fall and what income groups, age groups and types of people would be affected by that change.

What I am not sure on, and Dr. O'Connor might correct me, is whether that calculation of the savings takes into account the taxation and social insurance people would continue to pay. It might take into account the amount that will be saved on pensions. However, an important international finding that holds here in Ireland is that one of the major benefits of increasing the State pension age is not just the savings on social welfare but also the increased taxes on social insurance people continue to pay. There it will be quite important to look at why, as the previous ESRI research showed, people actually did not retire later when the age increased. A contractual issue might become very important in that regard, whereby people are forced to go and cannot stay on past that age. Did Dr. Roantree have something to add?

Dr. Barra Roantree: The point we made in our submissions both to the Pensions Commission and today to the committee highlights that if we are going to go down the route of increasing the State pension age, and there is a logic to that, to make that effective we also need to address the fact there are these de facto pension payments. They need to be reformed alongside moves to increase the State pension age. Effectively, the ESRI's research found that when the State pension age was previously raised, people just took up the payment they could get instead of the State pension. There was not therefore really an increase in the State pension age. We just provided a way of claiming a different benefit for that.

It can be, and we know this from research in other countries, that if the de facto as well as the legal pension age is raised by also addressing those other benefits, increases in the retirement age are seen and they do contribute to significant savings from both, as my colleague Dr. Keane mentioned, the increased tax revenue one would get from people working later in life as well as from the savings from not paying out the State pension for an additional few years. It is important to highlight there are real savings to be made from raising the State pension age. However, it should not just be that in and of itself. We need to look at those supplementary payments alongside that. Otherwise, as Dr. Keane said, the burden falls elsewhere. It is not as if there is no burden from this. There is an intergenerational component to this.

I have done research at the ESRI in the past year. We highlighted the position of younger adults and how the labour market for them has never really recovered since the great recession. That group is also facing much higher housing costs and the burden of that because they have lower rates of homeownership. There is a real question then that, if we are not going to increase the State pension age and we are only going to increase PRSI and income tax on the current working age population, there is a real intergenerational dimension to that that one could also see and perceive as unfair.

Senator Paul Gavan: I wish to come back in briefly to clarify what Dr. Roantree has said. To be clear, is he suggesting that as well as potentially raising the retirement age, the State should look at withdrawing some of those alternative social benefits that could be available to people instead of working on? Is that the line or view he is going with?

Dr. Barra Roantree: The point is, if you are to raise the retirement age, you need also to raise it in practice as well as raising the age at which people get a State pension. If you allow people to claim another benefit that is, in effect, the State pension or a slightly lower rate of it in the form of jobseeker's allowance and so on, then you are not going to see the increases in employment later in life that would be sought to be achieved by raising the retirement age.

That is a separate issue to the one the Senator raised about people who are in manual activities which are particularly strenuous and who cannot work later, that there would be a way to provide that they could receive the pension earlier. For example, as the Pensions Commission suggests, if they exceed 45 years of contributions under the new TCA, they could be allowed to retire early and to claim the State pension from that age. There is a need, in raising the State pension age, to address simultaneously those supplementary payments which have existed and have been put in place as a patchwork of replacements essentially for the State pension.

Senator Paul Gavan: Dr. Roantree is suggesting, therefore, that we withdraw those replacement payments for these people.

Dr. Barra Roantree: If one is going to raise the retirement age, and if that is what one is seeking to do, one needs also to look at that in conjunction with those other payments. We are not advocating that the retirement age be raised. We are making the point that if one wants to achieve the objective of increasing employment later in life and raising the retirement age, then one also needs to look at those elements. Again, we are not advocating for this. However, if one wants to raise State pension age, one needs address this.

Chairman: I call on Dr. O'Connor.

Dr. Nat O'Connor: I thank the Senator for the questions.

Chairman: Maybe Dr. O'Connor could address the ESRI questions as well.

Dr. Nat O'Connor: Yes. First, the Pensions Commission makes an important recommendation that we look at the possibility of earlier retirement for people who have done 45 years of arduous work. It is an important recommendation that they could retire at 65 with the full State pension if they have made enough contributions. This would cover people who started work in their teens or at an early stage.

We are getting into a lot of complexity, which is good, because the issue of how tax and welfare interact is at the heart of this question. It is right there is a Commission on Tax and Social Welfare that will look at this in more detail, because we need to get into the detail. If we were to raise the pension age today by two years, we would certainly see a situation whereby many workers who do arduous work would simply be unable to find other work and would be on a social welfare payment. We do not yet have a society or culture where there are job opportunities for people in their late 60s into their 70s.

On the question about the taxation side, that those who are in work are paying the taxation to fund the system, while that is certainly true at the current time, the Pensions Commission makes recommendations about social insurance, including increasing social insurance on those who are beyond the age of 65. While Age Action is certainly not advocating for that, it needs to be looked at through an equality lens to see the equality of outcome we would have between different generations and different people as of mechanism for funding the pension. It is important to look at studies such as by Dr. Micheál Collins in UCD about the overall distribution of taxation. Many people on low incomes would pay a proportion of their income in VAT and other consumption taxes equivalent to the proportion of the income tax paid by those on higher incomes. Tax revenue comes from a number of sources. If we were to follow the Pensions Commission's recommendations, social insurance would also come from a wider base to fund the State pension system.

On the intergenerational question, I again would urge caution here. It is certainly not welcome when people say pensioners have a lower poverty rate than people who have disability. It is not right that anybody should be experiencing poverty in a situation where they rely on the State for support. Likewise, we should not be pitting older people against younger people. If we are looking at the intergenerational issue, we need to take a much wider lens. Today, over 52% of younger people are going to third level education. For people who are now retired, third level education was an opportunity afforded to an elite, which was less than 5%. The opportunities afforded to younger people are different. Their possibility for earning in the labour market throughout their lifetime is different from older people. They are likely to earn higher incomes in a higher value-added economy, which provides us with the productivity and the capacity to fund the State pension. We cannot simply say there is intergenerational unfairness about who is paying. We need to take a wider look at how we as a society generate taxation and how we create different benefits, both direct payment benefits and public services such as education, across the whole population. That is how I would address that point.

Carers should be included among those who are engaged in arduous employment. It is equally important that we prioritise health and safety at work, for example with regard to the use of machines and devices, to reduce the physical damage people incur through their working lives. If we can reduce acquired disability throughout the life course, that will lead to people having a better quality of life in older age. It is important to address the issue of arduous employment as a matter of public policy.

Deputy Éamon Ó Cuív: One of the problems with getting reports that are 244 pages long is that, with all the other work, it takes a long time to get an opportunity to read the report in detail, from A to Z. I would be the first to admit that I certainly have not done that but I will do so when I get an opportunity during the Christmas break. I believe in reading reports but one of the challenges we face in the modern world is that many long documents are produced, one after the other, and they keep piling up on one's desk. Even politicians are limited to a 24-hour day.

