An Roinn Caiteachais
Phoiblí agus Athchóirithe
Department of Public
Expenditure and Reform
Oifig An Ard-Rúnaí
Office of the Secretary General

19th March 2021

Secretariat
Pensions Commission
First Floor
Áras Mhic Dhiarmada
Store Street
Dublin 1
D01 WY 03

Dear Secretary

Re: Submission to the Pensions Commission

Please find attached my Department's submission to the Pensions Commission in response to its public consultation process on sustainable State Pensions into the future.

While officials from this Department attend the meetings of the Pensions Commission, it is in the limited role of observer so I welcome this opportunity for my Department to contribute more directly to the deliberations of the Commission.

If you have any queries or require any further information in relation to this submission please do not hesitate to contact Ms. Jasmina Behan (jasmina.behan@per.gov.ie or Ph: 01 604 5590)

Yours sincerely

David Moloney
Acting Secretary General

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An Roinn Caiteachais
Phoiblí agus Athchóirithe
Department of Public
Expenditure and Reform

Submission to the Pensions Commission

March 2021

Prepared by Department of Public
Expenditure and Reform
www.gov.ie

Key Messages

- A projected shift in the demographic composition of the Irish population in the future will pose significant challenges for the management of public expenditure, as well as the sustainability of the State Pension system. All evidence suggests that people are living longer and the population is ageing. The old age dependency ratio – the number of retirees expressed as a share of the working age population – is projected to double between now and the mid part of this century.

- It is important that any recommendations of the Pensions Commission are fully costed in terms of public expenditure requirements, with sources and degree of funding clearly identified.

- The issue of sustainability is complex in the context of the State Pension system. The OECD review (2014)[1] recognises this and concludes that

"the most logical approach to defining financial sustainability involves some form of long-term actuarial equilibrium. This means that the pension system is in balance over time: the stream of contributions and other revenues over a suitably long horizon (50-70 years) is enough to pay for projected benefits over that period."

- In this context, the sustainability issue can be considered to be two-fold:
  - Controlling expenditure escalation over time.
    a. Over the last ten years (2011-2020), expenditure on State pensions increased from €6bn to €8.5bn, primarily as a result of increased expenditure on the State Pension (Contributory) which has increased from €3.6bn in 2011 to €5.8bn in 2020 due in the main to an increasing number of recipients over this period. While the demographic composition of the population is favourable at present, expenditure on pensions will continue to grow as the population ages.
    b. Based entirely on changing demographics, the repeal of legislation increasing the pension age to 67 years in 2021 is estimated to be costing more than €200 million in additional expenditure this year.

[1] OECD (2014), OECD Reviews of Pensions Systems: Ireland

Over the 2021-2035 horizon, it is estimated (based solely on changing demographics) that keeping the pension age at 66 would result in higher cumulative expenditure of €13.5bn relative to a scenario where the State pension age increases to 67 in 2021 and 68 in 2028. Even a delay to the change in the State Pension age to 67 in 2028 and 68 in 2035 is estimated to cost €8bn in additional expenditure relative to the scenario where the State pension age increased to 67 in 2021 and to 68 in 2028.

- Ensuring adequate revenue streams to fund future pension expenditure.
    a. The Actuarial Review of the Social insurance Fund (SIF), published in 2017, projected an excess of expenditure over income to increase to €3.3 billion by 2030 and to €22 billion by 2070 due to population ageing. The review also highlighted that multiples of current contribution rates (equalised contribution rates) would be required to balance the Fund's income and expenditure over a 50 year projection period. For example, without Exchequer subvention, projected contribution income would need to be 174% of the current projected contribution level over the period in order to keep the fund in balance.

- A change to the State Pension Age has knock-on effects on the costs associated with public service occupational pension expenditure including a direct impact on the Single Public Service Pension Scheme (the "Single Scheme"). The overall expenditure associated with the State Pension Age remaining at 66 would increase annually until it represented in the region of 5% of the total annual public service occupational pensions bill. This is projected to add approximately €93 million to annual occupational pension expenditure by 2060 or more than €4.0bn over time.

- In summary, reforms of the State Pension system should be considered in the context of the following:
  - Ensuring that any reform is examined in terms of its impact on public expenditure and how it will be funded;
  - Ensuring that reforms place future public expenditure on pensions on a sustainable footing;
  - Ensuring that there is an adequate revenue stream to fund pension expenditure;
  - Pension expenditure should also be considered within the wider economic and political context:
    a. The potential for pension expenditure to crowd out other public expenditure; and
    b. The issues with the cyclical nature of SIF expenditure, as highlighted by COVID-19. In particular, the SIF surplus of almost €4bn (excess of income over expenditure) which was recorded over the years 2016-2019 has been exhausted to fund additional COVID-19 related expenditure in 2020. A subvention from the Exchequer will be required this year to make up the difference between income and expenditure.
  - Being cognisant of the implications that the decisions regarding the State Pensions have on the public service pensions system, notably in relation to the Single Pension Scheme, which is the default pension scheme for public servants recruited since 1 January 2013.

