

## *Sustainable State Pensions into the future*

### **Citizens Information Board Submission to the Pensions Commission**

#### Introduction

The Citizens Information Board (CIB) welcomes the opportunity to make a submission to the Pensions Commission. Users of the nationwide network of Citizens Information Services (CISs), the Citizens Information Phone Service (CIPS) and the Money Advice and Budgeting Services (MABS), which are funded and supported by the Board, frequently raise issues about social welfare pension entitlements and financial inclusion of older people. Over the years, many such issues have been highlighted and brought to the attention of the Department of Social Protection in pre-budget and other submissions. In 2018, CIB made submissions to the Department on an Automatic Enrolment Retirement Savings System for Ireland<sup>1</sup> and the Total Contributions Approach to state pension reform.<sup>2</sup>

The demand for CIS and CIPS services is substantial. In 2020, there were almost 400,000 CIS users, - including callers to a new Web Call Back facility - and over 150,000 CIPS callers. On average, these services receive over 1,000 queries per week in relation to pension provision which means that there are some 50,000 queries annually<sup>3</sup> relating to pensions, including State contributory and non-contributory pensions, EU pension contributions and UK pensions. In 2020, there were almost 726,000 page views on [www.citizensinformation.ie](http://www.citizensinformation.ie) related to information for older and retired people – half a million of those related to state pension entitlements for older and retired people with 75% of this traffic specific to the contributory State Pension.<sup>4</sup>

This level of engagement on the subject of pensions leaves Citizens Information Services well placed to have a clear understanding of the problems experienced by people trying to understand their pension entitlements and/or access the pension to which they are entitled. It is this insight,

---

<sup>1</sup> CIB Submission on Automatic Enrolment Retirement Savings System for Ireland (2018)  
[https://www.citizensinformationboard.ie/downloads/social\\_policy/submissions2018/Auto\\_Enrolment\\_AE\\_CIB\\_subm.pdf](https://www.citizensinformationboard.ie/downloads/social_policy/submissions2018/Auto_Enrolment_AE_CIB_subm.pdf)

<sup>2</sup> CIB Submission on Introduction of Total Contributions Approach to State Pension  
[https://www.citizensinformationboard.ie/downloads/social\\_policy/submissions2018/State\\_Pension\\_Reform\\_and\\_TCA\\_.pdf](https://www.citizensinformationboard.ie/downloads/social_policy/submissions2018/State_Pension_Reform_and_TCA_.pdf)

<sup>3</sup> In 2019, state pension related queries were over 60,000 – in 2020, this figure dropped to just under 35,000 with closure of face to face services during Covid-19.

<sup>4</sup> The State Pension Contributory ranked sixth in the top 20 documents viewed on citizensinformation.ie

combined with our support for the Money Advice and Budgeting Service (MABS) that informs our response to this consultation by the Pensions Commission.

### Issues identified by CISs

The nature of queries to CISs and CIPS suggests strongly that there is a lack of knowledge and a high level of confusion among the public in relation to pensions. This is a particular concern for many of those approaching retirement. It is very understandable that people require clarity about their pension entitlement so that they can forecast in advance what level of income they can expect in their retirement and old age. This is particularly relevant for those for whom full time employment spanning their adult working life was unrealistic or unobtainable (e.g. those living with disabilities, those in precarious work situations, migrants, and those with unpaid full-time caring responsibilities over the life-cycle).

The experience of CIB delivery services is that the soon-to-retire population present in large numbers every year seeking information and clarification relating to their pensions. Frequently, contact with a CIS or CIPS is related to an unsatisfactory outcome in accessing or clarifying their pension entitlement. Some of these queries highlight policy issues or administrative blockages and these are recorded on the CIB Oyster Database as Social Policy Returns (SPRs), that is, indicative cases illustrating policy concerns. See Table below for breakdown by category of the issues identified for 2019/2020 in relation to pensions.