I thank anyone who spends a year in a constituency clinic, facing real people with real problems in all the myriad circumstances of their real lives, rather than the ideal lives that are often presented to us. We must deal with real people and their real lives. Rules are often brought in when nobody has thought about the real consequences for real people. One is left wondering what the hell were we thinking about and asking why we did not talk to some real people. I am very disappointed, although I am a member of a Government party, that nobody who has spent a life as a labourer, in the building trade, as a carer or working in a physical industry was placed on the commission to explain their point of view on pensions.

One great move I have seen during my lifetime and which I do not want to see undermined is the move from a big proportion of the pension group getting non-contributory pensions, with the Victorian attitude we have to means-testing in this country, to the vast majority getting contributory pensions. That was partly because one could not get a State pension in the past if, for example, one was a self-employed small shopkeeper, small farmer or anything else.

I have a number of questions. What are the differences at the moment between the benefits throughout the social welfare system to which a self-employed person is entitled and those to which an employed person is entitled? My understanding is that, actuarially, the greatest benefit we all get for our contributions to PRSI is not an invalidity pension, jobseeker's benefit or any of those things, but a State pension. Therefore, if a calculation is conducted on an actuarial basis, what would the self-employed rate be versus the employed rate? At the moment it is 4% compared with 14%. If that is calculated actuarially, comparing benefit and cost, what would the difference be, objectively? I know many self-employed people on small farms and in all sorts of circumstances with modest incomes and the best insurance policy they were ever offered in their lives was the possibility of getting a contributory State pension.

As I said, I have not read the full report but the commission might confirm the following. Ten years ago, the proposal was that 30 years of full credited contributions, or a mixture of paid and credited contributions, was going to be a full record. Is the commission now recommending 40 years? One might say that people start working at the age of 20 and when they retire at the age of 66, they will have 46 years of contributions. However, many people have breaks in social insurance. The carer's contribution helps, particularly for men and women who have taken time off to care for someone, and it is more often women. There are still people with all sorts of gaps. Some people go abroad and pay their social contribution elsewhere. It is not for me to judge the actions of another man or woman but when such people get to pension age, they regret that they worked on the lump, but these are realities. That is the difference between a theoretical exercise in the not-real world and what happens when one is dealing with real people who suddenly hit a wall.

Dr. Keane mentioned increasing PRSI and income tax. Of course, there was no talk about phasing out the universal social charge, USC, which was only intended as a temporary measure introduced by the Government of the time. I was a part of the Government which made the decision, on a very temporary basis, just to get us over a financial crisis. If that is eliminated, PRSI can be adjusted by taking what is going into the USC and putting it into PRSI. I often hear a mantra that the poor do not pay taxes. Of course they do. They pay VAT. They pay taxes on their beer and if they buy cigarettes. They pay taxes on petrol, fuel and so on. People are paying taxes all the time. Two things could be introduced that would capture young and old. A wealth tax could be introduced. I have no principled objection to that, and I know my Sinn Féin colleagues will be happy to hear me say that. Higher VAT rates on luxury goods could be introduced. If the State decides something is a good idea, it can always raise the money, as has been seen in the past. In the past two years, we raised something like €20 billion when we needed to because we were not going to allow people become suddenly unemployed because of a virus. I wonder why the focus is so narrow on the tax front. There are many ways to raise tax.

I deal an awful lot with people who do physical work. They might be carers or nurses. They are all sorts of people. I also deal with people who are burned out after 40 years. It is interesting. Many people who have desk jobs in the public service or in teaching are out the door when the opportunity arises at the age of 60. That is common enough in the public service. We are saying here that people must feel up to it, mentally and physically, until the age of 66, 67 or 68. I have the experience because I am beyond those ages. I am well past the pension age but I am still working 16 hours a day. That is my luck.

Chairman: A few of the Deputy's constituency colleagues hope he would retire.

Deputy Éamon Ó Cuív: That is surely the case. I have always said that might happen when they can do longer days than I can. I am like a bat out of hell and so far, so good. I do not expect people to do what I do. It is not my experience of life. Many people are counting the days until they get their pensions.

One option would be to introduce the State pension transition, if people remember what that was. A person would have to be retired to be eligible. Someone could not get it and have a full salary although they could have a small amount of part-time work. That would be something. If the State pension transition was introduced for those who cannot continue working and actually retire, not necessarily because they were forced to but because they retire, what extra cost would that include, taking into account the point Senator Gavan made? I often come across people aged between 60 and 66 who find it hard to get a job and, in many cases, have physical difficulties, conditions or injuries, including bad hips, that make them eligible for an invalidity pension. The definition of eligibility for an invalidity pension is that one is incapable of work for a year or more. It takes into account the work a person is trained for and which he or she has traditionally been doing. A university professor would be able to sit at a desk in a wheelchair. The invalidity pension is relevant to someone whose whole life was spent doing physical and manual work, for example, a block layer. That has to be taken into account in regard to the invalidity pension. The problem with that is people will have to get social welfare. They cannot be left to go on nothing. Many of these people would pass a means test but means tests are invidious, as any of us who spend our lives helping people with means tests will know. In the case of the invalidity pension, it is back to trying to make cases and getting consultants' reports on whatever, and the person has no income. He or she will have worked all his or her life, yet must try to prove this argument all the time. I have had cases where the doctor clearly said the person could not work for a year or more, and we end up in the argument relating to the basis on which the person is not capable. You then have to prove the disability relates to the work he or she was doing and was qualified for doing as per the Act. It gets messy, although we normally win in the long term. My colleagues and I are expert in this. We normally win in the long term but it puts people through the ringer, and in the end there is no saving for the State because something has to give.

I think the 45-year contribution aspect, whereby people can retire after 43 years, will be a minority sport. In time, I imagine it will become even more of a minority sport as more and more people engage in some kind of education, apprenticeship or whatever and will not have the stamps. Funnily enough, the people who might be lucky in that case are students, if they have part-time employment, given that the other side of the matter is that you will get a full stamp if you pay €38 a week. It becomes a fantastic insurance policy of paying €38 a week. Students could have very good contribution records while they are in college. That is an academic feature but it is not for the real world or the people I know.

Dr. Nat O'Connor: There were many points there, but the core issue of the value of the State pension across society is the key. The end goal we should seek relates to how we can ensure everybody has an adequate, decent income in older age, regardless of the paths they have followed, whether they have been in caring or have a disability. That has to be the end goal. The issue of how we fund the State pension follows after that. As for the actuarial cost or value for, for example, the self-employed, that is something the Pensions Commission goes into. It suggests increasing, in a slow and predictable way, the PRSI contributions of the self-employed, and that is something I imagine the Commission on Taxation and Welfare will look into in more detail. It would be certainly welcome if that commission were to call more witnesses and have a broader range of inputs, including from the variety of people who visit the Deputy's constituency office or those of other Deputies, to allow them to give their side of the story.

The idea that the USC could be converted to PRSI has been considered in the past. The Pensions Commission's report suggests an annual tax payment should be made by the Exchequer to the Social Insurance Fund as part of a tripartite approach to funding the State pension. A conversion or use of the USC for that purpose might be one way to finance that contribution to the Social Insurance Fund. It is a long-term concern that, at the moment, the Exchequer lends money to the Social Insurance Fund and, even though it is done on a pay-as-you-go, annual basis, there is a legal or accounting fiction to the effect that the Social Insurance Fund is a separate fund from the Exchequer. Sorting out that would be beneficial.

