

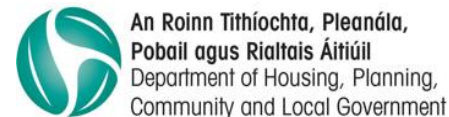


Presentation to the Pension Commission

21 April 2021

www.ageaction.ie

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Age Action is the leading advocacy organisation on ageing and older people in Ireland.

Our mission is to achieve fundamental change in the lives of all older people by eliminating age discrimination, promoting positive ageing and securing their right to comprehensive and high-quality services.



“Older people receive priority because of their growing numbers and the realisation that, in old age, **there is effectively nothing individuals can any longer do if their income from all sources is insufficient to keep them from poverty.**”

—The Developmental Welfare State, NESCS

- The **legitimate expectation of a secure and sufficient retirement after working** is a core component of the welfare state, and an adequate state pension is essential to achieving that.
- The goal of pension policy must be **to ensure that everyone has a secure and sufficient retirement income, so that they can grow older with dignity while continuing to be socially included and active in their communities.**

Framing: people, not statistics

- The debate about security in retirement has sometimes been wrongly framed as just a mathematical problem of managing the cost of the state pension. But **behind the statistics are the people whose lives have been badly affected by recent reforms and who are still anxious about their financial security** in retirement.
- Pension reform will affect the vast majority of people, and **it is essential that a holistic all-of-government approach is taken to the issue as mistakes risk compounding existing inequalities.**
- Ireland's relatively young population gives us the time to get this right.

International comparison

Country	% 65+	Pension Age (f/m)	Country	% 65+	Pension Age (f/m)	Country	% 65+	Pension Age (f/m)
Japan	28	65	Slovenia	20	59½/62	UK	19	68
Italy	23	60/65	Lithuania	20	60/62½	Poland	18	60/65
Portugal	22	65	Estonia	20	60½/63	Canada	18	65
Finland	22	65	Denmark	20	67	Norway	17	67
Greece	22	65	Czechia	20	55-61/62½	USA	16	67
Germany	22	67	Hungary	20	62	Slovakia	16	59½/62
Bulgaria	21	60/63	Spain	20	65	New Zealand	16	65
Croatia	21	60/65	Netherlands	20	65	Australia	16	67
Malta	21	65	Austria	19	65	Russia	15	55/60
France	20	65	Belgium	19	65	Ireland	14	66
Latvia	20	62	Switzerland	19	64/65	Israel	12	67
Sweden	20	65	Romania	19	59/64	China	11	50/60

- **Ireland's current pension age of 66 is already higher than 27 developed countries** with larger proportions of older people in their populations than Ireland.
- **Many countries pay state pensions to a greater proportion of older people than in Ireland, at lower retirement ages**, and have done so for generations despite predictions that it was unsustainable.
 - Each country is of course different, and has a mix of other policies that affect the pension age (including employment law, the prevalence of private pensions, housing, healthcare, etc.).