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1 Introduction

The projected change in the demographic composition of the Irish population in the coming decades will pose significant challenges for management of public expenditure. The old age dependency ratio – the number of retirees (+65 years) expressed as a share of the number of people of working age (15-64 years) – is projected to double between now and the mid part of this century. This means that while there are 5 people of working age for each person aged 65 and over at present, by 2051 the equivalent figure will be just over 2. Population ageing will also involve increased public expenditure in demographically sensitive areas, such as healthcare and pensions.

In November 2020, the Government established the Commission on Pensions. The Commission was set up to examine sustainability and eligibility issues in relation to the State Pension and the Social Insurance Fund. The Commission will also consider the issue of retirement ages in employment contracts that are different from the State Pension age and pension provision for Carers.

The Department of Public Expenditure and Reform welcomes the opportunity to provide a submission to the Pensions Commission. A key strategic goal of the Department of Public Expenditure and Reform is 'to manage public expenditure at sustainable levels in a planned, balanced and evidence informed manner in order to support Ireland's economic, social and climate goals.'[2] In this context, it is important to reflect on the impact of future demographic pressures on public expenditure in Ireland and on the funding of the State Pension system in order to ensure its sustainability. It also important to assess the impact any changes to the parameters for the State Pension could have on public service pensions.

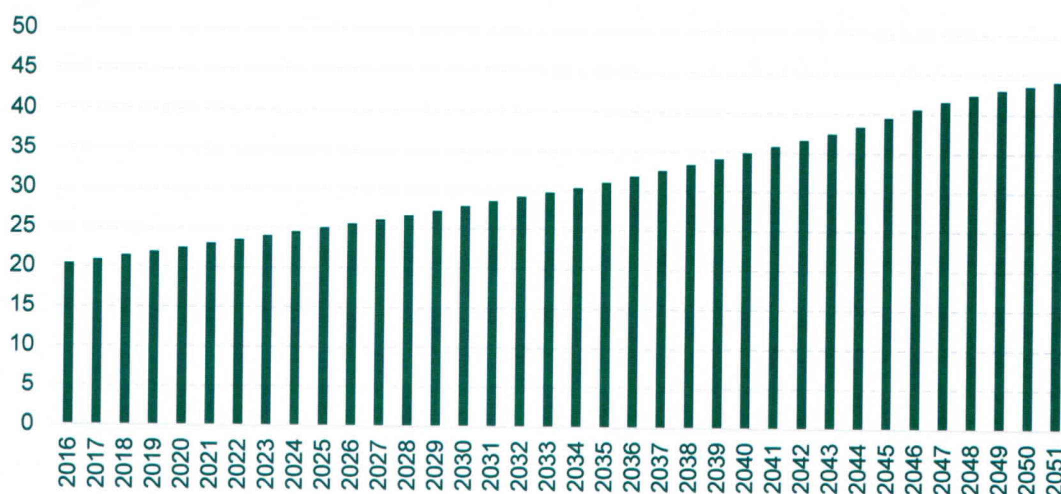
The structure of the rest of this submission is as follows. Section 2 presents the demographic challenge for policymakers which will emerge in the coming decades. Section 3 outlines issues surrounding the sustainability of the State Pension while section 4 examines issues regarding equity. Section 5 examines the impact any changes to the parameters for the State Pension could have on public service pensions. Finally, in Section 6 we conclude.

[2] Statement of Strategy, 2021-2023, Department of Public Expenditure and Reform.

2 Demographic Developments

The Irish population aged 15 and over amounted just below 4 million in 2020. At present, the number in the working age population (15-64) (WAP) currently stands at 3.2 million, while the number in the retirees population (65+) is 0.7 million. This implies an old age dependency rate (OADR) - the ratio of the number of retirees to the number in the working age population- of 22.1 per cent which is amongst the lowest in the European Union. While this demographic structure is favourable at present it will change in the years ahead. Figure 1 presents the development of the old age dependency ratio over the period 2016 to 2051 using the CSO's mid-scenario (M2F2) population projections.[3] The old age dependency ratio is projected to increase from approximately 20 per cent in 2020 to just above 40 per cent by the middle of this century. This shows that while there are currently around 5 people of working age for every retiree, by the middle of this century there will only be just over two people of working age for every retiree.

