Further Information for Pensions Commission Consultation
Policy Context and State Pension Schemes

Policy context

It is important to note that there are planned and ongoing reforms in respect of all three pillars of the Irish Pensions System, as set out in *A Roadmap for Pensions Reform 2018-2023*. The Roadmap has six strands. Strand 1, Reform of the State Pension, includes commitments:

- To set a formal benchmark maintaining the SPC payment at 34% of average earnings and to develop a process whereby future rates of payment are linked to changes in the Consumer Price Index and average wages.
- On a number of actions to develop a Total Contributions Approach for calculating entitlement
- In respect of the State Pension Age and a review of the proportion of time spend in retirement
- To move towards a system where social insurance contribution rates and classes are actuarially reviewed annually to determine what changes would be required to fund benchmarked increases in payment rates or expansion of benefit cover.

A number of Programme for Government commitments directly relate to the Commission's work. This includes commitments to

- Introduce a Total Contributions approach, aligning a person's contributory pension more closely with the contributions they make.
- Introduce a system to enable people to defer receipt of their State Contributory Pension on an annual basis, to include actuarial increases in payment as soon as practicable.
- Facilitate those without a full social insurance record to increase their retirement provision by choosing to continue making PRSI payments beyond pensionable age.

Most recently, The *Roadmap for Social Inclusion 2020-2025* reaffirms the policy approach of benchmarking the State pension at 34% of average earnings.

Work is underway, in line with both the *Roadmap for Pension Reform* and the Programme for Government, on reforms for the wider supplementary pension system, such as the introduction of automatic enrolment which will work to increase supplementary pension coverage and improve retirement income adequacy.

Changes to State Pension Age

It is useful to summarise previous reforms in respect of the State Pension Age, as one of the key issues to be examined.

- 1970s policy reforms brought the pension age down incrementally from 70 to 66.
- Raising the pension age is in keeping with similar measures introduced by most EU countries
- *National Pensions Framework* proposed changes were passed in legislation in 2011.
- 2014: the State Pension age was standardised at 66 with the abolition of the State Pension Transition. 2011 legislation provided for further increases in pension age, to 67 in 2021 and 68 in 2028.
- The *Roadmap for Pensions Reform 2018-2023* states that future changes in State Pension age after 2035 will be based on research into life expectancy.
- 2020: Social Welfare Bill repeals 2011 legislation in respect of State Pension age changes in 2021 and in 2028.
- The deferral of the increase in the State Pension age is estimated to cost an additional €221 million in 2021 and an additional €453 million in a full year (in terms of SPC-related payments). These costs are expected to rise year on year.

Retirement Age

- There is no statutory retirement age for employees in private sector employment in Irish legislation. A contract of employment will generally contain a retirement age, but this is a matter between the parties.
- The Public Service Superannuation (Age of Retirement) Amendment Act 2018 provided for an increase in the compulsory retirement age for the majority of public servants recruited prior to 1 April 2004 from 65 to 70 years.
- Equality Employment Acts 1998-2015 prohibit discrimination under the nine grounds in employment. In the context of retirement, section 34(4) of the Act makes it clear that it is not discriminatory on the ground of age for an employer to fix different ages for the retirement of employees provided that it can be objectively justified by a legitimate aim and the means of achieving that aim are appropriate and necessary.
- The 2015 Act also provides (section 6) that employers need to provide objective justification when offering a fixed term contract to a person over the compulsory retirement age.
- In 2017 the WRC developed a *Code of Practice on Longer Working*. The Code was given statutory effect under the Industrial Relations Act. The Code sets out best principles and practices for employers, employees and their representatives to follow during the engagement between employers and employees in the run up to retirement, including responding to requests to work beyond the retirement age in the employment concerned.

- In 2018 the Irish Human Rights and Equality Commission also published guidelines on Retirement and Fixed-Term Contracts, which provides advice to employers and employees on the potential for discrimination arising from the compulsory retirement of staff reaching a particular age, as well as the offering of fixed-term contracts to persons over that compulsory retirement age.