Pensions-related Social Policy Returns, 2019-2020	%
Information gaps	32.5
Access and administrative barriers	31.6
Anomalies in policy	19.7
Gaps and inconsistencies in provision	16.2

Information gaps identified in SPRs typically refer to:

- People not understanding how the Homemaker’s Scheme works
- People on Disability Allowance not knowing that this would cease on their reaching age 66 and that they needed to apply for a Non-Contributory Pension
- People not being advised by the Department that they may have entitlement to State Pension Contributory (SPC)
- Payments being received by people but no explanation as to how they were calculated
- Lack of clarity as to how and when discretion is applied in relation to the end-date of employment – the end of the relevant year rather than the actual date of cessation of employment
- People not being aware that the Qualified Adult Increase would be means-tested on the Qualified Adult’s income

Access and administrative barriers identified in SPRs typically refer to:

- People not being able to make contact by telephone
- People not having access to a computer and/or Internet
- Application forms getting lost in the system
- People who may be eligible for Non-Contributory Pension not receiving notice of same
- Delays in decisions being made on applications

The most commonly reported anomaly during 2020 referred to people aged over 66 who are working to top up their pension income but who are not eligible for any Covid-19 payment on loss of employment.

In relation to gaps and inconsistencies in provision, some instances were reported where pensions were calculated using the yearly average method when calculation using the Total Contributions Approach (TCA) would have resulted in a higher rate of pension.

#### Key points relevant to the work of the Commission

State pensions are the most important source of income among older people. The majority of over-66s in Ireland rely solely on the State Pension. The SPC scheme is clearly very effective in preventing poverty among older people and represents excellent value for money, particularly for those on lower incomes. The Actuarial Review of the Social Insurance Fund as referenced in the Consultation Document found that somebody earning the minimum wage would get four times back in payments on what they and their employers would put in through PRSI contributions. This is a centrally important point and one which should be at the core of public debate on pensions and related PRSI contributions.

Those aged 65 and over have the lowest at-risk-of-poverty rate compared to any other age group. Consistent poverty rates decrease by age group. In 2019, of those aged 0-17, 8.1% were in consistent poverty, compared with 5.1% of those aged 18-64 and 2.3% of persons aged 65 and over.<sup>5</sup> In this regard, it is evident that current pension arrangements and the level of payments are working well for most groups of current pensioners in terms of minimising the risk of poverty. However, there are clearly some people for whom the system is not working and the Commission is rightly focusing attention on such groups. Also relevant is a lower receipt of SPC among poorer households and lower average contributory pensions as well as significant gender difference associated with labour market history.<sup>6</sup>

One of the ways in which a lack of fairness has long permeated the Irish pension system is the manner in which entitlement to a pension from the State has been based on social insurance contributions. This ties pension entitlements to an individual's labour market participation history and has historically resulted in lower pensions (and sometimes no pensions at all) for people (mainly women) who have spent long periods away from the labour force raising families or caring for family members with high support needs. Also, the system as it currently operates presents challenges and difficulties for many people in terms of information and guidance in relation to pension entitlement. This matter is discussed further below.

<sup>5</sup> CSO Survey of Income and Living Conditions 2019, <https://www.cso.ie/en/releasesandpublications/ep/p-silc/surveyonincomeandlivingconditionssilc2019/introductionandsummaryofmainresults/>

<sup>6</sup> Bertrand Maitre and Anne Nolan ESRI (2019), Poverty among the Older Population, <https://www.esri.ie/sites/default/files/media/file-uploads/2019-09/Poverty%20among%20the%20older%20population%20powerpoint.pdf>

### Pension sustainability

It has been well documented, including by the Commission, that with the ageing population, there will be a relatively smaller proportion of working people to pay a higher pension bill. The commitment by the Minister that current pension rates will not be reduced is welcome. However, unless the pension fund is increased, this commitment will clearly impact on the money available to Government to fund other income supports and health and social housing. This will be particularly difficult in the post Covid-19 climate as the Government seeks to stimulate economic recovery. It is evidently the case that if younger generations are to benefit from a relatively generous Irish State Pension system as is the case at present, the pension fund must be increased.