Figure 1: Old Age Dependency Ratio 2016-2051, retirees as % WAP



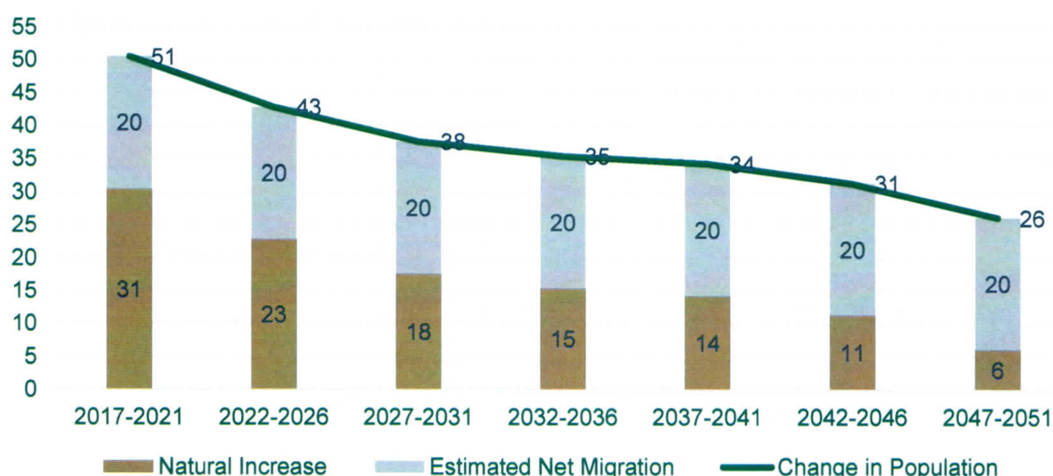
Source: CSO

According to the CSO mid-scenario (M2F2) scenario, the population will reach approximately 5 million in 2022 while continuing to grow and reach 6 million by 2050. The projection of the population is determined by the evolution of three variables: the number of births, the number of deaths and migration (see figure 2 where the natural increase is equal to the number of

[3] The CSO's mid-scenario is characterised by. **F2:** Total fertility rate to decrease from 1.8 to 1.6 by 2031 and remain constant thereafter to 2051. **M2:** Net migration +20,000 per annum to 2051.

births minus the number of deaths). The main factors impacting the number of births annually are the number of women of child bearing age (15 - 49 years) and their fertility levels. The total fertility rate has fallen in recent years from 3.2 per cent in 1979 to 1.72 in 2019. This is expected to continue as the F2 fertility scenario assumes that the fertility rate will decrease from 1.8 to 1.6 by 2031 and then stabilise at this level until 2051. The decline in Ireland's fertility rate has generated a convergence with EU norms as prior to this Ireland experienced exceptionally high fertility rates. Projections around the number of deaths expected in the future are based on assumptions around mortality rates. In 2016, life expectancy for females in Ireland was 83.4 years and for males it was 79.6 years which represents a substantial increase from 57.9 years and 57.4 years for females and males respectively in 1926.

