Pensions Commission Submission

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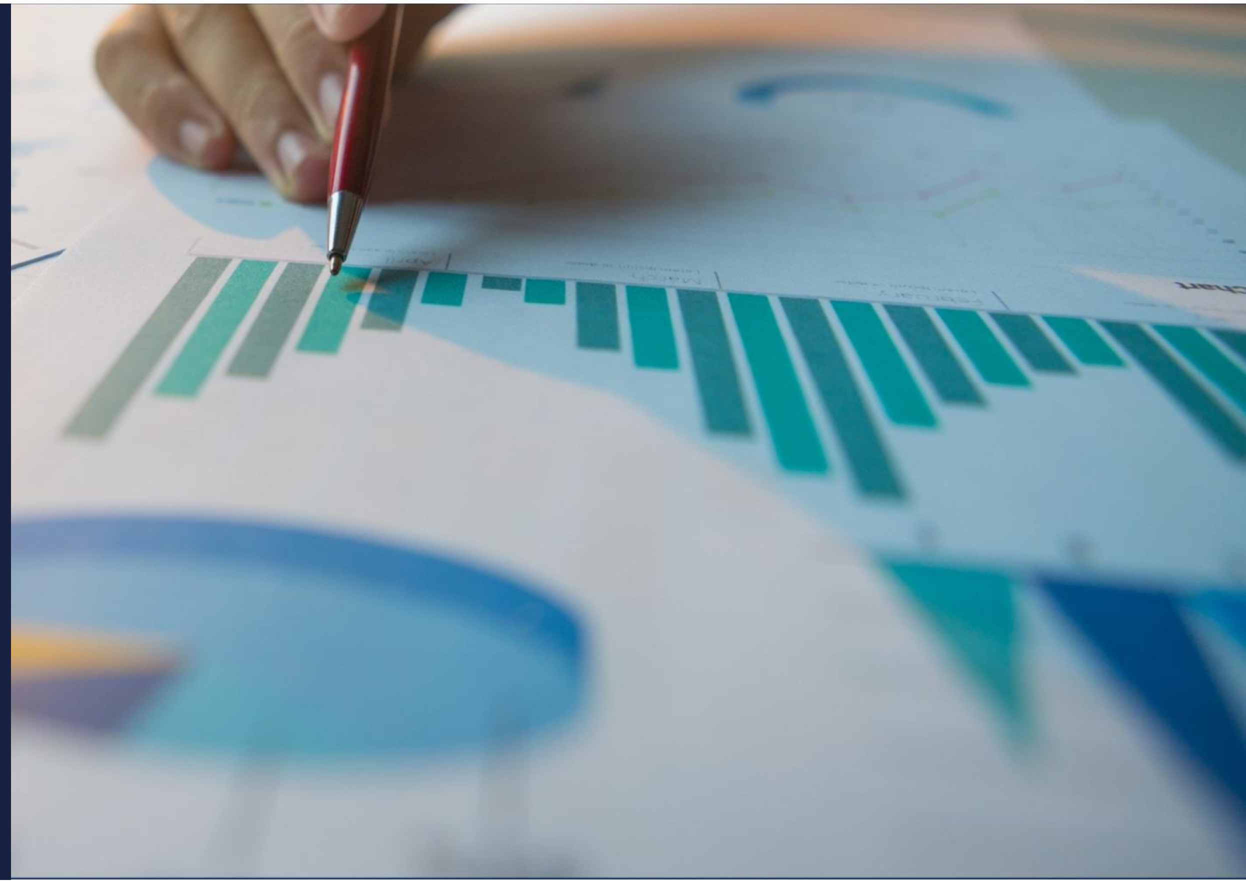

Introduction

This submission, prepared by a range of researchers at the ESRI, is based on ESRI (and other) research in the areas of:

- The financing and sustainability of the State Pension
- Retirement and the qualifying age for the State Pension
- Pensions and income adequacy in retirement

The financing and sustainability of the state pension

- Shrinking labour force, combined with a growing old age dependency ratio, is expected to reduce tax revenues and raise pension expenditures.
- This development will be accompanied by increasing educational attainment, resulting in significant increases in the share of high skilled workers/taxes.
- Irish Fiscal Advisory Council (2020) estimate that ageing will lead spending on pensions, health and long-term care in Ireland to almost double by 2050.
- Dolls et al. (2017) looked at the type of pension age reform that would be needed to offset the effect of demographic change on fiscal balances in the absence of any other changes by 2030: increase in pension age by 5 years. The effect comes mainly through increased taxes.
- A number of other ways to address the rising cost of the State Pension – e.g. increased PRSI or income taxes or reduce state pension payments for current or future recipients.