It should also be borne in mind that pension 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. In addition, ensuring that more people can access the SPC – people in precarious and contract employment, lone parents, people with disabilities and carers – will evidently increase the cost of pension provision. This increase in costs needs to be fairly spread across generations in the longer-term. This is essential in order to ensure that people who will be eligible for SPC in the coming decades will be able to get a pension at a level broadly similar to the current one. However, this will almost certainly require that this cohort of people pay higher PRSI contributions. If this change is not made, it is very likely that the system will become unsustainable.

The sustainability of the SPC should be assessed across all of the aspects of state pension supports and not just those funded from the Social Insurance Fund. For instance, such an assessment should take account of the large annual amounts of tax relief allocated to the accumulation and drawdown of private pension savings and the cost of ancillary benefits/supports available on a non-means tested basis to pensioners (e.g. free travel, household benefits). In this regard, account needs to be taken of the fact that the benefits of pension tax relief accrue predominately to higher rate tax payers and the benefits of non-means tested ancillary supports accrue to all pensioners irrespective of means.

### Financing sustainable State Pension arrangements into the future

CIB is of the view that if people generally are to accept paying more PRSI to achieve sustainable State Pension arrangements, there is a clear need for a strong and proactive information campaign as to why this is necessary with particular emphasis on sustainability in the medium to longer-term. It would be particularly important to highlight the potential effects of a higher and increasing spend on pensions on other Government services unless additional funding is provided through the social insurance system.

The Commission should 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).<sup>7</sup> There should be a statutory right to remain working until pension age. Increasing the State Pension age without also addressing contractual retirement ages will maintain these gaps.

---

<sup>7</sup> The Board welcomes the new Benefit for people aged between 65 and 66 years announced recently by the Minister for Social Protection.

<https://www.gov.ie/en/press-release/5d70a-new-benefit-payment-for-65-year-olds-now-available/>

CIB believes that the State Pension age should be increased incrementally over a period of 10 years. This is necessary and logical as a result of increased life expectancy, improved health outcomes for people in later years, the willingness of many people to continue working and, very importantly, the contribution that older workers can make to the workplace and to society.

The option to work longer may become more attractive, perhaps, as home working becomes more prevalent. People who continue to work after State Pension Age should continue to pay PRSI contributions (perhaps, at a reduced rate) in order to continue to contribute to the social insurance fund from which they are now benefiting. It is relevant to note that currently there is no retirement condition in respect of the SPC (that is, it is possible for someone to work and to get the SPC, but they no longer make PRSI contributions).

The Commission should explore in detail how flexible retirement pathways could allow for early and deferred retirement (which may include combining pension and employment income). Also, enabling later working could allow people affected by shorter careers and/or periods out of the workforce to build up contributions.

#### Filling any income gaps between retirement age and State Pension Age

While this is a matter that will have to be dealt with in the short-term (e.g., through the current Specific Benefit Payment for 65 year olds who have had to retire), it would seem entirely logical that the mandatory legal retirement age should be the same as the State Pension age. Also, the condition of not engaging in paid work attached to the Specific Benefit Payment is somewhat counter-productive in terms of encouraging older people to remain attached to the labour force.

#### Pensions and full-time family carers

It is noted that the Pensions Commission is specifically tasked with considering how people who have provided long-term care for people with a disability 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 SPC and improved their rate of payment. CIB very much welcomes the recognition in the Programme for Government of the need to address the pension issue as it affects family carers.

The following are the main issues relating to family carers and eligibility for SPC which have been identified by CIB delivery services:

The requirement to have 520 paid PRSI contributions presents a difficulty for many carers who, because of full-time caring responsibilities for a child with a disability over many years were unable to work at all or only for very short or spasmodic periods of time. While the Total Contributions Pensions option has resulted in significant improvements for family carers accessing SPC, some remain outside its provisions because they do not have 520 paid PRSI contributions over their lifetime.

There are a number of possible measures that should be considered by the Commission in developing a pension solution for people providing full-time care over many years. These include:

- 1) The provision of a dedicated Carers' SPC for 'lifetime carers', that is, people who had never been part of the workforce or had to leave it for extended periods of time and, therefore,

would not qualify for a SPC under general criteria – a 20-year full-time caring role could be used to identify eligible people under such a provision.