Figure 2: Decomposing the Average Annual Change in the Population, thousands

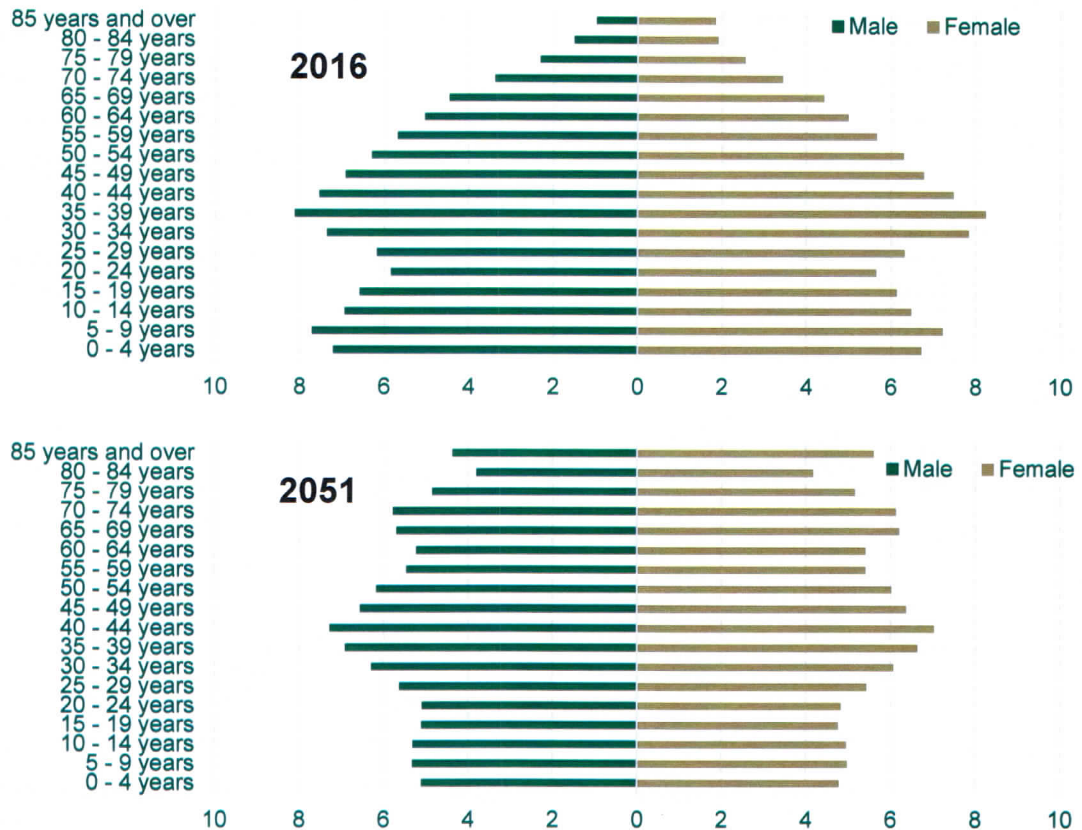


Source: CSO

By the mid part of this century, the projected number of people in the working age cohort is 3.5 million (59 per cent of the total population), while the number in the retirees cohort is 1.5 million (26 per cent of the population which is an increase from 13 per cent in 2016). As a result, the old age dependency ratio is projected to double between now and the mid-part of the century, increasing from 20 per cent in 2016 to 44 per cent in 2051. This shift in composition of the population can be seen in the population pyramids presented in Figure 3 below. In the top chart, the pyramid has a broad base and narrow peak indicative of a relatively young population with fewer older people. In this case the largest age cohort is the 35-39 year olds. The lower chart presents the population pyramid in 2051 based on the CSO's M2F2 scenario. Compared to 2016, the base of the pyramid is narrower while the top is wider, indicating that there will be more retirees. In this case, the largest cohort

is the 40-44 year olds. Both charts indicate that there will continue to be a large working age population.

Figure 3: Population Pyramids in 2016 and 2051, per cent of population



Source: CSO

Population ageing will present considerable challenges for policymakers. Firstly, the economic growth rate is likely to slow relative to current rates as the growth in labour supply or more specifically the number of people in the working age population, a key determinant of the potential growth in the economy, will slow (Department of Finance, 2018; Fiscal Council, 2020). As tax revenue typically moves in line with growth of the wider economy, the pace of revenue growth is also likely to slow in the coming decades (Department of Finance, 2018). On the other side, demographically sensitive public expenditure including pensions, healthcare and long-term care will increase (D/PER, 2019; Department of Finance, 2018; Fiscal Council, 2020).

3 Sustainability

The State Pension operates on a pay as you go basis which means that the pensions received by retirees today are paid for by the taxes and social insurance contributions of today's workers. As outlined in the Roadmap for Pension Reform 2018-2023, such a model is only sustainable as long as there are four or more workers for every retiree drawing down from it. The projected ageing of the population in the coming decades will see the number of retirees more than double and the number of people working for each retiree will fall from 4.5 in 2020 to 2.3 in 2051. This raises significant issues for the sustainability of the State Pension system.

The issue of sustainability is complex in the context of the State Pension system. The OECD review (2014)[4] recognises this and concludes that

"the most logical approach to defining financial sustainability involves some form of long-term actuarial equilibrium. This means that the pension system is in balance over time: the stream of contributions and other revenues over a suitably long horizon (50-70 years) is enough to pay for projected benefits over that period."

The sustainability of the State Pension system should be viewed in the context of the expenditure on the State Pensions, trade-offs between pensions and other public expenditure, impact on the deficit and public debt level and the impact on the Social Insurance Fund (SIF). The following subsections will present an overview of some of these issues.

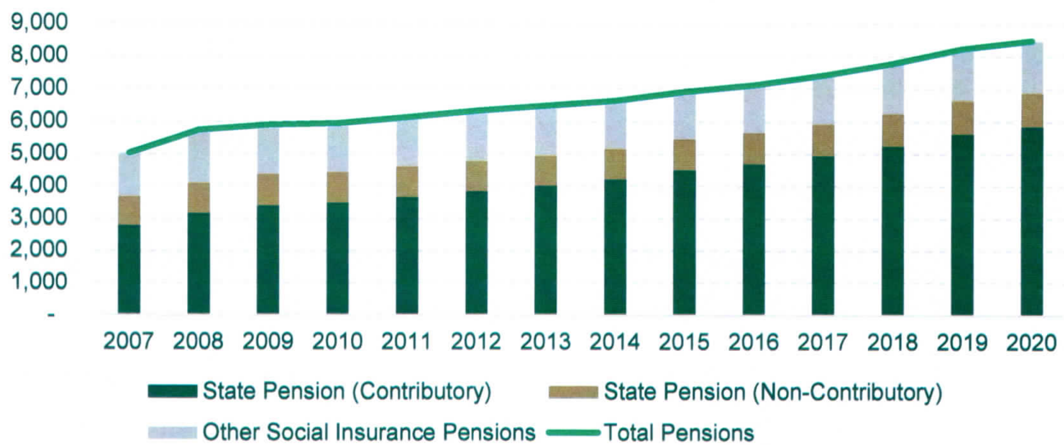
3.1. Expenditure on the State Pension

Public expenditure on the State Pension (contributory, non-contributory and other social insurance pensions) has grown in recent years from €5 billion in 2007 to €8.5 billion in 2020, an increase of 70 per cent (Figure 4). The share of pension expenditure in total gross expenditure of the Department of Social Protection (DSP) has also increased from 32 per cent in 2007 to 39 per cent in 2019. This growth in pension expenditure can primarily be explained by increased expenditure on the State Pension (Contributory). Expenditure on the State Pension (Contributory) represented over two thirds of the

[4] OECD (2014), OECD Reviews of Pensions Systems: Ireland

expenditure on pensions in 2019 and 27 per cent of the total expenditure in the DSP in 2019. Expenditure on the State Pension (Contributory) increased from €2.8bn in 2007 to €5.8bn in 2020, an increase of 112 per cent, primarily as a result of the 89 per cent increase in the number of recipients over that period (Figure 5).