The Problems people are facing

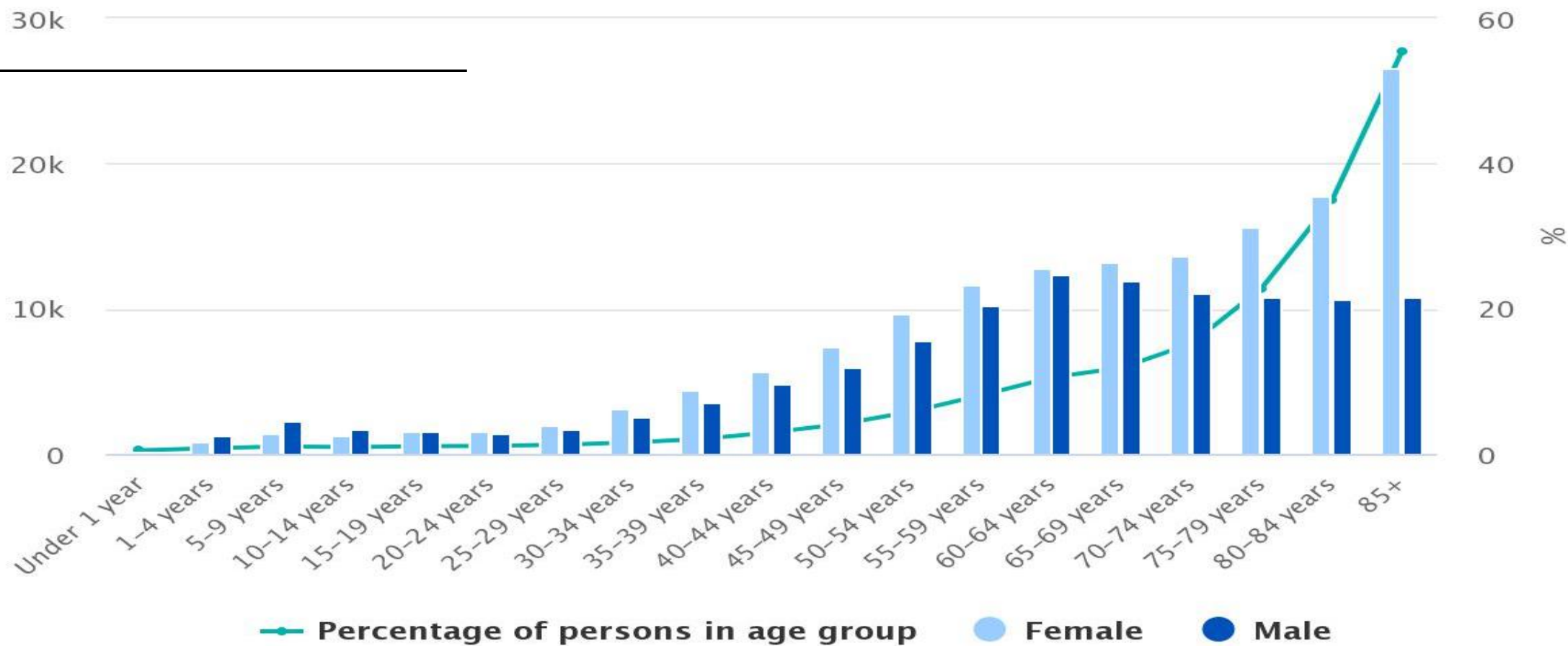
- More than one in ten older people (10.5%) is at risk of **poverty**, and more than one in every nine (11.2%) experiences **material deprivation**.
- Recent changes to pension policy have caused a great deal of **stress and uncertainty**.



More Problems

- **Mandatory retirement clauses** in private contracts still require many people to retire at 65, even though the state pension will not be available to them for another year.
- **Age discrimination in the labour market** is still a major concern, with over 90% of workers over 55 believing that age is an issue when seeking employment.
- The **COVID-19 pandemic** provides a case study in how older people are more vulnerable to a shock to their incomes.
 - Pre-COVID, a third (32%) of those aged 55-64 at work were involuntary working part-time, and three-quarters (75%) of those aged 55-64 who were unemployed were long-term unemployed (i.e. unemployed for more than one year). Such age discrimination and barriers to employment should of course be removed, but it would be wrong to make changes to the pension age in the meantime on the assumption that such barriers do not currently exist or can be easily overcome.

Men and women with a difficulty that substantially limits their physical activities (CSO)



Disability and Life Expectancy

- The **incidence of disability and limiting impairments** increase significantly as people grow older. As such, there is still a real physiological basis for retirement. This particularly affects manual workers, but even sedentary work, such as deskwork, has been shown to be harmful to people's long-term health.
- Not everyone will reach **average life expectancy**. Sadly, a large number of people will not survive long enough to access the state pension.
 - According to World Bank data, **one in every nine men and one in 13 women in Ireland will die before age 65.**
 - Every additional year added to the state pension age will deny any retirement at the end of their lives to additional thousands of people and will take away a significant proportion of retirement for others.

Gender Inequality

- There is a **massive gap between the experience of men and women in terms of their retirement income.**
 - In 2010, the average pension income of women was only two-thirds the income of men (at €280 compared to €433). Fewer than 3 in 10 retired women (28%) receive a private or occupational pension compared to more than half of all men (55%).
- There remains a substantial pension **injustice for women**, in particular, who have spent a large proportion of their working age lives involved in **care for dependent relatives**. More action is needed to ensure gender equality in retirement.

Socio-Economic Inequality

- **Two in every five workers (40%) aged 20-69 lack any occupational pension coverage.** In most sectors of the economy, a majority of employers do not offer a company pension scheme.
- Lower paid workers of any age are vulnerable to being unable to save for retirement beyond the state pension, but **older workers on low incomes are particularly vulnerable to changes which mean they need to pay for extra social insurance credits to secure a full state pension on retirement.**
 - More than a fifth of workers (21.5%) aged 45 to 64 were in manual work, compared to 17.8% of those aged 20 to 44. There are more than three times as many farmers in the older age cohort (4.6% aged 45-64 versus 1.2% among 20-44 year olds).