Deputy Éamon Ó Cuív: I requested those figures and have checked them. The fund was in deficit in 2010 and 2011. I was the Minister with responsibility when it crossed that threshold in 2010 because of a severe economic shock, and it then came back into surplus and repaid the State everything. It was self-financing until this latest crash. The money is borrowed at the beginning of the year and paid back at the end of the year. The fund would be fundamentally self-financing if Covid had not happened. If we are to provide for those contingencies into the future, we will not pay anyone anything.

Dr. Nat O'Connor: The issue for the Pensions Commission is that as the number of people drawing down a State pension increases significantly, we need to find ways of ensuring the Social Insurance Fund will not run into deficit in future years, and that does not have to be through social insurance only. The commission is saying there could be a taxation component, on a structured, annual basis, to keep the fund in surplus.

Deputy Éamon Ó Cuív: Any tax could be hypothecated into social insurance.

Dr. Nat O'Connor: It certainly could. These are all options but it boils down to that end goal. It is all about how we can sustainably and securely fund the Social Insurance Fund on the basis that we want it to give everybody an income that is modest but adequate to meet the cost of living. That has to be the core objective and that is where we get into the Commission on Taxation and Welfare and the actuarial cost in order to have evidence of what kinds of costs people will experience in their real lives versus what kinds of supports the State pension will give them.

Dr. Barra Roantree: The Deputy raised two important points. On why we are looking at PRSI only, I do not think there is a good economic reason. The Pensions Commission does that because its terms of reference restricted it to doing so, broadly within the existing system of the Social Insurance Fund. That is why it is focused on that. I agree with the Deputy that we should examine options for raising revenue elsewhere as well and that it should not be restricted to PRSI. We published a report earlier this year exploring various options for raising taxes and I would be happy to send a copy to the Deputy and the committee. Ultimately, as Dr. O'Connor said, we should not get caught up in the idea of the Social Insurance Fund. It is an accounting device issue rather than a real constraint. There is an issue relating to the sustainability of payments more generally but that is tied in to the sustainability of the wider public finances. The Pensions Commission talks about raising taxes and having an Exchequer contribution and, in that regard, it is talking about raising taxes elsewhere.

The point the Deputy made about the self-employed is really important. The Department of Social Protection published some figures on this a year or two ago. Self-employed workers now have access, in value terms, to about 93% of the benefits that are noted and paid out of the Social Insurance Fund to which contributions give people an entitlement, even though they make, as the Deputy noted, a much smaller volume of contributions as a share of earnings than are made on behalf of employees. A report from the Department of Social Protection, which, again, I would be happy to send to the committee, indicated that covering the pensions entitlement alone would require something of the order of 15%. The figure would need to increase substantially and that is the case regardless of whether there is an issue of sustainability. There is an issue of equity in the sense of whether we should grant full pension contributions and other contributory benefits to the self-employed. Without class S, however, the self-employed rate is nowhere near the class A rate for employees and employers. There is an important issue there. Even if the sustainability issue did not exist, there would be a case for doing what the Pensions Commission suggested in that domain.

On the wider point, the Deputy is entirely correct. To the extent that we want to address the fiscal sustainability issues that exist, we should not be restricted to examining PRSI only. We should consider the entire tax and welfare system but, as I said, the Pensions Commission was constrained in what it could consider from that point of view.

Senator Mark Wall: I thank Dr. Keane, Dr. Roantree and Dr. O'Connor for their presentations, which were very insightful. What can we do to address the 35% lower rate of pension income for women? I acknowledge this was touched on in previous contributions but our guests might concentrate on it for a moment. Over recent weeks, a number of my constituents have come to my clinics - the real people Deputy Ó Cuív mentioned - and, in the case of two women who are classified as dependent adults, the payment of their pensions is still associated with their partners. In both cases it is, unfortunately, a controlling partner. There is an equality issue around the payment of pensions. I would welcome a comment on how we can declassify the dependant adult, which has caused so much stress for those who are in the types of relationships I mentioned.

The issues of foster families and carers were mentioned. Like other members of the committee, I know of people who have spent 20 to 25 years fostering to the benefit of the State and do not see any return for that. That is a huge problem. Women in general appear to be in a precarious position in terms of their pensions being 35% lower than that of men. I would also like a comment on that.

Deputy Ó Cuív mentioned those in their early 60s. I do a lot of work with this cohort of people through my clinics. Is there any research on those people and the social protection payments they may be entitled to? I am seeking not only illness benefit for them, but also the disability allowance because of the stress caused to them around getting a social protection payment and Department of Social Protection officials trying to get them back into employment. We have touched on that issue previously. There seems to be a problem with regard to many of these people who have spent 40 years or more in employment, which colleagues have touched on this morning. I would like to know if there is any research around the problems people are experiencing in accessing social protection payments.

Dr. Claire Keane: The first question is probably more relevant to the ESRI. Dr. O'Connor might have an opinion on the people Age Action would deal with and the issues they face.

On the gender gap, the Senator is correct in that there can be situations where it is more likely that the woman is getting the increase for the qualified adult. A positive development in the past few years that has been in place for quite a while now is that by default the increase for a qualified adult is paid directly to that adult. That is different from all other benefits. In the case of unemployment supports, it is a lump sum. The personal rate and the increase for the qualified adult is paid to the person who qualifies. It is positive that those payments are separated, but the amount of increase for a qualified adult is less than the personal rate.

As pointed out, the gender pensions gap is showing that women are getting pensions that are 35% lower. That is a combination of State pensions and occupational pensions. Once women qualify for a State pension, they do not tend to qualify for a lower rate of State pension than men. The big difference is that there are fewer women who qualify. That is driven by lower female participation rates over the lifetime. There are, of course, historical reasons for that, including the marriage bar in Ireland some decades ago. There are large historical legacy issues. Female participation is rising but women still have both a large income gap and a large pensions gap because they are less likely to work and when they do work they are more likely to do so part time. We need to think about what drives that. For some, that may be choice, but others might be constrained by not having access to affordable childcare. There have been some positives in recent years in terms of the introduction of the national subsidy for childcare, but again many people do not qualify for that. Realistically, unless we tackle the issue of lower female participation and a higher likelihood of women working part time, this will continue into the future.

There is one issue we have not talked about thus far, namely, auto-enrolment. Ireland is the only OECD country to not have a mandatory or soft mandatory occupational pensions scheme. We are an outlier at the moment, but there are plans to introduce auto-enrolment such that people would contribute PRSI not only towards their State pension but also to an occupational pension. Unfortunately, the research we published, which is available on the ESRI website, shows that this will not increase female pension coverage, in the main because women are less likely to be working and when they are working they are more likely to be on lower incomes that are under the threshold for auto-enrolment. Unfortunately, auto-enrolment in itself will not do a huge amount for the gender gap. It is about tackling the issues as to why we have quite low participation rates of women.