Figure 4: Public Expenditure on State Pensions, €m



Source: D/SP Annual Statistical Information on Social Welfare Services Report 2019

The increased expenditure on the State Pension (Contributory) can largely be explained by two factors: the number of recipients (demographics) and weekly rates of payment. The increase in the number of recipients explains the majority of the increase in expenditure in the State Pension (Contributory) since 2007 – an increase of approximately 200,000 people or 89 per cent. In contrast, the maximum weekly personal payment rate grew by 19 per cent over the period 2007-2020, although much of this increase in payment can be primarily explained by the €3 increase announced in Budget 2016 and the €5 increases announced at Budget 2017, Budget 2018 and Budget 2019.

Figure 5: Recipients of the State Pension (Contributory), number

Source: D/SP Annual Statistical Information on Social Welfare Services Report 2019

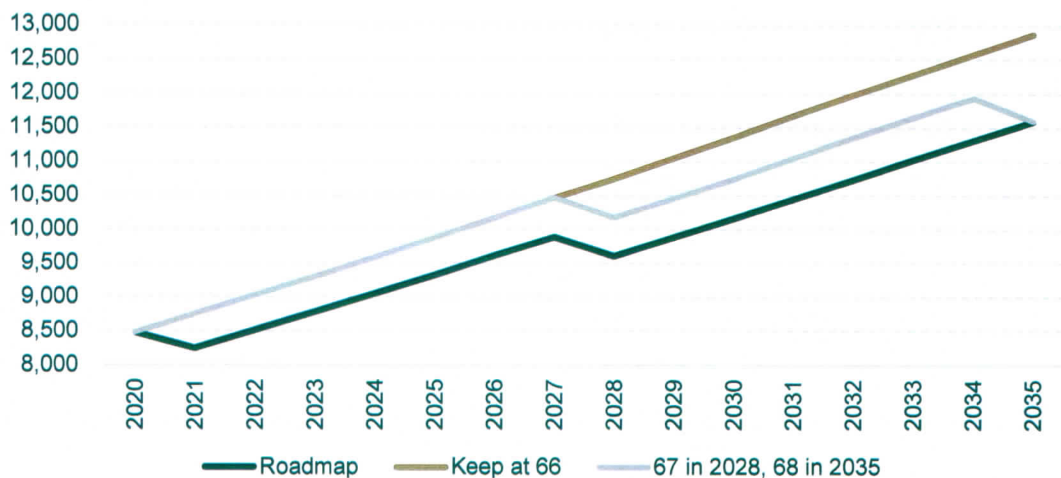
The legislation underpinning the increases in the State Pension age, to 67 in 2021 and 68 in 2028, has been repealed. Using the CSO's M2F2 population projections, we update the analysis in D/PER (2019) and estimate the 'pure' demographic cost pressures[5] of pension expenditure over the period 2021 to 2035. This is outlined in Figure 6 below using three scenarios; 'Roadmap' which incorporates the change in the State Pension age to 67 in 2021 and 68 in 2028, 'Keep at 66' which keeps the State Pension age at 66 over the projection horizon, while '67 in 2028, 68 in 2035' delays increasing the pension age to 67 in 2028 and to 68 in 2035.

Under all scenarios annual pension expenditure is increasing based purely on demographics. As outlined in Figure 6 below, we estimate that had the State Pension age increased from 66 to 67 in 2021 then overall costs of pension expenditure would have fallen by approximately €230m relative to the previous year. Instead, the State Pension age has remained at 66 which has an estimated additional cost of approximately €270m relative to the previous year, broadly in line with the additional funding of €220m which was allocated in Budget 2021 to retain the State Pension age at 66.[6] Over the full horizon, we estimate that keeping the pension age at 66 would result in higher cumulative expenditure of €13.5bn relative to 'Roadmap' baseline while delaying the change in the

[5] It is assumed that the utilisation remains constant at the reference year level 2020. The estimates are based on current coverage rates and unit cost. The projections are based on the assumption that the only variables changing over the projection period are the size and age distribution of the population.
[6] See Budget 2021 Expenditure Report. Available here:
http://budget.gov.ie/Budgets/2021/Documents/Budget/Expenditure%20Report%202021.pdf

State Pension age to 67 in 2028 and 68 in 2035 would result in higher cumulative **expenditure of €8bn relative to the 'Roadmap' baseline.** While changes to the State Pension age are unlikely to be as pronounced as those outlined in Figure 6, the chart highlights the potential impact of increasing the State Pension age on the sustainability of the State Pension system. While the increase in the State Pension age may have a disproportionate impact, in terms of equity, on those who entered the labour market at a young age compared to those who stayed longer in education (which is the case also at present), it will also have a significant impact on the financial sustainability of the State Pension system.

Figure 6: Demographic Cost of Pension Expenditure per year, €m



Source: D/PER (2019) and CSO Population Projections

Using the same approach to the analysis presented above, D/PER (2019) examines the pure demographic impact of changing demographics on social protection, health and education expenditure. While taking account of the increase in the State Pension age in 2021 and 2028, they estimate an increase in **pension expenditure from €8.3 billion in 2020, to just under €10 billion in 2030, representing an additional funding requirement of €1.7bn** over 10 years. As the population continues to age, expenditure on the State Pension will continue to grow.

