Rialtas na hÉireann
Government of Ireland

An Coimisiún Pinsean
The Pensions Commission

Have your say on sustainable State Pensions into the future

Public consultation to help inform the Pensions Commission
Guidelines and information for submissions

Introduction

The Pensions Commission was established in November 2020 as part of a Government commitment. Specifically, the Commission has been asked to:

- **"Develop a range of options for the government to consider in order to address the sustainability of the State Pension and the Social Insurance Fund in terms of pension age, eligibility criteria, contribution rates, pension calculation methods and pension payment rates";**
- **"Examine how private sector employment contracts specifying retirement ages below the State Pension Age may be impacting on the State's finances and pension system"; and**
- **"Consider how people who have provided long-term care for incapacitated dependants can be accommodated within the State Pension system".**

Your views on what sustainable State Pensions might look like into the future will help the Commission in considering reforms that could work for everyone.

The Minister for Social Protection has advised the Commission that current pension rates of payment will not be reduced, and current pensioners may be reassured in that regard.

Why is it important to have your say? People are living longer in Ireland. In 2016, 13.3% of the population (less than one in seven) was 65 years of age or older. By 2051, the CSO projects it to be 25.9% (more than one in four). If we don't make any changes to the pension system, the increased spending on pensions will reduce the money available to Government to fund income supports and other services that you might use.

Irish Pensions system

The Irish Pensions System, like most other countries, has three 'pillars' of pension provision. The first pillar is managed by the State and its main purpose is to prevent people from falling into poverty. This is the bedrock of the Irish Pension System. When people say the 'State Pensions', they are usually referring to the main State Pension Contributory scheme (SPC) (previously the Old Age Pension). Along with the SPC there are several other State Pension schemes (collectively we call these 'State Pensions').[1] The SPC is the largest in terms of spend.

The way we pay for the State Pension Contributory[2] is through the Social Insurance Fund, which is financed through contributions by employers and employees PRSI ('stamps'), and by the State. The Social Insurance Fund also pays for other benefits, such as Jobseeker's Benefit, Maternity Benefit, Illness Benefit and the Pandemic Unemployment Payment. The State Pension Non-Contributory is funded by Government expenditure, i.e. through taxpayers.

The SPC is very effective in preventing pensioner poverty[3] and represents excellent value for money, particularly for those on lower incomes. The Actuarial Review of the Social Insurance Fund as at end 2015 (published 2017) found that somebody earning the minimum wage would get four times back in payments what they and their employers would put in through PRSI contributions.

Rates and contribution requirements vary by different classes of PRSI.[4] In the broadest terms, most employees fall under PRSI Class A arrangements. For an employee on average earnings, a total contribution of 14.05% of earnings is made into the Social Insurance Fund (4% from the employee and 10.05% from the employer).[5] An employee earning less than €352 per week makes no personal contribution but their employer pays 7.8% and a self-employed person (Class S) makes a contribution of 4% once earnings are in excess of €5,000 in a given year.

1 Other State Pension schemes include the State Pensions Non-Contributory Scheme (SPNC) and Widow's, Widower's or Surviving Civil Partner's Contributory Pension (WPC). WPC is available to those aged under 66. Those in receipt of State Pension payments may be eligible for additional supports, including for their spouse/partner, depending on the eligibility criteria for the relevant scheme.
2 The WPC is also funded by the SIF.
3 Those aged 65 and over have the lowest at-risk-of-poverty (AROP) rate compared to any other age group, at 10.5%. This is because the State Pension is so effective at reducing poverty. Those aged over 65 would have an AROP rate of 85.6% (vs. 31.3% for those aged 25-64) without any social transfers. State Pensions bring that AROP rate down to 25% and other social transfers bring the rate down further to 10.5%. Source: CSO, Survey of Income and Living Conditions, Table SIA48 https://data.gov.ie/dataset/sia48-poverty-rates-by-age-group-year-and-statistic
4 See https://www.gov.ie/en/publication/14ecbe-the-different-classes-of-pay-related-social-insurance-prsi/
5 The employer contribution rates here exclude the National Training Fund levy, which is not related to the Social Insurance Fund.