State Pension Contributory (SPC)

- Funded through the Social Insurance Fund (SIF) from which payments for this and other social insurance-based schemes are drawn.
- DSP's largest scheme in terms of expenditure - €6.1billion allocation for 2021.
- Maximum weekly rate of €248.30, with reduced rates applicable for those with lower levels of contributions. Some 57% of recipients qualify for the maximum rate of payment, while 43% are in receipt of reduced rates.
- 449,442 SPC recipients at end 2020 – increasing over time.
- Not means-tested, no retirement condition (can work and receive pension).
- Not resident-based: approximately 10% of recipients live outside of Ireland.
- Spouses, civil partners and cohabitants of those in receipt of SPC can receive an Increase Qualified Adult (IQA) allowance, which is paid directly to them.

State Pensions Non-Contributory Scheme (SPNC)

- Funded through the Exchequer.
- Means-tested (capital including property other than the family home, and any income. Some disregards apply e.g. €200 per week of earnings from employment, and the first €20,000 of capital).
- May qualify for SPNC if insufficient contributions to qualify for the SPC or if qualify for a reduced rate of SPC.
- Maximum rate of SPNC is €237 per week, 95% of the maximum rate of the SPC.
- 94,465 SPNC recipients at end 2020 and €1.1 billion expenditure allocation in 2021.
- Spouses, civil partners and cohabitants of SPNC recipients aged 66 and over can apply for SPNC in their own right. Increase payable for those under 66.

Widow's, Widower's or Surviving Civil Partner's Contributory Pension (WPC)[1, 2]

- Funded through the SIF.
- Paid to a qualifying person of any age. 123,019 recipients at end-2020, three-quarters aged 66 and over. €1.6 billion expenditure allocation for 2021.

[1] The Widow/er's or Surviving Civil Partner's Non-Contributory Pension, funded by the Exchequer, is not included here as it is only payable to those under the age of 66. On reaching pension age, recipients can apply for the State Pension Non Contributory, which is the only non-contributory payment to pensioners.

[2] In addition, a small cohort receives the Occupational Injuries Death Benefit pension - 759 recipients at end-2019, €10.6 million expenditure allocation in 2021.

- Not means-tested, no retirement condition.
- For those aged 66 and over, the maximum weekly rate of payment is the same as the State Pension Contributory (€248.30). For those under 66, the maximum weekly rate of payment is €208.50

Other supports available to pensioners

- Increase for Living Alone (€19 per week, not means tested – payable to pensioners who live alone)
- Household Benefit Package (€35 per month plus Free TV licence – not means tested for those aged 70 and older)
- Fuel Allowance (€28 per week for the duration of the fuel season which runs from October to April. Eligibility is means tested).
- Telephone Support Allowance (€2.50 per week for those in receipt of both the Living Alone Allowance and the Fuel Allowance).
- Over 80s Allowance (€10 per week increase for pensioners aged 80 and over – this is not means tested).
- Living on Specified Island (€20 per week for those living on a specified island).
- Free Travel pass for all pensioners
- Medical Card eligibility – less onerous means test for those aged over 70.

Current Rate Bands for SPC (those who qualified after 1st September 2012)

Yearly Average	Personal Rate (weekly)	IQA aged under 66* (max weekly rate)	IQA aged 66 or over* (max weekly rate)
48 or over	€248.30	€165.40	€222.50
40-47	€243.30	€157.40	€211.40
30-39	€223.20	€149.80	€200.50
20-29	€211.40	€140.10	€188.70
15-19	€161.80	€107.80	€144.50
10-14	€99.20	€65.70	€89.50

Source: Department of Social Protection`

Financing the State Pension Contributory

The State Pension Contributory is the biggest item of expenditure from the Fund. The Fund also pays out social insurance benefits for working age people such as Invalidity Pension, Jobseeker's Benefit, Illness Benefit, Carer's Benefit, Maternity Benefit, etc.

All of the payments going out, including the State Pension Contributory, are financed by current workers and their employers. The number of workers and economic conditions matter. If conditions are good and there is high employment, the money coming in will often be enough, or more than enough, to cover payments out. If conditions are not good and/or there is high unemployment, there is less money coming in and more going out. If and when the 'surplus' of money built up in good conditions is spent, then the Exchequer (the taxpayer) makes up the difference. In most years, the Exchequer has met shortfalls in the Fund. There had been a surplus the last few years, but the Fund is back in deficit (paying out more than is coming in) since last year.