It is hoped that recent developments such as parental leave and paternity leave, such that childcare responsibility is being shared between men and women, will bring about some positive changes but we need to try to tackle why we have much lower female participation rates than male participation rates as well.

Chairman: I invite Dr. O’Connor to respond.

Dr. Nat O’Connor: Dr. Keane has addressed many of the issues in her responses. One of the recommendations in the Pensions Commission’s report is that in regard to the 20-year cap on homecaring credits there should be a movement beyond that cap for people who are long-term carers. There is an attempt in the report to define how a long-term carer might go into a registry in order not to be caught by that because somebody could care for their children and then later in life care for a parent with a disability, for example, and suddenly his or her pension contributions would stop at an arbitrary 20-year cap out of the 40 years’ contributions. The Pensions Commission makes the important recommendation that we might move beyond that. The question is why that should be made so onerous. Why have a 20-year cap at all? Why not just dispense with the cap? That needs to be unpicked. The recommendation in the Pensions Commission report is quite specific: anybody getting a dispensation beyond the 20-year cap would only get social insurance credits towards the pension but not towards any other social insurance payment, yet the same person on reaching 60 could require a disability payment or an illness payment that he or she would be barred from getting, or would get it a lower rate. The 20-year cap needs to be looked at as an equality issue within the pensions system, one that particularly affects women.

As I said, Dr. Keane has addressed many of the other points. Women are working part time more often than men. There are other explanations of why women are likely to have a lesser pension. In terms of the qualified adult payment, this is the legacy of what is known as the male breadwinner model of social insurance, that is, the assumption that it is the man who goes out to earn an income and brings homes the money. It is welcome that the qualified adult payment is paid to the spouse, but why not simply pay one pension, compriseding a core payment and a qualified adult payment, split it 50:50 and pay it equally to both spouses? There is an assumption in the system that there is a male breadwinner. On a cost-neutral basis, we could create more equality in the pensions system by simply splitting that block of money on a 50:50 basis. That would require us to, perhaps, change the frame of analysis because we have to take into account the work that people do as carers, sometimes men but more often women, bringing up children. That work within the family should entitle someone to an equal pension.

Chairman: I will allow a brief intervention from Deputy Ó Cuív.

Deputy Éamon Ó Cuív: That brings me to a something for which I have been fighting for 30 years, namely, why not pay the dependant adult double the single rate? We should do that across all social welfare payments and do away with the two-thirds payment for which the Department puts forward all sorts of arguments, but there is no basis to those arguments. There is not much saving in that regard. A brother and a sister living together could always get two single rates and two people with a disability allowance could get it but then we have this other crazy system. That raises a very interesting question as to the reason the rates are not doubled or that old-fashioned system is still there.

Deputy Joan Collins: This discussion is very informative. I thank Age Action and the ESRI for their contributions. I have not yet had an opportunity to read through the entire report. In regard to the OECD countries, can the ESRI or Age Action provide a breakdown of how other countries fund their pension funds and in what way they do it? In France, for example, the retirement age is 60. Attempts have been made to change that but they have not been successful, again because of the popular opposition to it. Can the ESRI or Age Action provide a breakdown of how other pension schemes are funded?

Dr. Nat O'Connor: The short answer is, "Yes". Reams of information have been published. The OECD is a good source because it publishes quite detailed reports on pension systems across Europe. The majority of the systems are pay-as-you-go. Annual tax and social insurance is raised from the economy and that money is used on an annual basis to pay the pensions. The structure of the pensions systems vary. Many countries have a very low basic pension but the more you earn and the more you pay in social insurance, the more you are entitled to an earnings-related State pension. That is very different from the system we have. We have a single core payment which is more generous than the core payments in other jurisdictions but we do not have the earnings-related element on top of that. That probably makes funding our State pension into the future more sustainable and easier than countries such as France because we do not have the expensive earnings-related structure built into the system.

Dr. Keane mentioned auto-enrolment, which is important as well. It is part of the pension system in other jurisdictions and the important thing is it provides people with a supplementary pension on top of what should be an adequate State pension.

Dr. Barra Roantree: I agree with Dr. O'Connor. The Social Insurance Fund is often put forward and discussed as if it pays pensions. It does not. It is more of an accounting device than anything real. Ultimately, tax revenue is fungible so it does not make sense to talk about any particular strand or stream as funding pensions. It is all of tax revenue as long as we have a pay as you go system and particularly, as Dr. O'Connor said, as long we have that not earnings-related but unitary pension, which has a lot of value. By having that higher level, it provides a kind of insurance to people knowing that in retirement, through contributory or non-contributory pension, they will not fall under. There is value in providing that and not being as closely linked to earnings as many other countries.

Chairman: I have a couple of questions. On the first one, if the witnesses want to venture an answer it is great. If they do not, I will excuse them. It picks up on a comment Deputy Kerrane made regarding removing the mandatory pension retirement. She made the point that constitutional issues have been flagged. In this country over the past decade, we dismissed constitutional rights when we introduced emergency measures in the public interest. Surely dealing with the issue of mandatory retirement is in the long-term economic interest of the country. It should not cause a problem. It seems the problem is being falsely created at the moment.

Dr. Keane made the point on women's participation and the fact that one quarter of people get less than the full rate. The majority of those are women and women are forced to leave the workforce for childcare. This is a huge issue. Its submission to the Pensions Commission, the committee made the point that people taking time off for homemaking and caring reasons should be facilitated and get their credited contributions. It comes back to the comment Dr. Roantree made on the 20-year threshold. If we address the issue regarding homemaking credits in terms of carer's credits and go beyond the 20 years rather than having an arbitrary cut-off, does that not add to the economic argument to support childcare and women as much as possible in the workforce? There will be, at the other end, less credited contributions to give, especially in relation to the homemaking element of it. Will the ESRI representatives comment on that?

My next question is again for the ESRI. Has any modelling been completed on the removal of the mandatory retirement age and of the barriers to people continuing in employment beyond the current retirement age, along with the recommendation of the Pensions Commission on the removal of the age cap on PRSI? Surely that would bring in a potentially significant additional amount of PRSI contributions if it was done in tandem with a flexible approach to retirement. The witnesses may correct me if I am wrong, but the likelihood, given what has happened in the US, is that people will work considerably longer, but not necessarily full time. They have reduced hours as they continue longer. That brings health benefits. People are not falling off a cliff in terms of retirement. They are working fewer hours, getting a balance between work and retirement and still making an economic contribution. There is the add-on impact of retaining the knowledge built up in that employment sector.

My final question relates to the 40-year versus 30-year threshold for full contributions. Is it not the case that no one is going into private sector employment today who will have a 30- or 40-year unblemished employment record? That is unattainable in the current working environment. Does that not need to be reflected in the total contributions approach we take to pensions? I will start with the ESRI and let Dr. O'Connor come in if he wants to add anything.

