



Submission to the Pensions Commission



CHY 8259
RCN 20020052

About ALONE

ALONE is a national organisation that supports and empowers older people to age happily and securely at home. We support individuals and their families, work with other organisations, and campaign nationwide to improve the lives of older people. We work with all older people, including those who are lonely, isolated, homeless, living in poverty, or are facing other difficulties. We support them through these challenges to help them find long term solutions.

ALONE provide social, practical and housing supports. We use individualised support plans and provide one point of contact for older people to access health, social care, housing and other services to improve physical, emotional and mental wellbeing. ALONE enables outcomes including improved quality of life, community activation, and implementation of national strategies.

For further information on the proposals set out within this document please email andrew.rooney@alone.ie.

Table of Contents

About ALONE 2

Introduction 4

Challenges for making a sustainable State Pension system 5

 1. Mandatory retirement 5

 2. Pension gap 6

 3. Pension Gender Gap 7

Older People and the State Pension..... 9

Recommendations for State Pension arrangements 10

 Universal Pension Model 10

 Funding a Universal Pension 11

Introduction

'Pension systems allow people to enjoy a well-deserved retirement after their working life providing excellent protection against poverty to the majority of older [people]'.¹

The State Pension in Ireland is designed to cover the cost of living, but not living costs. It is based on the assumption that the recipient has no mortgage, rent or other housing debt to be covered by the pension payment.

This fact is reflected in latest statistics on poverty in Ireland. 1.7% of older people are in consistent poverty, meaning that they are unable to afford basic items like a warm waterproof coat or keep their home warm. In addition to this, those at risk of poverty, i.e those who have an income significantly below the rest of the population, has increase from 8.6% in 2017 to 11.4% in 2018² for that age cohort, leaving an additional 20,000 older people at risk of poverty. With an ageing population, this figures are worrying as we may see many older people forced into poverty.

Ireland currently spends approximately €4.5 billion dealing with the consequences associated with poverty³, however, if we were to lift people above the poverty line we can help ease pressure on a range of services from healthcare, housing, justice and welfare supports to name a few.

The current state pension remains at €248.30 and the non-contributory pension is €237, with Social Justice Ireland reporting that the minimum disposable income required to avoid poverty in 2020 is €284.46⁴.

¹ European Commission for Employment, Social Affairs and Inclusion 'Social policy' <http://ec.europa.eu/social/main.jsp?catId=752>

² ALONE, 2020. *Housing and Health: Time for Action for Older People in General Election 2020*. [online] ALONE, p.9. Available at: <<https://alone.ie/wp-content/uploads/2020/01/ALONE-General-Election-Manifesto.pdf>> [Accessed 2 March 2021].

³ Collins, M., 2020. *The Hidden Cost Of Poverty*. [online] Society of St Vincent de Paul, p.7. Available at: <<https://www.svp.ie/getattachment/869467cb-2d60-4fe2-b612-a8c6e4357cdc/The-Hidden-Cost-of-Poverty.aspx>> [Accessed 16 July 2020].

⁴ 2020. *Poverty Focus 2020*. [online] Social Justice Ireland, p.2. Available at: <<https://www.socialjustice.ie/sites/default/files/attach/publication/6310/2020-05-18-sjipovertyfocusmay2020final.pdf?cs=true>> [Accessed 15 July 2020].

Challenges for making a sustainable State Pension system

ALONE welcomes the commitment from the government to halt the pension age increase to 67 and to defer further increases, depending recommendations from this Commission. Working into out late 60s and beyond should be an option, not an obligation.

In addition to the above, ALONE has identified three areas of concern with regards to creating a sustainable State Pension system in Ireland;

1. Mandatory retirement

ALONE do not believe that the State Pension should be increased again and believe that this is a sustainable position. ALONE is aware of the arguments brought forward by proponents of pension age increases, maintaining that the current pension age will be financially unsustainable for the state. However, the increase as a percentage of GDP will be gradual and not excessive. Gross Public Pensions will go from 5.1% of GDP in 2020, to 5.8% in 2030, and to 6.7% in 2040. They will peak at 7.4% in 2050, and fall again to 6.6% of GDP in 2070⁵. Thus, with adequate planning and provision would allow Ireland to avoid increasing its pension age.

According to the OECD, the average effective retirement age (the age people leave the workforce) in Ireland was 65.4 for men and 62.6 for women⁶. The effective retirement age has increased from a low (of the last decade) of 63.3 for men in 2011, while the current effective age of retirement for women is the lowest, it has been since records began in 1970.