The financing and sustainability of the State Pension

- The move to a TCA represents a significant change to the contributory State pension: +/- for some. Clarity would be welcomed on how the TCA will operate in the future – both for individuals planning for retirement and to estimate the fiscal impact.
- Whatever the policy mix chosen to address concerns about the sustainability of pension spending, this should be coupled with efforts to address income adequacy gaps in retirement
- Part of the solution - raising rates of private pension coverage, as recommended by the OECD (2014). Recent ESRI research (Bercholz et al. 2019) found that private pension coverage was least for those on lower incomes, suggesting that autoenrolment would have greatest effect on groups who may also be most affected if the rate of State Pension falls.

Retirement and the qualifying age for the State Pension

- State Pension age rose from 65 to 66 in 2014. The effectiveness of increasing the pension age on mitigating the rising cost of public pensions will depend on if there is a significant impact on the actual retirement age of workers.
- Redmond et al. (2017) examined this rise and found no evidence that the rise in pension age actually reduced the retirement rate of 65 year olds.
- Why? 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, with no expectation of seeking work.
- It may take time for societal and employment norms, and employment contracts/occupational pensions, to catch up with the policy change.
- The plan to further increase the state pension age to 67 in 2021 was postponed in 2020. The 'Benefit Payment for 65 Year Olds' was introduced in 2021 to bridge the gap for 65 year olds. Therefore, recent policy decisions may have had the effect of reducing the expected age of retirement, rather than raising it.

Pensions and Income Adequacy in Retirement

- A key area of policy concern is the extent to which those who are retired will have adequate resources to fund their consumption in retirement.
- How do we measure income adequacy?
- Current rate of income poverty among the older (65+) population is lower than for other population groups at 11.4 % – particularly children under 18, 15.9 % (CSO, 2019).

Pensions and Income Adequacy in Retirement.

- What is an ‘adequate’ level of income in retirement?
- One commonly used measure = the income replacement rate.
- An alternative approach assesses the adequacy of retirement income by determining whether it is sufficient to meet basic needs i.e. whether retirement resources are below some benchmark of income poverty, or a ‘minimum essential standard of living’.
- Questions arise over what sources of retirement income should be considered? Just state and supplementary pensions? Include the annuitized value of assets, housing wealth?
- Assessments of income adequacy in retirement were found to be very sensitive to the benchmark used.
- Broadening the definition of income in retirement to include financial assets, and further still to include half the value of owner-occupied housing wealth, substantially reduces the proportions of those who are considered at risk of having inadequate resources in retirement – contentious issue of whether individuals should draw on wealth in the form of primary residences to support living standards in retirement .
- One group of people stands out as being at particular risk of having an inadequate income in retirement: those living alone in the years before retirement (40 % of those aged 65+)

Pensions and Income Adequacy in Retirement: *Income Poverty*

- Why are 11 per cent of the population aged 65+ are classed as income poor, despite the level of the state pension tracking the income poverty threshold very closely over time?
- Lower level of receipt and mean level of contributory pensions of income-poor older people

Yearly average contributions	Personal
48 or over	€248.30
40-47	€243.40
30-39	€223.20
20-29	€211.40
15-19	€161.80
10-14	€99.20

- A little over ½ get the max rate with just under ¼ getting the second highest – so up to ¼ getting below the top 2 rates.
- Could be explained by weak previous attachment to the labour market (due to home duties, unemployment, etc.) and periods of emigration

Pensions and Income Adequacy in Retirement: *Gender Gap in Pensions*

- What role does the gender gap in pensions have in explaining this the Irish context?
- The average pension income of retired women was found to be 35 per cent lower than that of retired men
- Driven by differences in incomes from private and occupational pensions : 55 per cent of retired men receive a private pension, compared to only 28 per cent of women.
- Lower years of work experience among women increases the gender pension gap: 93 per cent of retired men had worked for more than 30 years, compared to 33 per cent of retired women. Three per cent of retired men had never worked, compared to 22 per cent of retired women.
- Women are more likely to take time out of the labour market due to caring responsibilities (children/elderly) sacrificing salary and, in turn, pension payments.
- Women more likely to occupationally downgrade on return to workplace after care-related breaks.
- Women also spend more time in retirement, as they live longer, requiring that older women face additional pressures in securing their financial security in older age.

Policy Options:

- Help women to stay in quality employment for longer: e.g. provision of an improved care infrastructure in Ireland to support access to more affordable quality childcare and long-term care services.
- Measures to promote supplementary pension savings for women.

Conclusion

- It is clear that policymakers face a major challenge as regards the long-term sustainability of the state pension, numerous options are available to address this.
- Continued use of de facto pension payments is likely to lead to no actual increase in retirement age.
- Elderly poverty rates are lower than other age groups in society. Those in poverty reflect weaker labour market attachments and/or emigration over their lifetime. Those living alone are particularly vulnerable.
- Importance of broader policy initiatives in the areas of labour market and skills, childcare and long-term care that can support individuals to stay in the labour market and thereby accumulate sufficient pension wealth (state and private) to ensure an adequate income in retirement. Autoenrolment also likely to help.