Dr. Claire Keane: The Chair brought up an important thing we often do not think about: the benefits of spending money. If we spend money on childcare, we often think how much it costs and the Department with responsibility for children will be focused on how much the subsidies cost. We tend not to look at the knock-on positives of that for the fiscal situation. The Chair is right that, while it might be costly to provide childcare subsidies, we are not thinking of the long term. If we have more women in employment for longer and, perhaps, doing more hours, there is a tax bonus. Similarly, if we have people working longer and remove mandatory retirement ages, there is a positive impact on our tax take. It is important we think more about the bigger picture.

I am a researcher so obviously I will call for more research. Research can be done on that. If we increased female participation, what would be the knock-on effect on taxes? How much more money would we generate? How much would childcare subsidies become wholly or partially self-financing? That is an important mind shift we need.

The Chair talked about the removal of the retirement age and the age cap. The commission is pushing for this. There are not only economic benefits of people working longer who want to do so and are in good health. If they stay on longer, they will pay more taxes. There are also health benefits for themselves and a knock-on effect on the health system. Thinking beyond what something costs, the positives that might come from it, how savings can be made and how it will benefit people is also very good. People's physical and mental health can benefit from not being forced to retire by a certain age.

On the unblemished record of contributions, there are situations where people can have credited contributions, but the commission's recommendation for flexibility and allowing people who are one or two years short of maximum contributions to stay on longer and pay contributions is very positive.

Chairman: As a researcher, Dr. Keane would naturally be positively disposed to research. I suggest that, in her submission or that of the ESRI to the Creating Our Future call, the request be made that the impact of investment in childcare in terms of pensions and the positive impact the removal of the retirement ban would have from the economic and health and welfare points of view be among the aspects of research looked at as part of that initiative.

Dr. Nat O'Connor: As Dr. Keane said on total contributions, when somebody is on a jobseeker's benefit payment, for example, in a situation when he or she has lost his or her job, that person gets a credited contribution. However, sometimes a contract simply comes to an end or someone might be travelling and not making up those contributions. A beneficial cultural change would be making people more aware of the need to make those pension contributions throughout their working lives. They should simply be built in as an automatic cost. If someone is taking a year out, which has become a cultural norm, he or she should be more aware of the long-term cost of doing so. It should be made easy for people to make their contributions. The Pensions Commission has made a useful recommendation to the effect that people should be able to log on to *www.mygovid.ie* or otherwise to see their pension contributions and have a much easier time of understanding what they are entitled to. The information needs to be on paper for those who do not use the Internet so they can see what their entitlements are at a much earlier stage in their careers.

Chairman: Deputy Ó Cuív has had direct experience of people who missed out because they did not make voluntary contributions. We would all agree that a much more flexible approach in that regard would be welcome.

Deputy Marc Ó Cathasaigh: I am coming to some of the more specific questions. I have a terribly wide one to finish on, but never mind that for the moment. I very much agree with the idea of transparency in respect of PRSI entitlements. Again, there is a disproportionate impact on women. I am thinking of the phase of life I have just come out of, the starting-a-family period. The last thing on my mind during the six to eight years of sleepless nights was what my pension contributions were going to be. It disproportionately affects women because their work history is affected. Having transparency much earlier is needed. As I sit here as a Green Party spokesperson on social protection, I have no earthly idea what my PRSI contributions history entitles me to. This is because retirement seems so far away and distant.

The ESRI appears to welcome an increase in PRSI payments. Reading the report, I saw nothing but hard decisions everywhere. There are no easy decisions. Under the four packages, particularly package one, which is not the one favoured by the Pensions Commission, there is a substantial increase in PRSI contributions mooted, particularly in respect of the self-employed. I want to give the delegates an opportunity to expand on their views on that.

I would also like to give the delegates an opportunity to refer to auto-enrolment. It was said that Ireland is the only OECD country that does not have auto-enrolment and that it might not have the impact we would like, particularly on women's pension provisions. Having regard to the contributions expected, I believe the total contributions approach would not become significant by 2030 but, by 2070, in all the packages presented by the Pensions Commission, it would be significant. I want to give the witnesses an opportunity to expand on that. Dr. O'Connor made an interesting point on a State-led savings option in any auto-enrolment system. I want to give him an opportunity to talk specifically about that.

My next question, on the living alone payment, is also directed at Dr. O'Connor. We are aware that there are groups more at risk of poverty than pensioners and that people living alone comprise one such group. I want to give Dr. O'Connor the opportunity to comment on some of the specific provisions that have been put in place, specifically through the last two budgets. I very much agree that we should be aiming at a minimum essential standard of living, MESL. I very much agree that we should be benchmarking and that it should not be a matter of a yearly discussion about adding €5 to the pension. Are we going far enough with the specific provisions concerning the living alone allowance?

I warned the delegates that I would ask a wide-ranging question last. We were talking about how we could address the pensions deficit by increasing women's participation in the workforce, but that prompts a question about the future of work, not only for women but also for people more generally. This was excluded from the terms of reference of the Pensions Commission but it is included in those of the Commission on Taxation and Welfare. The Pensions Commission report includes models to bring us as far as 2070, which is 50 years into the future. Over the past decade, we have seen the rate of change owing to artificial intelligence and digital disruption. Are we using a completely flawed premise if we are considering mapping out today's work practices and today's world of work for the 50 years ahead of us? Do we not need to be much more creative in planning for future social welfare provision if the world of work changes in the radical way that I believe it might? I warned the Chairman about how broad my last question would be.

Chairman: We might start with the ESRI.

Dr. Barra Roantree: Maybe I will respond to the question on PRSI and pass on the part C, higher-level question that the Deputy asked at the end.

In our submission to the Pensions Commission and our opening statement, we highlighted that there are, as matters stand, very much differentiated rates of PRSI levied on different forms of economic activity. An employee pays the class-A employee rate, which is 4%, and an employer's rate is either a little more than 8% or over 11%. That adds up to a quite substantive amount; however, the class-S rate, for the self-employed, is just 4%. A point we have made in our budgetary analysis over recent years, along with the OECD, the National Economic and Social Council and a vast number of other bodies, is that it is very difficult to justify differences of this magnitude in PRSI across different economic activities. A counterpoint is that the 3% surcharge of USC on the self-employed is also hard to justify. It should be either abolished or applied to other employees on grounds of consistency. Historically, the argument made for the low rates of PRSI applied to the self-employed was that they did not have access to the same benefits. That is no longer the case. Over the past few years, access to the vast majority of contributory benefits has been extended to the self-employed. It amounts to 93% in value terms. The Pensions Commission's recommendation seeking to address this is welcome regardless of whether there is a fiscal sustainability issue with the State pension. It would be better if it could be achieved simultaneously with the roll-out of any remaining benefits. That is my answer to the Deputy's question on some of the reasoning and thinking in this area. I have referred to an important part of the Pension Commission's recommendations and one that is welcome, not just on grounds of sustainability but also on grounds of equity more broadly.

Dr. Nat O'Connor: On the living alone payment, Age Action welcomes the recognition that older people living alone are at higher risk of poverty and material deprivation. Therefore, benefits such as the living alone payment are very valuable. It went up 16% in the last budget. It is a very appropriate measure to deal with a cohort who are particularly badly affected. What happens is that if one member of a couple with two incomes and home expenses passes away, the other is left living alone. While he or she may have the living alone supplement, it is still very modest, at €22 per week, and does not make up for the loss of the spouse's pension or income. That affects people quite considerably in making ends meet.