- 2) Another option would be to reduce the 520 paid contribution requirement for lifetime carers.
- 3) Since payment of Voluntary Contributions can help maintain or improve a person's contributory pension entitlements, the requirement to have paid at least 520 weeks PRSI in either employment or self-employment might be excluded for people who have become full-time carers.
- 4) Consideration should be given to abolishing the Qualified Adult means test for people who have been lifetime carers.<sup>8</sup>
- 5) Providing lifetime carers with more regular PRSI statements with an interpretation of what their pension entitlement is likely to be and highlighting the possibility of paying voluntary contributions should be made a key action requirement for the DSP.

While the idea of having a specific provision for lifetime carers may be contrary somewhat to a mainstreaming and inclusive approach to pensions provision, it is reasonable to suggest that it would offer a pragmatic way of dealing with a relatively small cohort of people who currently have no entitlement to SPC. Lifetime carers would typically be parents of children born with profound disabilities and who cannot remain in the workforce and are unlikely to be able to return to the workforce due to the long term nature of their caring responsibilities. Clearly, there would be a need to develop criteria for identifying people who would fit into this category and work would be required on this, including, in particular, a clear agreed definition of 'lifetime carers'. Also, it may be necessary to include some component of an income test in order to ensure that very wealthy people who did not require a SPC would be excluded from eligibility.

#### Total Contributions Approach

The Board is fully in agreement with the move towards a Total Contributions Approach (TCA) whereby entitlement to SPC is determined by the total number of contributions paid and credited during a person's working life.

The TCA should be underpinned by an approach where information is presented in an accessible and easy to understand format which would enable all future pensioners to easily understand their contributions records. This should include a forecasting facility to enable people to estimate their likely future pension entitlements.

---

<sup>8</sup> If a person does not qualify for a SPC in their own right, their spouse/partner can get an Increase for a Qualified Adult (IQA) which is paid directly to the person. However, while a person's spouse/partner's income is not taken into account, any income the qualified adult has from employment, self-employment, savings, investments or capital is assessed.

It will also be necessary to have an ongoing transition period beyond 2021 which gives people the option to calculate their pension entitlement under either yearly averaging or total contributions as is currently the case.<sup>9</sup>

Even assuming that workers retire later in future, the increasing tendency to stay longer in full-time education and therefore enter employment later, coupled with the continuing necessity or preference to take time out of the workforce to fulfil caring responsibilities or return to education means that accumulating 40 years of PRSI contributions in order to qualify for a full pension is likely to prove a significant challenge for many who are dependent on short-term, temporary or precarious work. This is a matter that needs to be kept under review.

#### Increasing the rate of PRSI paid by current taxpayers

Current rates of employee, employer and self-employment PRSI contributions are low relative to other EU and OECD countries. Increasing PRSI contributions would increase the sustainability of the state pensions. However, caution is required here. For example, MABS has regularly raised concerns about the capacity of people on persistently low incomes to pay increased PRSI contributions in a sustainable manner. In that regard, some consideration might be given to a lower incremental scale of contributions or a longer timeframe for low income workers to reach higher level of contributions to address affordability issues.

#### Why maintaining a sustainable State pension system is important

Reliance on SPC remains strong among all age-groups. For example, survey findings<sup>10</sup> show that 28 per cent of adults at the early stages of their career (aged between 25 and 34) believed they would primarily be dependent on the State pension in retirement while that percentage increased to 50 per cent for those aged 55 and over.

The 2019 CSO Pensions Survey<sup>11</sup> found that In Quarter 3 2019, almost six in every ten (59.8%) of all workers aged between 20 and 69 years had supplementary pension coverage. This includes occupational pension coverage from current or previous employments and personal pension coverage including those where payments have been deferred for a period of time or are currently being drawn down by the pension holder. This effectively means that more than one-third of workers will be totally reliant on the State pension when they retire. Analysis of pension coverage by broad occupational groups shows that workers whose occupation was classified as 'professionals' had the highest pension coverage rate (86.4% of persons working in this area), whereas just over one-third of workers, whose broad occupational group was sales and customer service, had pension coverage. Migrants from other countries (who could conceivably constitute an increasing proportion of the work force), are far less likely to have some form of private pension saving.