In its Long-Term Sustainability Report, the Irish Fiscal Advisory Council note that projected increases in government spending between 2019 and 2050 are primarily driven by pension and healthcare costs. The Fiscal Council estimate that government spending

on the State's pension costs (including public sector pensions) would increase from 7.7 per cent of GNI* in 2019 to 11.9 per cent in 2050, assuming that the pension age increases to 67 in 2021 and to 68 in 2028 (Fiscal Council, 2020).[7] This is broadly in line with the projection by the Department of Finance who project an increase in gross pension expenditure from 8 per cent of GNI* in 2020 to 11.7 per cent of GNI* in 2050, before falling to 10.3 per cent of GNI* in 2070 (Department of Finance, 2018). The Department of Finance also note that the profile of expenditure growth in the State Pension and public service occupational pension expenditure will differ. In particular, spending on the State Pension is projected to increase while the public service occupational pension is projected to reduce as a share of GNI* up to the middle of this century. The majority of the increase in total pension expenditure as a share of GNI* can be attributed to the State Pension (Contributory).

The reduction in projected public service occupational pension expenditure over the long term arises primarily as a result of a number of significant public service occupational pension reform measures that have been implemented including:

- Integration of public service occupational pensions with the State Pension Contributory in 1995;
- Increase in the normal retirement age to 65 in 2004;
- Introduction of the Single Public Service Pension Scheme for all new entrant public servants from January 2013;
- Increase in the maximum retirement age to 70 for pre-2004 public servants in 2018.

Additionally, the conversion of the Pension Related Deduction (PRD) to a permanent Additional Superannuation Contribution (ASC), increasing employee contributions from €0.8bn to €1.4bn in 2019, further improves sustainability.

[7] See "GDP and Modified GNI" – Explanatory Note, Department of Finance 2018 for more information on GNI*.

3.2. Impact on the Public Finances

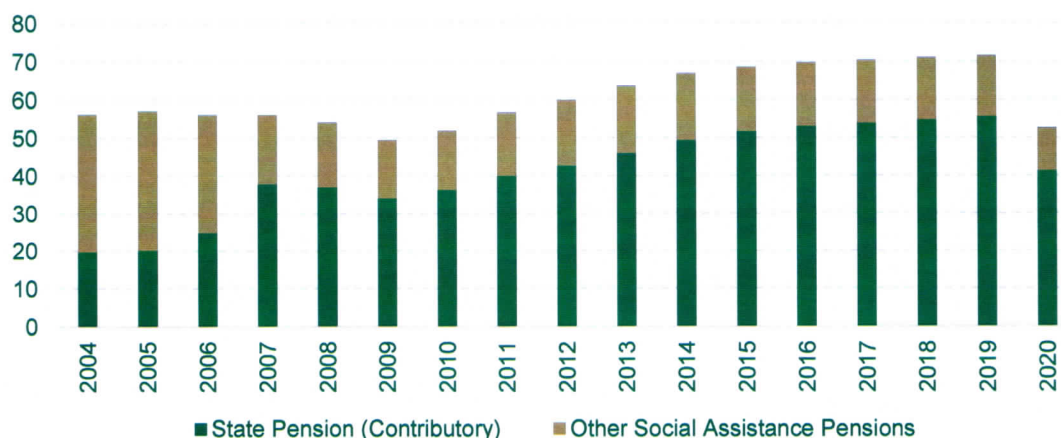
In its 2018 report, the Department of Finance also estimate the potential impact of population ageing on the public finances in the absence of a policy change to account for the ageing of the population. The Department of Finance project that age related increases in public expenditure and slower revenue growth result in a significant deficit of approximately 3 per cent of GNI* by the end of this decade and project the deficit to reach a peak at 8 per cent of GNI* by the middle of the century. As a result of these increased deficits, the Department of Finance also estimate that the stock of public debt would increase sharply. The projections suggest that the debt-to-GNI* ratio would increase by 50 percentage points from 114 per cent in 2016 to 165 by 2070. These findings are similar to those of the Irish Fiscal Advisory Council, who suggest that without policy changes, spending growth will run faster than revenue growth, resulting in large budget deficits after 2025 which is likely to result in a significant increase in the debt-to-GNI* ratio in the middle of this century (Fiscal Council, 2020).

While these projections are inherently uncertain and rely on assumptions which may not be realised, they highlight the potential negative impact of population ageing on fiscal sustainability.

3.3. Impact on the Social Insurance Fund

The State Pension provides payments under two types of schemes – social insurance and social assistance. Social insurance pension payments are funded through the Social Insurance Fund (SIF) which is made up of a combination of contributions from employers, employees and the self-employed, with a subvention from the Exchequer in the event of a shortfall in the fund. Social assistance payments are financed through general taxation. While State Pension payments are one of a number of benefits paid from the SIF, they represent a significant share of overall SIF expenditure, 73 per cent in 2019 (Figure 7).