At the same time, however, the State pension is meant to provide an adequate basic income. It is not just an anti-poverty measure. Therefore, we caution against any move simply focusing on bringing everybody above the poverty line. It is about a basic, decent income so people can participate in society and be included. When people have an income they can rely on, they are more likely to spend money in the economy. They are more likely to be active in society and their health is better. A slew of benefits follows.

This brings us to one of the core recommendations of the Pensions Commission's report, namely the one on benchmarking and indexation. In the past, we had a benchmark of 34%, or about one third, of average earnings. The commission warns that this benchmark might not be high enough to keep people out of poverty; therefore, we must consider carefully the level at which we set the benchmark. It should not just be a percentage of average earnings in the abstract. This is why we need the cost-of-ageing study. We need to consider the MESL. Also, since housing and health costs are not included in respect of the MESL, we need to include them in a more comprehensive study. That should be our benchmark. Indexation means as prices go up in the economy and earnings go up, the pension is linked to that. People then have security as they know their pension is going to keep up with the economy and they will not be left behind. That is a core message.

On the Deputy's point about the report being full of nothing but hard decisions, that is absolutely true. That is why it is so important we look at those hard decisions, especially around raising social insurance. There may be a misunderstanding about raising the pension age, that if we do that we can somehow kick to touch this issue of funding the State pension. At best, raising the pension age deals with a small fraction of the cost. It is about putting in place a funding model. That is the challenge the Pensions Commission has laid out. It has proposed various streams of how social insurance might be raised, and it should be said, raised slowly and steadily over time. There should be no sudden shock to the economy. It is that sustainability we need to build in. We have one of the lowest tax bases, and in particular one of the lowest social insurance bases, across the EU. If we want to attain European standards of welfare protection for people we must look at how we fund that.

I hesitate to say much about the future of work other than what we are looking for is a flexibility for older people so they can stay in work. That flexibility is something we are likely to see throughout the life course as people perhaps move in and out of full-time and part-time work, care duties and working in the home. As long as we have that model of flexibility extending into older age we simply need to ensure the social protection system takes account of that by allowing people to make contributions in flexible ways and then giving people payments that are likewise flexible in a situation where the working life is perhaps going to be more complicated than it was in the past.

Deputy Marc Ó Cathasaigh: Does Dr. O'Connor want to address the State-led savings option?

Dr. Nat O'Connor: Yes. Auto-enrolment is a good idea. It is inviting everybody to save more for their own retirement. We know there is a human difficulty that people do not perhaps imagine they are going to make it to older age but the good news is the great majority are going to make it. When we reach the age of 65 years most of us can look forward to 18 to 20 years of life and of course one wants an income at that point and might not be able to generate one. In order to not just have the basic State pension but a bit more comfort and spending power, auto-enrolment is a good idea. Of course, one might ask where that money is going to go. If it is entirely that people are going to make these pension savings and it is going to go into private pension funds that is not necessarily a bad thing but people would need transparency about where that money is going. Is it going into the oil industry, for example? That would be wholly inappropriate given State policy on climate action. Some people may want to have a safe option of perhaps a lower return whereby their auto-enrolment contribution would go into a State-led fund to give them a safe return, as they do not want to rely on the ups and downs of the Stock Market for their own pension savings. Pension savings must generally be triple A-rated but we need to look at where the auto-enrolment money is going to go. We think there should be a State-led option for saving as part of that.

Deputy Claire Kerrane: I apologise, I had to step out to speak in the Chamber. I hope the questions I ask have not already been answered. If they have it is fine as I will watch this back. We can skip over. Just before I was leaving, the ESRI was talking about the significant savings that can and would be made if the pension age was increased. Does it have specific figures for those savings because it is clear that argument has been challenged? I have heard Mr. Michael Taft of SIPTU and others argue against it so I am wondering whether the ESRI has specific figures.

We have seen very slow moves on mandatory retirement ages in contracts. If nothing happens on it and the pension age increases to 67 years, what does the ESRI propose happens then? While it may be the case people took up that payment at 65 years, and up until recently that was a jobseeker's allowance payment, in many cases people had no choice. They could not remain at work beyond 65 years of age and had to take a lesser payment. For many people it was not so much the lesser payment of €203 per week, it was the fact that after perhaps 40 years or 50 years of work, they were asked to sign on for a jobseeker's payment. That was really inappropriate for many people.

On auto-enrolment, I agree with what Dr. O'Connor has said on the need for it to be State-led. We are going to be making a big ask of people and today's workers where auto-enrolment is concerned, when it is introduced - and it is already behind schedule. For many workers who are struggling to pay rent and trying to save for a mortgage, requesting they put money aside for a pension is a big ask, albeit very important. I agree we need it so we have the State pension as the bedrock and auto-enrolment as that supplementary pension for people. Private pensions, if people want them, are the third layer. We have seen the risk with the likes of defined benefit schemes and people being left with little or nothing. We need to ensure that risk is eliminated as much as possible. I am aware there are matters outstanding regarding what the State contribution to auto-enrolment will be but we must get that right. I agree with what Dr. O'Connor has said on that being State-led. There will be fees as currently it is very complex. There are many providers out there. We need to make it as simple as possible for people. We need to ensure there is something at the end and they can see that quite clearly as well.

Chairman: We might take the ESRI first as there were specific questions for it.

Dr. Claire Keane: I will jump in there. The connection went a little bit there in the middle. The Deputy was talking about whether we have numbers on the mandatory retirement age savings. We do not at the moment, mainly because there is much uncertainly there. Previous ESRI research has shown when the age went up from 65 years to 66 years people continued to retire aged 65 years. There was no real increase in the actual, real retirement age. That is sort of a problem. If we do not change the retirement age at all then we are going to have to increase taxes and PRSI further. We are suggesting a balance between those two. We would need to ensure that if we are going to increase the pension age then we ensure people are not forced to retire at a younger age and that they can continue to work. Also, if we continue to offer those benefits people can continue to draw down, such as the benefit payments for 65-year-olds, realistically it is not going to do very much. We are not going to change the actual retirement age of people. I apologise, the signal broke up a bit in the middle. Was the Deputy talking about forced retirement?

Deputy Claire Kerrane: I was looking for the significant savings referenced in relation to increasing the pension age. Does the ESRI have figures on them? I appreciate many people retired aged 65 years but as I said, many had no choice as it was stipulated in their contracts. Thus, they came out aged 65 years but not by choice, in many cases.

Dr. Claire Keane: Yes. I do not have numbers on how much we will save for every year of increase. We could do more research on that. We would definitely need to know how effective it will be and as Dr. Roantree pointed out earlier, in countries where they did increase the retirement age and transition benefits were not offered it does actually increase the effective retirement age. The main benefit is not just the pension savings but the taxes and social insurance people continue to pay. However, as we now have those suggested wage increases there could be more work done on that. It is a key thing. If people are forced to retire at an age younger than the retirement age then that is a major issues. That is what the Pensions Commission is saying should be removed. It is saying there should be legislation whereby it is not longer allowed to stipulate a retirement lower than the pension age. That must come first. Until that is done people will be forced to retire early because they are not allowed stay in employment.