The only legally set retirement age is for people in the public sector, if you began work there before April 2004, you must retire at 65. If you started work between April 2004 and January 2013, your minimum retirement age is 65, but you may work beyond that. Finally, if you were employed after 2013 you have to retire whenever you reach your designated state pension age, currently 66.

As highlighted previously, many older people are contractually obliged to retire at 65. In 2012, the State Pension age was raised to 66. This has resulted in a pension gap for many people. This issue has been provided with a short-term solution in the Benefit Payment for 65 Year

⁵ Department of Finance, Stability Programme Update 2019 <https://assets.gov.ie/8305/88ffede238074f2cb88fc996854a12b3.pdf>

⁶ <http://www.oecd.org/els/public-pensions/ageingandemploymentpolicies/statisticsonaverageeffectiveageofretirement.htm>

Olds. This payment provides some relief to those forced to retire at 65, however, this is paid at Jobseekers rate of €203. ALONE stress that this is below what people who have worked their entire lives are entitled to, and also below the poverty line.

Proponents of pension age increases also point to an increase in the quality of life. However, this point of view fails to taken into consideration the fact that 126,100 adults over 55 are living with frailty, and could impact on their ability to meet contributions for a full pension and who may have had to retire early due to this⁷. Additionally, over 17,000 of these individuals over 55 live alone⁸.

As people get older, the prevalence of having a long-lasting health condition increases⁹, which can lead to early retirement in some cases. This also extends to affluence, for example, people who are very disadvantaged (5%) are twice as likely to have diabetes compared to people in the very affluent category according to the CSO¹⁰. A new State Pension must take note of that fact that while people are living longer, there may also other aspects of a person's health that can impact on them continuing working into their late 60s.

2. Pension gap

The pension gap is the difference between the amount currently saved by the working population and the amount required to be saved to ensure an adequate standard of living in retirement.

Since 2010, the pension savings gap in Ireland has increased, with factors contributing to this including lower state pensions, state pension growth lagging behind wage growth or lower annuity rates¹¹.

Based on the average extra savings required to provide a retirement income of 70% of pre-retirement salary, the following is needed:

⁷ The Irish Longitudinal Study on Ageing, 2020. *TILDA Report on Population Estimates of Physical Frailty in Ireland to Inform Demographics for Over 50s in Ireland during the COVID-19 Pandemic*. [online] Dublin: The Irish Longitudinal Study on Ageing, p.1. Available at: <https://tilda.tcd.ie/publications/reports/pdf/Report_Covid19Frailty.pdf> [Accessed 8 March 2021].

⁸ *Ibid*

⁹ Central Statistics Office, 2019. *Irish Health Survey 2019 - Main Results*. [online] Central Statistics Office. Available at: <<https://www.cso.ie/en/releasesandpublications/ep/p-ihsmr/irishhealthsurvey2019-mainresults/healthstatus/>> [Accessed 8 March 2021].

¹⁰ *Ibid*

¹¹ Aviva, 2016. *Mind The Gap*. [online] Aviva, p.3. Available at: <https://www2.deloitte.com/content/dam/Deloitte/pl/Documents/Reports/pl_raport_aviva.pdf> [Accessed 15 July 2020].

- A 30-year-old needs to save an extra €5,100 a year¹².
- A 50-year-old needs to save an extra €9,700 a year¹³.

The above bullet points go against the very nature of the social contract. The fact that on top of a citizen's rights and responsibilities, contributing to the economy and society, a citizen must also take into account savings for their later life. This is against the backdrop of the fact that even on a politician's salary one would struggle to secure a mortgage, let alone the average industrial wage. The current pension system favours those on high wages, those that can afford to save in a private pension fund.

Currently, retired adults in receipt of the full Contributory State Pension get €248.30 weekly, or €12,912 a year. Full Non-Contributory State Pension earners get €237.00 weekly or €12,324 a year. Social Justice Ireland reports that in order for a single person to remain above the poverty line, a weekly earning of €284.46 is needed, or €472.20 for two adults¹⁴.

To address this gap, an automatic enrolment system should be introduced in Ireland. ALONE notes that such a system is to be introduced, as outlined in the programme for government. However, this has been delayed until 2022. ALONE encourages the quick introduction of such system, as research shows that the system can increase the number of workers saving into a pension, contributing to higher saving levels. For example, the use of the system in the UK has seen an additional 6.5 million start pension savings, with opt-out rates low¹⁵. In addition to the automatic enrolment system, an Affordable Contribution System should be included in occupational pension schemes with a sufficient employer contribution.