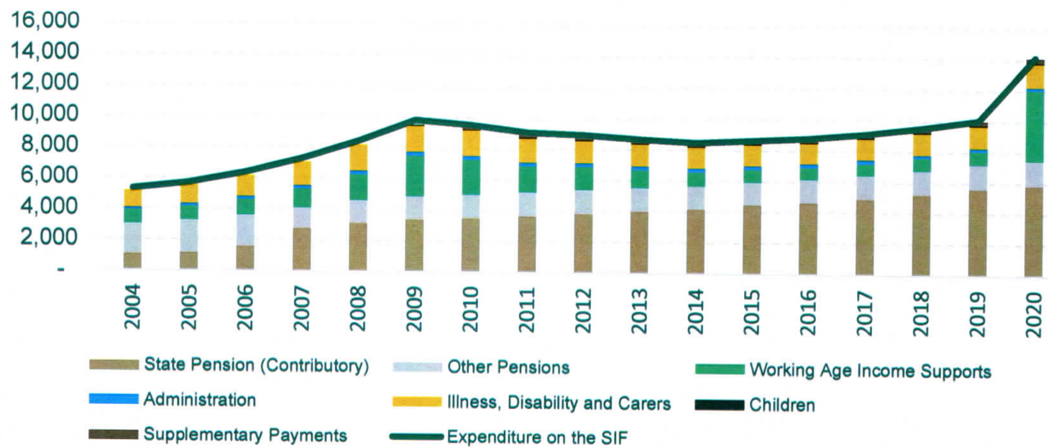
Figure 7: Share of Pension Expenditure in total expenditure on the SIF, per cent



Source: D/PER Databank

Expenditure on benefits from the SIF has grown from just over €5 billion in 2004 to €14.1 in 2020 (€10 billion in 2019), an increase of €8.8 billion or 167 per cent (Figure 8). While expenditure on pension benefits represents a large share of expenditure from the SIF, the SIF is not entirely allocated for pensions. In particular, the SIF also provides working age income supports, such as job seekers benefit, which typically follow developments in the business cycle. This is perhaps best seen in Figure 8 which shows the provisional outturn for 2020 and highlights an increase in working age income supports of €3.7bn relative to 2019 primarily on the back of Covid-19 related income supports. Spending on Illness, Disability and Carers which has also grown by 48 per cent since 2004.

Figure 8: Expenditure on the SIF, €m

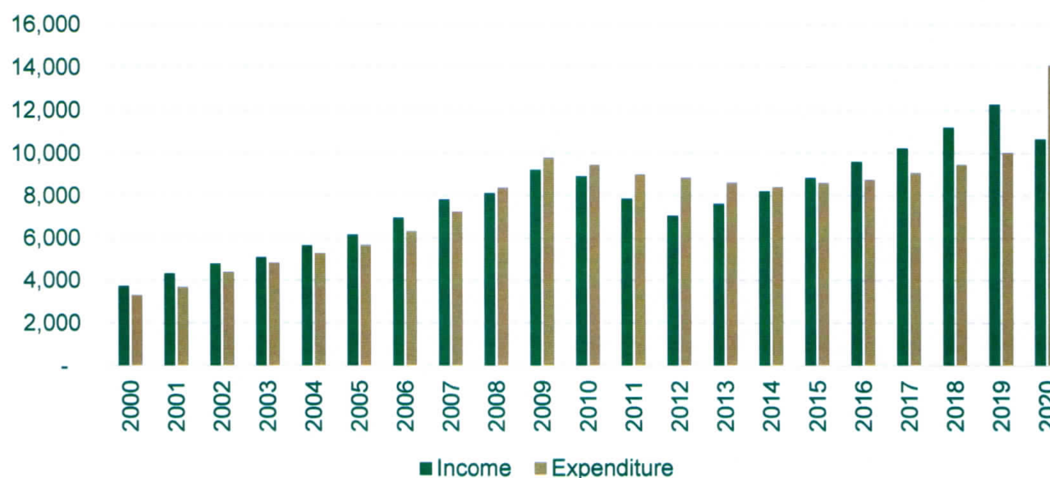


Source: D/PER (2019) Databank, Note: Expenditure presented here does not include payment to the National Training Fund.

As the Social Insurance Fund collects PRSI receipts as income and pays out social insurance benefits in the form of jobseekers benefit (and pensions) it is inherently cyclical. This cyclicality is presented in Figure 9. In the years leading up to the recession, income exceeded expenditure resulting in a surplus. However, following the onset of the financial crisis in 2008/2009, expenditure exceeded income which required subventions from the Exchequer over the years 2010-2015. This can be explained by the development in cyclical factors in the SIF – PRSI receipts decline during an economic downturn as there are fewer people in employment while people may also be eligible for other benefits such as jobseekers benefit if they become unemployed. On the other hand, pension expenditure is less cyclical. During an economic downturn it is unlikely that pension expenditure will decline, which will make it more difficult to ensure that there are adequate revenue streams to fund this expenditure.