What do we mean by sustainable State Pensions?

We know that the number of pensioners is going to increase in the coming decades, as the population in Ireland ages like it has elsewhere in Europe (and we're ageing faster than other countries). At the moment there are about 5 working age people for every pensioner. By 2051, this will change to 2.3 working age people for every pensioner. Maintaining the ratio of 5:1 workers would require the equivalent of a 4 million increase in the population over the next 30 years.

Thankfully, we know that people are living longer and are healthier than previous generations. A baby born in Ireland in 2021 has a life expectancy of 93.6.[6] This means that people are getting pension payments for longer. At the same time, young people are staying longer in education, benefitting them and Irish society. This also means that they start their working life later than previous generations.

All of these things combined means that people are spending less of their life at work, and more of it in retirement. And with the ageing population, there will be a relatively smaller proportion of working people to pay a higher pension bill.

Accordingly, it may not be possible for this relatively small cohort of younger workers to continue to finance pensions at the rate of payment that we would like, especially if they have other financial costs to bear such as the cost of housing.

There are other definitions of sustainability, but this goes to the heart of what will make the Irish State Pension system unsustainable in the future. It is important to act now so that State Pensions will be sustainable into the future, for everyone. We want to make sure that younger generations can benefit from an Irish State Pension system that is as generous and reliable as the one that they are contributing to fund today's pensioners.

Ratio of the working age population (15-64) to those aged 65+

Source: Central Statistics Office Presentation to the Pensions Commission on Ireland's Demography (available at pensionscommission.gov.ie).

6 UNICEF press release 21st December 2020 'New Year's Babies: Over 370,000 children will be born worldwide on New Year's Day'. See also revised fact sheet on life expectancy for 236 countries including Ireland, based on 2020 UN World Population Projections.

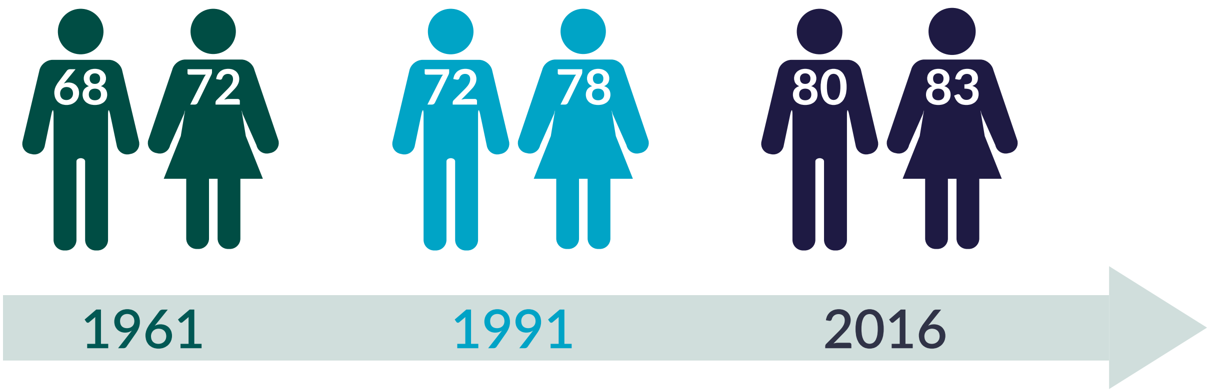
Emerging Sustainability Challenges

Evidence from a range of sources shows that current State Pension arrangements[7] will face considerable sustainability challenges in the next 5 to 10 years. Three key changes will drive these challenges:

- Demographic change (there will be a much larger proportion of older people relative to younger age cohorts);
- Population ageing (fewer children being born, and older people living longer); and
- Growing demands on Government spending and limited public appetite for increasing Government revenue

There is some debate on how soon and to what degree there will be sustainability challenges, given Ireland's relative population/ageing advantages compared to other EU member states and the degree to which these changes might be slowed by, for instance, increased fertility or net inward migration. However, results from a wide range of projections, based on different sets of assumptions, suggest that even with 'best case' assumptions, these demographic and ageing trends will happen within a relatively short time horizon.