3. Pension Gender Gap

Women, due to lifetime gender wage gaps and work interruptions due to certain family duties, are more likely to receive lower pensions in retirement. Over 60% of people providing unpaid care are female, with the total provision of care estimated at over 6.6 million hours

¹² *Ibid*

¹³ *Ibid*

¹⁴ 2020. *Poverty Focus 2020*. [online] Social Justice Ireland, p.2. Available at: <<https://www.socialjustice.ie/sites/default/files/attach/publication/6310/2020-05-18-sjipovertyfocusmay2020final.pdf?cs=true>> [Accessed 15 July 2020].

¹⁵ Aviva, 2016. *Mind the Gap*. [online] Aviva, p.20. Available at: <http://edepositireland.ie/bitstream/handle/2262/77313/Pensions_Gap_Country_Report_Europe.pdf?sequence=1&isAllowed=y> [Accessed 2 March 2021].

each week with two thirds of this care being provided by female carers¹⁶. Those who provide caring duties to the families provide a valuable service to society. In fact, figures show that this equates to more than €3.14 billion per year¹⁷.

64% of recipients of the Contributory Pension are male, while 36% are female. Of those receiving the full rate of this payment, 79% are male, and 21% are female¹⁸.

The State Contributory Pension payments to women are 7-8% lower on average than men¹⁹. The case is the opposite of the lower rate and means-tested non-contributory payment, 38% male and 62% female²⁰. This is even more of an issue for women as they are less likely to have an occupational or private pension, and if they have one they are likely to be at a lower level because of shorter paid working life and lower rates of pay²¹.

This issue of gender pension may be tackled through the introduction of the Total Contributions Approach (TCA) model. Under this model, a person is required to have 40 years of full contributions to qualify for a full Contributory State Pension. The model will also include up to 20 years of a new Home Caring Credits for periods spent in homemaking/caring roles²². ALONE acknowledges that this method is an improvement as people who take career breaks will be given lower rates when they retire. This is particularly important for women, who due to a lifetime gender wage gaps and work interruptions due to certain family duties, are more likely to receive a lower pension in retirement. However, ALONE is concerned around the lack of knowledge as to how the new system will operate.

ALONE believe that 30 years, which was suggested in the 2010 National Pensions Framework, is a more appropriate amount for the TCA model. ALONE also believe that the number of Home Caring Credits should be greater, at 25 years under this model. This will help minimise the gap between those who provide valuable caring duties with those in employment.

¹⁶ Socialjustice.ie. 2019. *Acknowledging the Work of Carers | Social Justice Ireland*. [online] Available at: <<https://www.socialjustice.ie/content/policy-issues/acknowledging-work-carers>> [Accessed 8 March 2021].

¹⁷ *Ibid*

¹⁸ Age Action, 2017; https://www.ageaction.ie/sites/default/files/attachments/briefing_paper_3_-_reverse_the_2012_state_pension_cuts.pdf

¹⁹ Government of Ireland; Total Contributions Approach Consultation 2018, May-September 2018.

²⁰ Age Action, 2017; https://www.ageaction.ie/sites/default/files/attachments/briefing_paper_3_-_reverse_the_2012_state_pension_cuts.pdf

²¹ Age Action, 'Towards a Fair State Pension for Women Pensioners', (Dublin 2017)

²² *Ibid*

However, legislation is needed to implement the Total Contributions and Home Caring Credits, which has yet to be introduced.

Older People and the State Pension

Latest statistics show that over 506,923 people receive the State Pension²³. The state pension rate has risen by 7.8% since 2010²⁴, this is despite average weekly earnings in the same time-period raising by 12.4%²⁵. There is an apparent gap in providing older people with an adequate income so that they can live above the poverty line, given the difference in the State Pension and the poverty line.

The income gap between the State Pension and the amount needed to live above the poverty line is concerning, particularly as our older population is expected to grow from 640,000 to 1.1 million²⁶. Financial matters are one of the biggest concerns raised by the older people ALONE work with, with 76% of older people with living alone.

Based off of the Minimum Essential Standards of Living²⁷, a pensioner couple household has an adequate income, where they are reliant on the state pension.²⁸ However, a pensioner living alone tends to show greater vulnerability to income inadequacy. This is particularly true for pensioners living alone in rural areas. Those who live in rural areas tend to have additional needs, for instance there may be poor transport in the area. Rural households relying on a car for transport can add an additional €67 per week to their expenditure²⁹.

²³ Department of Employment Affairs and Social Protection, 2019. *Annual Report 2018*. p.15.