Deputy Claire Kerrane: I wish to make a very quick point. It is my understanding the ESRI had put forward the proposal of increasing the pension age. To clarify, the institute does not know what the significant savings - that is the term that was used - we will make by increasing the pension age will be. We do not have those figures as of yet. Is that right?

Dr. Claire Keane: Not to the current estimate. I think in the Pensions Commission there are estimates. Does Dr. Roantree want to jump in there?

Dr. Barra Roantree: To clarify, we do not have any estimates. The Pensions Commission considered this and in chapter 11 of its report, I think, it goes into this. It received calculations from the Department of Finance and the Irish Fiscal Advisory Council, IFAC, in this regard so it did have figures in there. I think by 2030, for example, just in terms of expenditure on social protection payments, it was something of the order of half a percentage point of GNI*. That is the basis for saying these are significant as that quite a large amount of money and it rises further in the longer run. Again, these are not ESRI calculations but calculations considered by the Pensions Commission that came from the Department of Finance and the IFAC, both of which I am sure the committee will have before it in the coming weeks.

Dr. Nat O'Connor: I happen to have those numbers to hand. The Department of Finance reckons that, at present, the cost of the State pension is 3.8% of GNI*, or 3.8% of the whole economy. If we do not change the pension age, it will go up to 9.2% by 2050. If, however, we change the pension age as recommended, it will be 8.3% of GNI*. There is that difference of about 0.9 percentage points. It represents a significant amount of money but, seen in the bigger picture, it covers only 16% of the cost of the State pension. The remaining 84% of the cost of the State pension has to be covered through funding. The difficulty with even that 16% is that those are the Department of Finance's figures assuming that people continue to work rather than draw the State pension. The Department of Social Protection's analysis, however, is that a significant proportion of those people are not working at present and, therefore, not contributing to taxation but drawing down a different welfare payment, whether a transitional pension, a jobseeker's payment or whatever else, such that the net benefit is even smaller.

There is no doubt but that money can be saved by raising the pension age, but that is not the main issue. The main issue is how we fund a sustainable pension when we will have a significantly larger number of people drawing down the pension and living longer. As I said at the outset, that is a great success story but there is also the huge social challenge of how we fund that in a way that will benefit us all.

Deputy Éamon Ó Cuív: I am not convinced that everybody wants to work after 65 or 66, even if the mandatory employment age is got rid of. Consider the public sector, where there are early retirement options at times, and the number of people taking those options. They might do something small part time but they do not continue in their full-time jobs. Many people feel when they have done 40 years - and studying is working - that they have done their piece. We would not want to run away with ourselves with the idea that if the age is raised, everyone will start working later and later. They will find other ways to try to do what they wanted to do, and that is to retire.

Does the ESRI have figures as to what percentage of State pensions, non-contributory and contributory, were funded from the Social Insurance Fund in the 1960s and how much of that came from the Exchequer? I will remind the committee of how averaging came in. If you had only ever paid social welfare for three, four or five years from the day social welfare came in - I think it was in the 1950s - you were immediately entitled to get the full pension. That is why averaging was introduced in the first place. There was a much bigger percentage of people getting non-contributory pensions, so we just funded it out of the Exchequer. The world has gone backwards. It seems to have made very complicated what was awfully simple. In the past, if you decided on a policy, you funded it. Have the witnesses any statistics on this? To my knowledge, the Social Insurance Fund did not pay for itself, even for the contributory pensions. When you go back to look at the figures, you can see that the non-contributory proportion was huge.

The second issue I wish to raise is auto-enrolment. I am not against people paying into private pension funds. I have my reservations about it because, between the taxman grabbing money out of private pension funds to fund the tourism industry - I think it was in 2011 that this happened - and the vagaries of the markets with banks going bust and all sorts of unforeseen acts, it can be a little risky to put moneys into future funds, even with AAA ratings. There is very little return on ethical money at the moment, unfortunately. If you start paying in today, if auto-enrolment is introduced tomorrow, when will it have an effect such that people will see a significant gain over what they would have had if they had not been enrolled? Will that happen in 20 or 30 years' time? In the meantime - and this is the *quid pro quo* - I understand there is to be a straight State cash contribution into auto-enrolment. How much would the State have put in? I would set that against the alternative. Has anyone done an analysis on this? PRSI is the ultimate auto-enrolment in the State pension fund. If you put the same money into a mandatory scheme, it is much better for the less well-off. I guarantee that. It might not be as good for the most well-off. Is auto-enrolment for the people who are way up there in wealth terms? For the average person with employment here and employment there in retail and so on, is the best auto-enrolment of them all, compared with this new fancy auto-enrolment, telling the employer and the employee to pay into the Social Insurance Fund? It is just a mandatory auto-enrolment scheme. It is the most mandatory of them all and you cannot opt out of it.

The other thing is that with the new auto-enrolment you can opt out. Then, in time, it will be said, "You can be poor now because you opted out." As I said earlier, however, and as I think my good colleague said, when you are 35 or 40 you are trying to keep the mortgage paid and you will do stupid things in your short-term interest. That is why I am not the greatest fan of auto-enrolment. The best auto-enrolment system of them all is the one that the State controls and which does not rely on investment funds. Has the ESRI looked at this in the round and asked why we should not put our auto-enrolment where the State has the biggest grip on it and force the employer to pay into that auto-enrolment scheme? Is this just some big thing driven by the pensions industry? This happens right across Europe, by the way, so telling me they do things in Europe does not overly impress me one way or the other. If I think it is a good idea, I will back it.

Chairman: Those are profound questions. I do not know who from the ESRI wishes to grab them.

Dr. Barra Roantree: Perhaps I will return to our old friend, the Social Insurance Fund, first and then hand over to my colleague, Dr. Keane, on auto-enrolment.

The Social Insurance Fund, I think, was in deficit from more or less when it was established in the 1950s until 1997, when it had a surplus for a time before going back into deficit. Deputy Ó Cuív is right that the procedure has been that we do not take in as much in PRSI as is spent on benefits linked to PRSI payments. It is a very weak link in that sense. At that time, if you just had a stamp or were deemed eligible, you got the payment. That link is therefore quite weak. The history of the Social Insurance Fund is that the State just topped it up when there was not enough income in it. For that reason it is nearer an accounting fiction than a real device. That is not to say there are not issues surrounding sustainability of pensions and so on; it is just that they are not really because of the Social Insurance Fund.

I will add, from a parliamentary perspective, that one thing the committee might be particularly concerned about is that the Social Insurance Fund does not qualify as voted expenditure. There is therefore also an issue of transparency surrounding the Social Insurance Fund in that it does not necessarily come into the budget day discussions and it is a little hard to work out how much is actually being spent in additional payments because some netting of the Social Insurance Fund has to be done in order to try to work out what is going on there. Again, the Pensions Commission was really constrained by its terms of reference into looking within the existing broad structure of that system. Several Deputies, including Deputy Ó Cuív, made well the point that, historically, the approach has been that when we have not raised enough in PRSI, we have an Exchequer contribution from general tax takings. Therefore, pensions are best thought of as funded on a pay-as-you-go basis through the entirety of tax revenue. That still means we need to consider how we pay for that for the pension in the long run, but it is a broader question than just PRSI or the pension age. It is a more holistic thing.