---

<sup>9</sup>This option will continue to be appropriate for people at a stage of life when they would experience difficulties in improving their contributions record but had a reasonable expectation that their future state pension entitlement would not change significantly.

<sup>10</sup> Reported in Irish Times 24/11/2020 [Workers have little idea of the cost of retirement income \(irishtimes.com\)](https://www.irishtimes.com)

<sup>11</sup> CSO Pensions Survey 2019, <https://www.cso.ie/en/releasesandpublications/ep/p-pens/pensioncoverage2019/>

CIB takes the view that pension policy reform should be based on the premise that an expanded state pension system has the capacity to help provide a more equitable, comprehensive structure of pensions in the future. State pensions also have the capacity to adapt in the future to changing economic and demographic trends. Also, unlike the proposed mandatory auto-enrolment system, the State system is already nationally established and politically accountable, and has both public credibility and legitimacy. Ensuring the fiscal sustainability of the State pension system is the logical strategy to adopt at this juncture.

While the Commission is not considering pensions other than the State pension, an important factor in considering the sustainability of the pension system in the longer-term is the cost to the Exchequer of subsidies for the private pension system. This figure needs to be made transparent – it was estimated in 2007 that it cost almost as much as the cost of direct expenditure on social insurance pensions.<sup>12</sup> While this figure will certainly have reduced because of changes to the rates of tax exemption, it would be beneficial to the work of the Commission to analyse trends in more recent years. A critical question that is not going away is what value for money is being received for the substantial tax reliefs the State is providing to support and develop the private pension system.

CIB believes that the most effective way of meeting the challenge of increasing pension benefits and containing pension costs as the population ages would be to rely on the existing mandatory public system rather than increasing pension tax reliefs or underpinning a mandatory private system.

#### *The 'Contributory Principle'*

Clearly those qualifying for SPC should have contributed towards that pension to the maximum extent possible. The maintenance of the contributory principle, which guarantees that people who make a minimum number of contributions to the Social Insurance Fund will receive a pension regardless of their income or household status, is paramount. The social insurance system provides a guarantee that benefits will be paid as of right in return for contributions, which form the basis of such a right. While the system is not actuarially based in that the benefits paid are not directly linked to the level of contributions made, it has the key elements of an insurance-based system. Therefore, the system should continue to be operated on the basis of a requirement for a minimum number of paid contributions for minimum pension entitlement. As suggested above, lifetime family carers should be exempt from this requirement.

#### Information on the pensions system

Because of the complexity of current provisions in respect of SPC, it is very difficult for citizens in some situations to understand their entitlement. It is also very difficult for intermediary information workers and statutory officials to understand and explain the system clearly and accurately.

Proactive information provision by statutory officials is of paramount importance in terms of ensuring that people are fully aware of both their pension entitlements and of ways of maximising these entitlements. The need for people to be fully informed of the possibility of getting PRSI credits or making voluntary contributions in a range of circumstances has been referred to already. While there is a lot of written information available, frequently people are unable to decipher this

---

<sup>12</sup> TASC/TCD Pension Policy Research Group (2007), *Submission to Government on Proposed Green Paper on Pensions*, [http://groireland.ie/en/downloads/tasc\\_tcd\\_pprg\\_response\\_gp.pdf](http://groireland.ie/en/downloads/tasc_tcd_pprg_response_gp.pdf)



information as it applies to their own situation and need ‘hands on’ assistance in this regard. Such assistance is regularly provided by CISs and CIPS.

#### Deferred Pension

The possibility should be explored of introducing provision for people to have their pension deferred and to continue making contributions after age 66 in order to either qualify for a pension or receive an increased pension. The latter operates in the UK and in other European countries when certain conditions are met. Further exploration is needed as to how people can be encouraged, where they so wish, to extend their working lives without financial penalty.