Life expectancy is increasing over time



Source: Central Statistics Office, Period Life Expectancy at Various Ages, VSA30, Irish Life Tables,
(Available at: https://ws.cso.ie/public/api.restful/PxStat.Data.Cube_API.ReadDataset/VSA30/XLSX/2007/en)

7 The term 'arrangements' is used to distinguish those aspects of the Irish State Pension system that directly relate to why, how much and in what way pension payments are made and to whom. Different State Pension schemes will have different arrangements.

What do we mean by fiscal and social sustainability?

The way we finance the State Pension Contributory is based on two principles:

1) The Contributory principle (i.e. there is a direct link between contributions and entitlements to social insurance benefits such as pensions) and

2) The Solidarity principle (contributions are combined and benefits are weighted towards contributors who are more vulnerable, in solidarity between workers and generations).

This way of paying is a **'social contract'** between workers, employers and pensioners and the State. Current workers and employers therefore support current pensioners, and the State supports all groups. Trust is an essential part of the 'social contract' that makes the State Pension Contributory financing arrangements work.

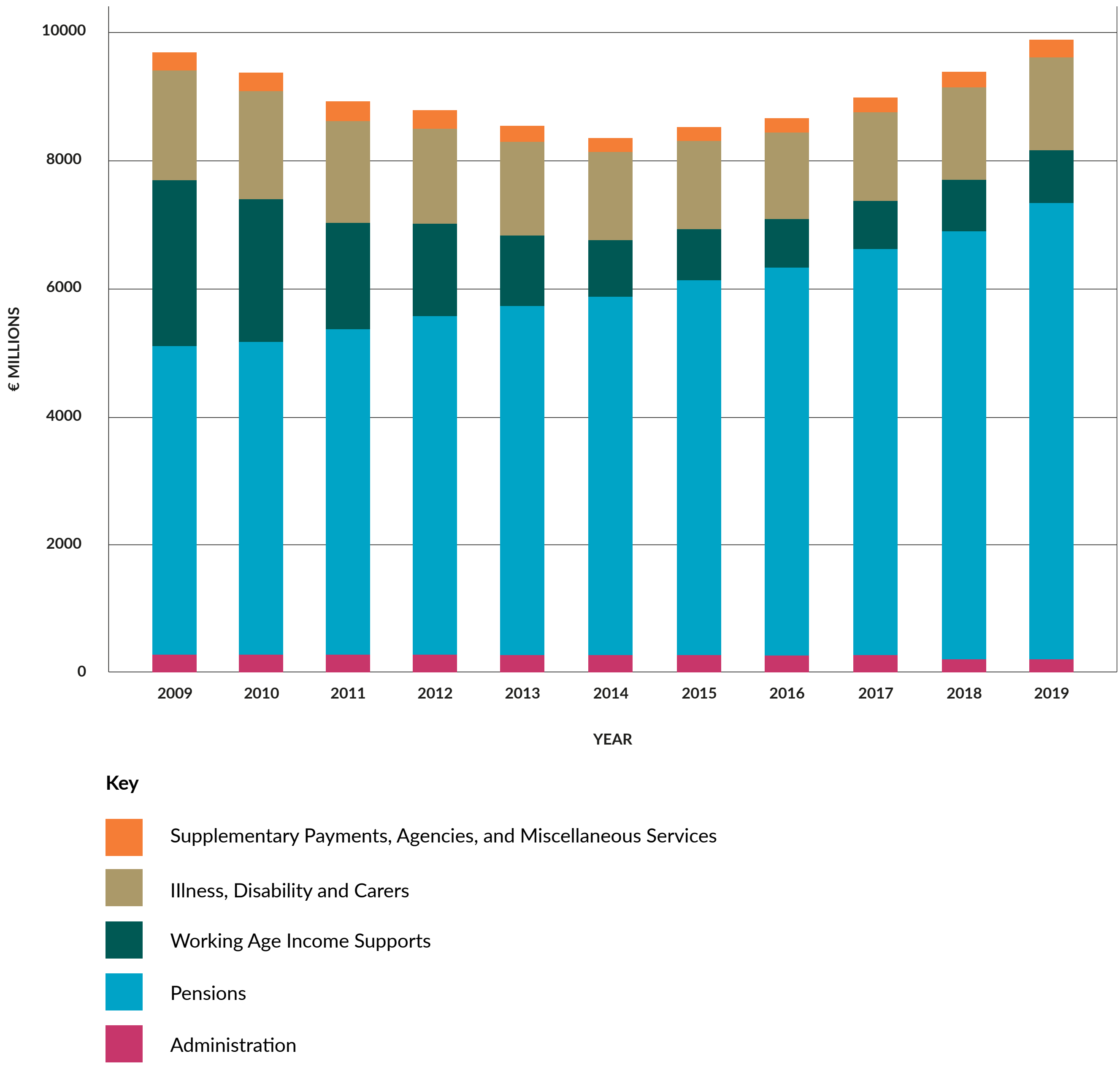
Emerging sustainability challenges mean that we have to think about sustainable ways to finance the SPC through the social insurance model, which also means thinking about social sustainability. And we also have to meet sustainability challenges so that they don't affect other State Pension schemes.