Financial Literacy Gaps

- Age Action supports the proposal for people to receive **annual social insurance statements that give them clear information on their future pension entitlement** as well as on options to top-up their retirement income.
- Many people lack financial literacy – and in many cases basic literacy and numeracy – that is necessary for them to manage pension options. **Much more intervention is needed to assist people with the development of these skills and with making it mandatory for pension providers to give regular updates in plain English** so that more people can manage their own financial arrangements.

Many Government Policies Matter

- The **costs associated with disability and illness** are a major concern for older people. How health and social care is organised has a major bearing on people's financial security in retirement.
- **Housing costs are a growing concern.**
 - More people will still be repaying a mortgage in their 60s and 70s.
 - A larger proportion are likely to be renting from the private sector.
 - Mortgages and rents are vulnerable to annual increases at rates beyond any increase in the state pension.
- **Much more research is needed** on a range of issues, especially the detailed cost of living for older people, including additional costs associated with ageing. This kind of research is essential to any sustainable pension policy that is to be evidence-informed.
- **The rate of the state pension needs to be indexed against research on the real cost of living faced by older people.**

Economics

- **The goal of a secure, sufficient retirement income cannot be achieved through state pension policy alone.** All of the components of the cost of living are affected by public policy, and this holistic approach is essential to the issue of pension policy.
 - **Several factors assist in keeping the cost of the state pension lower than in other jurisdictions.** The rate is flat compared to pensions linked to former earnings in other states. Also Ireland has one of the older exit age rates from employment and a relatively low level of early retirement.
 - **Productivity is many multiples higher** than in the past, due to education, technology, infrastructure and other factors of long-term economic development. This productivity translates into much higher levels of national wealth, upon which to fund state pensions.

Economics (continued)

- **Gross public spending** on the state pension is €8.83 billion (9.9% of gross public spending and 2.4% of GDP), yet provides an income for most people over the age of 65, who constitute 14.5% of the Irish population.
- A significant proportion of the state pension is returned to the state in the form of VAT, excise, carbon tax and other taxes and charges, including prescription charges. The Contributory State Pension is also subject to income tax. As such, **net public spending on the state pension is significantly lower than the gross amount.**
- **Private pension tax relief** is often claimed at the higher rate (40%) but may never be taxed at all, such as tax-free lump sums on retirement of up to €200,000. A lump sum of €200,001 to €500,000 is also taxed at 20%, despite relief at 40%. Taxation of retirement incomes is more likely to be 20% rather than the 40% rate. The large benefit of pension tax relief goes only to high income households.
 - The previous points emphasise the extent to which there is scope to increase spending on the state pension if that is the democratic choice made by the people.

In conclusion

The goal of pension policy must be to ensure that everyone has a secure and sufficient retirement income, so that they can grow older with dignity while continuing to be socially included and active in their communities.

- Ireland's population has a relatively young age profile. **There is still time and opportunity** to take the necessary steps.
- A **holistic, all-of-government approach is essential**, not least to deal with continued poverty in old age, major costs for older people (housing, healthcare, disability) and to ensure gender equality and equality between different occupational groups. Issues like mandatory retirement clauses and the availability of pension schemes at work need to be addressed.
- The debate about security in retirement has sometimes been wrongly framed as just a mathematical problem of managing the cost of the state pension. But **behind the statistics are the people whose lives have been badly affected** by recent reforms and who are still anxious about their financial security in retirement.
- To date, **there is a lack of evidence that the hardship that would be caused by a higher pension age is justified in terms of the savings, compared to the wide range of other fiscal and wider public policy options available.**
- **Further research is needed to index current and future pension rates**, which would facilitate planning, provide greater peace of mind to recipients, and crucially it would take a lot of the politics out of the budget process as far as the state pension is concerned.

Ultimately, pension policy is a democratic choice

- Fewer than a quarter (23%) believe the pension age should rise to 67
- **Two-thirds (66%) of all voters support retaining the pension age at 66.**
 - Support for age 66 is across all ages, social classes, regions and voting intentions, and between women and men

–Red C poll, 2021