#### Increasing the pension age

One way of mitigating the cost of pensions is for people to stay in the workforce for longer, so fewer are drawing the pension at an earlier age. In 2020, 97,000 people over the age of 65 were active in the labour force, according to the CSO<sup>13</sup>. In 2020, there were 29,400 women aged over 65 in the labour force indicating that women’s participation in the workforce in this age cohort has grown significantly in recent years. The increased participation by women in the 65-plus age group in the workforce may be related to the fact that women are typically less likely to have entitlement to SPC in their own right and less likely to have a private or occupational pension. Clearly, for some, staying in the work force is not an active choice but rather a way alleviating poverty in their later years.

While increasing the pension age has the potential to lessen the drain on pension funds, it may be somewhat of a misconception to believe that increasing the State pension age would proportionately relieve the burden on the State. Currently, if a person retires at 65, they can now claim Special Benefit (if they meet contribution conditions) up to age 66 at which point they can claim SPC. As this entitlement applies until “pensionable age”, it may be that there would be relatively little gain for the Exchequer from increasing the pension age unless there is congruence between retirement age and pension age.

#### Key considerations for the Commission

CIB identifies the following as key factors which should inform ongoing discussions on pensions:

- The lower at-risk-of-poverty rate among the older population (over 65) is strongly related to the fact that state pensions have been increasing at a faster rate than either prices and earnings;
- The public pension system continues to be the main source of pensioners’ incomes and the private pension system is a minor source of retirement income;
- The main underlying principle of the State pensions system should be that people have eligibility for and entitlement to a contributory pension in their own right (rather than a non-contributory pension or as a qualified adult).

---

<sup>13</sup> CSO Labour Force Survey Q4 2020,  
<https://www.cso.ie/en/releasesandpublications/er/lfs/labourforcesurveylfsquarter42020/>

- The pension system should encourage longer working, to improve both sustainability and adequacy
- CIB is of the view that expansion of the State pension system is the logical way forward for the following reasons:
  - The SPC continues to be generous by international standards.
  - It is already a comprehensive system, both in coverage and in the significance of the pension in the overall incomes of pensioners;
  - An insurance based system is based on a certain probability that payments will be made;
  - Universal pension insurance can reduce risk to individuals because risk is shared across society and over time -a public pension system can incorporate risk sharing in ways not possible for private pension provision;
- The policy of increasing social welfare pensions by more than the rate of inflation should be continued;
- The possibility of introducing provision for people to have an option of working beyond the age of 66 should be proactively explored and a number of changes should be introduced, including:
  - Allowing people the option of deferring their pensions and then receiving an enhanced pension (based on actuarial advice) when they opt to draw it down;
  - Requiring those who work beyond 66 to pay PRSI, thereby contributing towards qualification for a full state pension (this would benefit workers who had broken service (especially women who have taken time out from paid employment to raise their family) and do not currently qualify for a full pension at 66.
- There should be a specific focus on how to include people with disabilities (who are now being encouraged and facilitated through the Comprehensive Employment Strategy for People with Disabilities to engage in work) in the social insurance pensions system.
- The current SPC system does not provide adequately for financial security in later years for many people who have spent their lives in caring roles – specific SPC provision needs to be made for lifetime carers.
- The Total Contributions Approach, as currently constituted, would still require a person to have 40 years of paid or credited contributions to secure a maximum state pension – this will clearly not be possible for many people.

Without reform, the rising cost of the State pension, combined with our ageing population, will impose a significant financial burden on future generations and potentially cause a reduction in the living standards and financial well-being of today's workers when they come to retire. For this reason, PRSI pension contributions should be increased on a phased basis while taking into account the potential difficulties of any such increases for very low income households. This would need to be accompanied by a strong and open education/information campaign about the absolute need for public pension sustainability in the longer-term.

Finally, and very importantly, people clearly need to have trust in the pensions system and to be able to understand it and easily access the pension to which they are entitled.