I will hand over to my colleague, Dr. Keane, on auto-enrolment.

Dr. Claire Keane: We have a couple of reports relating to auto-enrolment up on our website. I am sorry - I do not mean to add to the Deputy's reading burden. He can just read the first executive summary pages. I swear, everything important is in them. We profiled who are the people who will be auto-enrolled. They will be mainly those on lower incomes. The plan is to have a €20,000 threshold and, as such, one will not be automatically enrolled if one is under €20,000. That is to protect those on lower incomes. However, people who currently contribute to a pension are, in general, those on higher incomes. That is in large part because the pension may be provided through their employer in the private or public sector and, in addition, there are significant tax benefits to higher earners for contributing to a pension. Those on higher incomes get 40% tax relief on contributions and there is quite a large lump sum they can take out tax free at the end. At the moment, without auto-enrolment, those on lower incomes will be more affected by not having a second or occupational pension on top of the State pension.

As regards behavioural reaction, the Deputy is quite right that people may face affordability issues. This week, we published an article on our website that considered the distributional poverty impact of the auto-enrolment charges. We did not find those impacts to be substantial because there is that income cut-off such that only people earning above €20,000 will be auto-enrolled. The behavioural evidence shows that if people are auto-enrolled, the vast majority of them do not drop out. They are auto-enrolled and can drop out after six months, but what we have seen internationally in countries that have introduced this is that people tend to stay in. Once people start paying, they sort of get used to it and tend not to drop out.

On the question of whether it should just be put into PRSI, that is a whole other ball game. However, it is worth noting we have to recognise the State pension is a flat-rate amount. I refer to those who are on a higher income and may have relatively high costs of living. We know older people now may be less likely to own their home and may still have to pay rent. We do not want people who are not on the lowest level of income to have a big shock to their income because there will be a big negative effect on their well-being if they suddenly face a significant reduction in income in retirement. Having auto-enrolment to go in line with the flat-rate State pension would mean people throughout the income distribution would have their incomes protected. We know those at the top are already paying into pensions and will not be massively affected by auto-enrolment because the vast majority of them are already paying in. If members read a one-page summary on the auto-enrolment work, that should be enough.

Deputy Éamon Ó Cuív: The original concept of PRSI was that one would get a benefit somewhat proportionate to what one paid in. There was the flat rate and so on, but the original concept was that one would get more if one paid more in. That was dropped and it became a totally flat-rate system. If you wanted to implement the concept of people who pay in more getting more out, that could be done through the State pension if you really wanted. At the moment, if a self-employed person pays in €500 a year, he or she will get the full whack, while a person on €100,000 obviously pays far more, with a total of €14,000 between employer PRSI and employee PRSI. However, that levelling out is a good thing, in my view. It is a redistribution of wealth and a decision the State made.

If auto-enrolment were to be introduced tomorrow, would people have to be paying into it for 20 years or so before getting significant benefits of all the money they have put in? That kind of means the people who are now 50 or 45 and so on will not get much benefit from this gig. It is very much for people who see the pension as being somewhere in the distant future.

By the way, one thing that was repeated a few times, and with which I agree, is that people should own their own homes. However, that is a political job for us to do to make sure people own their own homes, as they did in the past. It is a much bigger task and it is not just for this committee. I do not agree with the concept of people of pension age living in rented accommodation. I do not live in a country where that is common. I want people to own their homes. It has great value for society and it has contributed greatly to Irish society, but that is a different day's work.

Dr. Nat O'Connor: The number of people who are aged 65 or over and are at work has increased by 50% in the past five years. The quarterly labour force survey indicates that approximately 67,000 people aged 65 or older were at work, but the figure according to latest statistics for quarter 2 of 2021 is approximately 102,000. There has been a great increase in the number of older people who are working. There are many reasons-----

Deputy Éamon Ó Cuív: How many people are in that age group?

Dr. Nat O'Connor: There are 720,000 people aged 65 or older.

Deputy Éamon Ó Cuív: It is still only-----

Dr. Nat O'Connor: Approximately one in seven of them is now at work, which is a significant number, considering the number of people who are in their 80s or 90s. There are reasons for that, such as housing costs. People are reaching retirement age but have not repaid their mortgage or still have significant loans. There are various reasons people are choosing to stay in work.

Deputy Éamon Ó Cuív: Does Dr. O'Connor have a breakdown between part-time work and full-time work?

Dr. Nat O'Connor: We do not have that breakdown or detail. The plea I would make to the committee relates to the need for better statistics. The Central Statistics Office produces valuable work, but we are often only given a lump of statistics for people aged 65 or over. Of course, that does not tell us how many people were at work at 65 and how many were working while at pension age of 66 or older. It would be great if more could be invested in those statistics because, as the pension issue goes on, we simply lack the evidence base to allow us to make some of these nuanced analyses of exactly what is going on in the economy in terms of who is working and who has a pension entitlement.

Dr. Keane mentioned the interaction between the pension tax breaks and auto-enrolment. That will be a very important issue. A previous ESRI report indicated that 80% of the benefit of those pension tax breaks goes to the top 20% of earners. That is certainly an inequality built into the system.

Deputy Éamon Ó Cuív: That tax relief was to be reduced to 33% in 2010. The pension industry was mad at me, but that is what was going to happen.

Dr. Nat O'Connor: There is an issue of how that will impact-----

Deputy Éamon Ó Cuív: It would have been up to 33%. It would have been 33% if one paid in at 20% and 40%. I still favour that approach.

Dr. Nat O'Connor: It is simply a question of how it will interact with auto-enrolment and whether there is a need to readjust those tax breaks so that they are more equitable across the auto-enrolment system.

A final issue to mention is that of an opt-out. A concern is that the State pension should give people an adequate income and the auto-enrolment should be attractive to people to give them a supplementary income. We would be very concerned about a situation where one needs to be in auto-enrolment because one's State pension will be so low that it will not bring one out of poverty. The State pension needs to be the bedrock, as the commission says, and the auto-enrolment should be for a supplement. There is a need to provide more education and encouragement, particularly to lower income workers, for their own benefit, to build up that supplementary pension so they can have a more comfortable older age.

Chairman: I thank all of the witnesses for attending and for their very constructive and positive engagement with the committee. They should feel free to provide supplementary information to the committee on foot of these proceedings. The committee will consider today's proceedings and will have further deliberations as part of our continued work programme on the report on the Pensions Commission. Next week we will hear from Ms Josephine Feehily, chairperson of the commission. Go raibh míle maith agaibh go léir.

The joint committee went into private session at 11.48 a.m. and adjourned at 11.59 a.m. until 9.30 a.m. on Wednesday, 17 November 2021.