Fiscal sustainability means finding ways to meet the increasing costs of pensions over time so that they can continue to keep older people out of poverty, even as that population grows and lives longer.

These costs will increase whether or not we adjust current State Pension arrangements, because there will be more pensioners who will be getting pensions for longer. But the costs will be much higher if there are no adjustments. We have to meet these costs in some way, to make sure that older people don't fall into poverty. If we choose not to adjust current State Pension arrangements the spend on pensions would take up more and more of overall Government spending. This would limit the amount that Government could spend on other areas like income supports, health or housing. Fiscal sustainability means coming up with a way of steadily managing to meet rising expenditure on pensions as well as increasing the capacity to fund pensions over time, so there is no sudden 'peak' of demand that would mean we couldn't fund pensions in the way that we would like.

Social sustainability means looking at how the increasing financial costs can be shared fairly and equitably within and between generations. We can think about social sustainability as finding ways to meet financial costs without creating 'equity costs' for others within a generation, for younger generations. We want to make sure that those who rely on State Pensions for all or most of their income in retirement are protected from poverty. So we need to make sure that these people, such as low-income workers, women, people with disabilities and carers among others, can access State Pensions. At the same time, we need to make sure that the 'equity costs' are not too high for younger generations. If current arrangements are maintained in the future these will place an unreasonable burden on a proportionally smaller group of current workers to pay for a proportionally larger group of current pensioners. This may undermine trust in the social contract that underpins the financing of the SPC. This may also impact on the scope for taking in additional Government revenue from taxpayers to help meet increasing fiscal costs.

Social Insurance Fund Expenditure 2009 - 2019



Source: For Years 2010 - 2019: Statistical Information on Social Welfare Services Annual Report, 2019, Expenditure on Social Welfare by Programme (€million), Table A1
For Years 2009 - 2010: Statistical Information on Social Welfare Services Annual Report, 2016, Expenditure on Social Welfare by Programme (€million), Table A2

The Pensions Commission's Work

The Commission's purpose is to examine and make recommendations for the sustainability of first pillar State Pension arrangements and of the Social Insurance Fund. It has no role in relation to private personal or company pensions. More details about the Pensions Commission, including its Terms of Reference, are available on www.pensionscommission.gov.ie. Further information on the policy context and on State Pension schemes is available here: https://www.gov.ie/en/publication/9e457-consultation-and-engagement/

The following provides a summary of some of the key issues in the Commission's deliberations:

Pension Age and Retirement Age: Reconciling gaps and impacts

The planned change to increase the State Pension Age to 67 in January 2021 generated considerable public and political debate. This ultimately led to the Programme for Government commitment not to proceed with the planned increases in 2021 and 2028 (as legislated for in 2011) and to the establishment of the Pensions Commission.

Determining the appropriate age at which a person is able to access State Pensions is complicated by a number of factors. On the one hand, there is a strong argument that the State Pension age should increase, given increasing life expectancy, better health in later years, many older people's expressed desire to work later and the benefits of older workers' experiences in terms of productivity and efficiency.[8] It should be noted that there is no retirement condition in respect of the State Pension Contributory (that is, it is possible for someone to work and to get the SPC, but they no longer make PRSI contributions).