²⁴ In 2010 the contributory state pension was €230.30 for a person under 80

²⁵ In 2010, Q4 average weekly earnings was at €699.46 (preliminary estimate at the time). CSO, 2011. *Earnings And Labour Costs*. [online] Available at: <https://www.cso.ie/en/media/csoie/releasespublications/documents/earnings/2010/earnlabcosts_q42010.pdf> [Accessed 30 June 2020].

²⁶ ESRI. 2017. *Demand For Healthcare Projected To Increase Substantially With Rapid Growth And Ageing Of Population*. [online] Available at: <<https://www.esri.ie/news/demand-for-healthcare-projected-to-increase-substantially-with-rapid-growth-and-ageing-of>> [Accessed 21 July 2020].

²⁷ The minimum standard of living needed to meet a person's/household's physical, psychological and social needs. http://www.misc.ie/How_it_works

²⁸ Vincentian Partnership for Social Justice, 2020. *MESL Pre-Budget 2021*. [online] Available at: <https://www.budgeting.ie/download/pdf/vpsj_mesl_pre-budget_submission_2021.pdf> [Accessed 20 July 2020].

²⁹ *ibid*

Recommendations for State Pension arrangements

ALONE suggests the following reforms to the State Pension system to create a fair and sustainable model;

- Install a triple-lock mechanism to ensure pensions are protected, which would be linked to an annual increase of 2.5%, the rate of inflation or 35% of average weekly earnings, whichever is greater.
- Prioritise measures to address gender gap and favouritism towards worker in the top earning declines, in the first tier public pension system over second tier proposals and tax reliefs
- Base qualification for full contributory pension off 30 years' contributions, as was suggested in the 2010 National Pensions Framework, rather than 40 years in the Total Contributions Approach.
- Increase Home Caring Credits to 25 years.
- Amend the Equality (Miscellaneous Provisions) Act 2015 by introducing a strict definition of what is justifiable reason to legitimise enforce retirement in the private sector.

Universal Pension Model

ALONE is also in favour of introducing a Universal Pension Model. ALONE recognise plans to introduce the Total Contributions Approach, and have made necessary recommendations to improve the model and the overall pension system in Ireland. Despite this, the introduction of the Universal Pension Model would provide a fairer alternative to the TCA model.

“A Universal Pension is a universal flat-rate entitlement paid as a matter of right to all residents over a defined qualifying age, regardless of previous social insurance contributions or means. The final amount of the Universal Pension would depend on years of residency in Ireland. The Universal Pension would replace all other social welfare pension payments to individuals over the State Pension Age and act as Ireland’s first tier pension”³⁰.

³⁰ Social Justice Ireland, 2018. *A Universal State Social Welfare Pension: Recognising The Contribution Of All Our Senior Citizens*. [online] Social Justice Ireland, p.30. Available at: <<https://www.socialjustice.ie/sites/default/files/attach/publication/5197/universalstatesocialwelfarepension.pdf?cs=true#:~:text=The%2>

As proposed by Social Justice Ireland, the Universal Pension would replace:

- Contributory and Non-Contributory State Pension
- Death Benefit
- Widow's, Widower's or Surviving Civil Partner's Pension

The rate for this new pension model would be set at €248.30, or the current value of the State Contributory Pension. All citizens living in Ireland and at the State Pension age or over would be eligible for this new pension. A number of other EU countries operate a residency based system, such as the Netherlands, Finland and Sweden. The Universal Pension Model here would be similar to the Netherlands, where a residency test applies to everyone between 16 and retirement age. For every year a person is resident in Ireland, 2.5% of the full Universal Pension payment would be payable, at a maximum of 40 years. A minimum of 10 years' residency in Ireland, at 25% of the Universal Pension, is required to receive the benefit.

Funding a Universal Pension

The following proposal outline how the model could be funded through reform of tax relief on private pensions and Employer PRIS³¹:

- Reduce the marginal rate of tax relief on private pension contributions to the standard rate of 20% and apply it to the Public Service Pension Related Reduction. Such a measure should raise €483 million.
- Reduce the earnings contribution cap to €72,000, down from €115,000. This should raise €44 million.
- Reduce the Standard Fund Threshold from €2 million to €500,000.
- Increase Employer PRSI from 10.85% to 11.35%. This should yield €442 million.

In total, these measures are estimated to raise approximately €949 million, based off of 2019 calculations.

Objective of the Universal, citizens and residents of Ireland. &text=The rate at which the, is 20% E 2%82%AC243.30%20per%20week.>

³¹ *Ibid*