On the other hand, while there is no mandatory retirement age in law, employment contracts may require workers to retire at a certain age (often set at 65). The Equality Employment Act (2015) allows this only if:

1) It can be objectively justified by a legitimate aim and

2) The means of achieving that aim are appropriate and necessary.

There are additional provisions in the Act in respect of offering fixed-term contracts to persons over the compulsory retirement age.

Other recent developments include the Citizens' Assembly consideration on 'Challenges and Opportunities for Ageing Population' held on 9th July 2017, which generated a number of recommendations of interest.[9] 86% of members recommended abolishing the mandatory retirement age and 96% of the members recommended the removal of the anomaly, which arises when a person who must retire at 65 is not entitled to the State Pension until 66.

Another recent development, 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.

Notwithstanding national policy objectives and legislative developments, many workers, by choice or by contract, will retire at age 65 and bridging income is needed where there is a gap between a contractual or chosen retirement age and the State Pension Age.[10] Increasing the State Pension age without also addressing contractual retirement ages will widen this gap. The recent introduction of the Benefit Payment for 65-year-olds may help bridge this gap.

8 See, for example, Privalko, I et al. (2019) The ageing workforce in Ireland: Working conditions, health and extending working lives. ESRI: Dublin https://www.esri.ie/system/files/publications/RS92_1.pdf and Government of Ireland (2016) Report of the Interdepartmental Group on Fuller Working Lives https://assets.gov.ie/4984/191218122321-2472d175810b4278a78cce-28d1118a07.pdf
9 See https://2016-2018.citizensassembly.ie/en/News/The-Citizens-Assembly-Votes-on-Challenges-and-Opportunities-of-an-Ageing-Population-.html
10 A Retirement Pension (later State Pension Transition (SPT)) was introduced in the early 1970s when the pension age was 70. Over the 1970s this age was incrementally reduced to aged 66. The RP/SPT required persons to retire (i.e. they could not work) In 2014, SPT was abolished on the grounds it covered only one year and because of disincentives to work.

Choosing to work later in life

Creating the conditions to enable working later in life is a Government policy objective[11]. Such policy efforts can help to re-balance the proportion of working lives to retirement lives, in turn improving the sustainability of State Pension arrangements as well as creating economic and social benefits for individuals, families, communities and society.

Flexible retirement pathways

International evidence suggests that flexible retirement pathways could allow for early and deferred retirement (and that may include combining pension and employment income). Such flexibility may be a means of pursuing the overall objective of later working lives while also providing space for individual choices not to work later, as based on their circumstances and within the limits of securing fiscal and social sustainability.

Introducing choice in State Pension arrangements can have consequences. For instance, an early retirement option which results in a reduced rate of pension payment may have implications for poverty risk in later life.

Considering career paths, labour market changes and societal/financial impacts into the future

Evidence strongly suggests that workers are starting their careers later and will have a ‘portfolio’ of careers over the course of their lifetime. Labour market changes may also make some workers more vulnerable to financial insecurity and poverty risk. Starting careers later can also impact on when people start having families. Enabling later working could allow people affected by shorter careers and/or periods out of the workforce to build up contributions.

11 Government of Ireland (2016) Report of the Interdepartmental Group on Fuller Working Lives https://assets.gov.ie/4984/191218122321-2472d175810b4278a78cce28d1118a07.pdf

Guidelines for Submissions

How to make a submission

The Pensions Commission would like to encourage as many people as possible to have their say on sustainable State Pension arrangements into the future. There are three ways to provide your views:

1. By emailing a submission (see groups of interest and questions to consider below) to **ConsultPC@pensionscommission.gov.ie**

2. By posting a submission (see groups of interest and questions to consider below) to

   Secretariat, Pensions Commission
   Department of Social Protection
   First Floor
   Áras Mhic Dhiarmada,
   Store Street,
   Dublin 1, D01 WY03

   An Rúnaíocht, An Coimisiún Pinsean
   An Roinn Coimirce Sóisialaí
   An Chéad Úrlár
   Áras Mhic Dhiarmada,
   Sráid Stórais,
   Baile Átha Cliath 1,
   D 01 WY03.

3. Through responding to the survey, ‘Have your say on sustainable State Pensions’ at this link: https://ec.europa.eu/eusurvey/runner/PensionsCommissionSurvey2021

Please provide your submission by Tuesday 9th March 2021, 5:00PM

It is anticipated that there will be a high volume of interest in this consultation process. If you are making a formal submission (by email or post), please help the Commission to engage with your key points by keeping your submission to no more than 8,000 words.

The Commission will identify relevant submissions (including submissions made through the ‘Have your say on sustainable State Pensions’ survey) that provide information or proposals of interest, which they would like to explore further.

The Commission may identify particular submissions that provide information or proposals which need to be explored further by the Commission or its Secretariat.

It is also intended that, based on the relevance of their submissions, a representative group of individuals and organisations will be invited to (remotely) attend a Stakeholder Forum, the date for which will be announced in late March 2021. In order to be relevant and helpful to the Commission, please bear in mind that the Commission has been asked to examine the sustainability of State Pension arrangements.

It should be noted that submissions received, and reports of any further consultations undertaken with any parties, will be subject to Freedom of Information legislation and may be published on the Pensions Commission website. Please also note that a full list of those who make submissions may be included as an appendix in any reporting that emerges from the consultation process.

The Department of Social Protection privacy statement https://www.gov.ie/en/organisation-information/534503-privacy-statement/ sets out how the Department operates Data Protection principles and rules.

Groups of interest

In considering sustainable State Pensions into the future, the Pensions Commission is particularly interested in four groups:

1) Upcoming pensioners

Those reaching State Pension Age from approximately 2022 to 2036.[12] This is the group that will constitute a growing and longer-living pensioner population.

2) Future pensioners

Young people from 18 to their late 40s who will be eligible for State Pensions in the next 16 to 50 years. This group will be the most affected by fiscal and equity costs arising from unsustainable State Pension arrangements, if adjustments are not made, or are made too late, to make the system more sustainable.

3) Current pensioners

The Minister for Social Protection has advised the Commission that current pension rates will not be reduced, and current pensioners may be reassured in that regard. However, those who are in receipt of current State Pension arrangements may have insights from their experience of transitioning from employment to retirement, as well as their experience of applying for or qualifying for their pension. These insights are very useful.

4) Those who provide long-term care for most of their working age lives

The Pensions Commission is specifically asked to consider how people who have provided long-term care for incapacitated dependants can be accommodated within the State Pension system. This group may face particular difficulties accessing the SPC, even though recent reforms have helped many carers to access the State Pension Contributory and improve their rate of payment.

12 Taking into account timelines for implementation of possible and planned reforms, and the end point of a wide range of scenarios which project current State Pension arrangements will be fiscally and socially unsustainable around the mid-2030s).

Questions to consider

While the Pensions Commission welcomes all submissions, the following questions can assist you in exploring the issues and highlighting key points as relevant to the scope and remit of the Commission's work.

These questions below indicate the areas where your insights will help the Commission in its consideration of fiscally and socially sustainable State Pension arrangements into the future.

What do you expect from State Pensions?

The Commission is interested in your expectations of what the State should do to support you when you retire. For example, if you are a future pensioner, what expectations do you have in terms of your living standards as a pensioner? Do you expect to rely on State Pensions to provide that living standard? If you are an upcoming pensioner, are you aware of eligibility requirements? Have you thought about and made plans for your income in retirement?

What's working with current State Pension arrangements?

This question seeks your views on current State Pension arrangements and how those aspects that are working well could and should be maintained into the future.

For example, do you feel that current arrangements are working well to prevent poverty; and/or working well in terms of the level of payments; and/or working well in terms of information and guidance on how to apply for State Pension schemes; and/or are working well for most groups of current pensioners.

What concerns you with respect to current State Pension arrangements?

This question seeks your views on aspects of State Pension arrangements that you think are not working well, and/or areas where you think there are emerging issues, particularly in respect of fiscal and social sustainability challenges.

Please be specific about the concerns you have. For example, these concerns might relate to pension age, to eligibility requirements, to contributions, to calculation of pension methods, to income supports available before reaching State Pension Age, to sustainability and equity concerns that impact upon future pensioners, to efforts to achieve fuller and later working lives.

If you are responding as an organisation that works with upcoming, future and current pensioners, it is useful to give a sense of how many people are affected by the concerns you have; if these concerns affect particular groups more than other groups, and if so, what are these groups; the implications of these concerns for those affected in terms of e.g. eligibility criteria, rates of payment, contribution rates, or any other aspect of current State Pension arrangements. Where possible, please give your information and/or data sources.

How best to accommodate those who provided long-term care for most of their working lives?

In addition to existing supports, recent changes have helped many carers/those providing care to dependants to get the best possible State Pension Contributory payment. This includes the consideration of 20 years of Home Caring periods in calculating the rate of SPC payment, raising awareness that you can make voluntary contributions and that Carers credits are available to those eligible. In this context, the Commission is interested in hearing your views on how best to accommodate those who provided long-term care for most of their working lives:

- Which individuals providing long-term care need to be further accommodated?
- How can these individuals providing long-term care be specifically identified and targeted for additional measures?
- What measures are needed for this group? For example:
    - Do current State pension arrangements need to be adjusted?
    - Could the full adoption of the Total Contributions Approach address concerns?
    - Or should there be separate arrangements solely for this group?
- What might be the implications and/or unintended consequences of introducing these measures, for example on fiscal and social sustainability, on equity within and between generations, on other upcoming pensioners?

Again, please provide information, data and international examples where possible.

What specific policy, provision or other changes are needed to make State Pension arrangements sustainable into the future?

This question seeks your views on the specific changes to State Pension arrangements that the Commission might consider according to its Terms of Reference. This might relate to changes in calculation methods, eligibility criteria (including pension age), etc. Specifically, the Commission asks:

- How might we best finance sustainable State Pension arrangements into the future? Would you pay more to achieve sustainable State Pension arrangements? Or would you be willing to forego some Government services?
- Should the Commission recommend legislative changes to address gaps between retirement age (the age at which a person retires or is required to retire from their work) and State Pension Age (the age at which the SPC and SPNC become available), e.g. to prevent a contractual age-specific retirement, and/or establish a statutory right to remain until pension age?
- What is the appropriate State Pension Age? In what way might it be adjusted – incrementally or at all once – e.g. to take account of rising life expectancy, to increase the proportion of working lives to retirement lives, to sustainably cover the longer duration of pensions payments?
- Should people working later (after State Pension Age) be able to continue to pay PRSI contributions? What might be the implications of this?
- How might we best ensure sustainable flexible retirement pathways, allowing for both early and later exits from the labour market? How might this be combined with modified State Pension arrangements to reduce poverty risks?
- What are the best ways to fill any income gaps between retirement age and State Pension Age? Will the recent introduction of the Benefit Payment for 65 year olds be sufficient to bridge the gap between retirement age and State Pension Age?

Sustainable Reform Proposals

This section seeks your reform proposals for achieving sustainable State Pension arrangements into the future, taking into consideration what you've identified in terms of what's working, concerns, groups affected, etc. Please give your information and data sources where possible. In particular, the Commission is interested in international examples where proposed reforms have been introduced, whether these worked well and what has been learned from them.

In these proposals, you might consider the following:

- Reform proposals that adjust State Pension arrangements in addition to or as an alternative to potential changes referenced above;
- The best way to fairly and equitably finance these reforms, if there are cost implications
- The target groups for these reform efforts, and how to identify and specifically define them at an individual/household level
- What impacts such reform proposals may have, e.g. for other age groups, for different genders, for workers, for employers, for carers, for people with disabilities, for the State, for society
- How these impacts might be mitigated, e.g. through consideration of trade-offs between and within reform proposals, through implementation principles and mechanisms
- The approach for introducing proposed reforms, including how best to support a successful transition from current to adjusted State Pension arrangements: whether reforms should be introduced incrementally, all at once or in some other way over time
- Proposals for monitoring implementation e.g. to identify unintended consequences of reforms, including on fiscal and social sustainability.

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