Over the full period presented here, income more than tripled from €3.7 billion in 2000 to €12.3 billion in 2019 and, commensurately, expenditure increased from €3.3 billion in 2000 to €10 billion in 2019. However, with the onset of Covid-19 and the associated income support measures, the Pandemic Unemployment Payment and Covid-19 Illness Benefit, the 2021 Revised Estimates Volume includes a provision for a subvention from the Exchequer of €584 million for 2021. Between the increase in pandemic related income supports and the possible increase in the number of recipients of jobseekers benefit once the pandemic income supports cease it is likely that subventions from the Exchequer may be required in the future.

Figure 9: SIF Income and Expenditure, €m



Source: D/SP Annual Statistical Information on Social Welfare Services Report 2019

Note: Expenditure presented here does not include payment to the National Training Fund.

The impact of population ageing on the SIF was previously identified in the Actuarial Review of the Social Insurance Fund 31st December 2015 which was published in 2017 (D/SP, 2017). This review was carried out on the basis that the State Pension Age would increase to age 67 in 2021 and 68 in 2028, as set out in the Roadmap for Pension Reform 2018-2023.

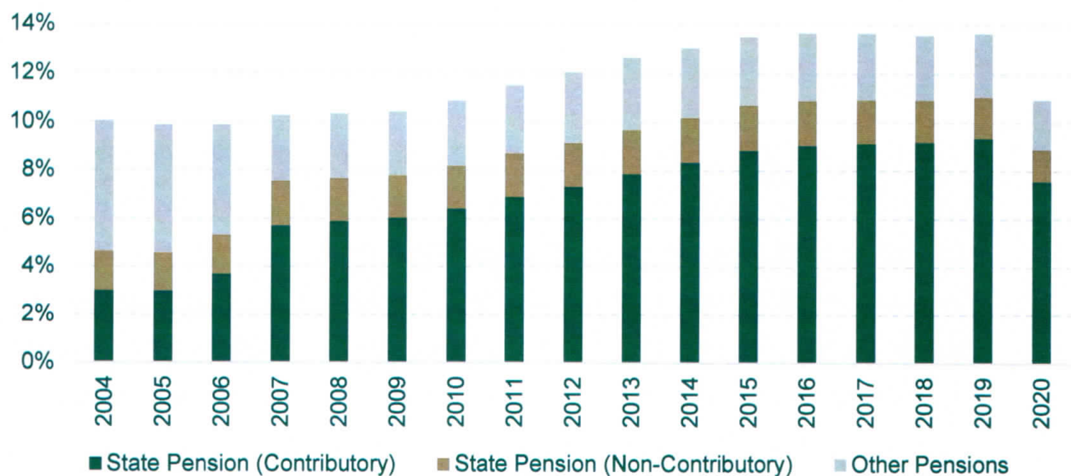
The review projected that the SIF would return a small deficit in 2020. This deficit was then projected to grow from 2021 onwards as a result of the ageing of the population. In the absence of policy changes, they projected the excess of expenditure over income to increase to €3.3 billion by 2030 and to €22 billion by 2070. The review also highlighted that multiples of current contribution rates (equalised contribution rates) would be required to balance the Fund's income and expenditure over a 50 year projection period. For example, without Exchequer subvention, projected contribution income would need to be 174% of the current projected contribution level over the period in order to keep the fund in balance. Since the preparation of this report, the legislation increasing State Pension Age in 2021 and 2028 has been repealed thereby increasing the level of expenditure from the SIF and consequently the level of PRSI contributions needed to project that the SIF would be self-financing over the projection period.

The report thereby notes that significant deficits will need to be funded by large Exchequer subventions in order to meet the expenditure demands in the absence of policy changes such as increases in PRSI income or reductions in expenditure levels.

3.4. Impact on other Public Expenditure

Demographic pressures will have a significant impact on public expenditure in the future. Additional ageing and health pressures will mean that the cost of maintaining existing levels of service each year are likely to be greater than the newly available resources each year (Fiscal Council, 2020). Over the last fifteen years the share of expenditure on pensions has increased from just under 10 per cent in 2004 to just below 14 per cent in 2019. The fall in the share in 2020 is explained by the large increase in expenditure during Covid-19. This share of pensions in total expenditure can be expected to increase over the coming decades as the number of retirees increases.

Figure 10: Expenditure on State Pension as % Total Gross Voted Current Expenditure



Source: D/PER Databank

4 Equity

The State's management of the State Pension is based on three pillars: adequacy, sustainability and equity. As outlined in the Roadmap for Pensions Reform 2018-2023, equity refers to how the current cohort of retirees benefit by reference to their need for a State Pension and to their number of contributions made during their working lives.

4.1. Total Contributions Approach

One of the reforms that has been introduced in recent years was the introduction of the Total Contributions Approach (TCA). In 2018, the interim Total Contribution Approach was introduced. Prior to this the State Pension (Contributory) was calculated using the yearly average approach. At present applicants for the State Pension (Contributory) are entitled to the greater of the entitlements under the yearly average and under the TCA which was extended to all who had applied for the State Pension (Contributory) since 2012.

The TCA removes the anomalies in the yearly averaging approach where an individual can qualify for a full pension based on a limited number of years of contributions with no gap in their record while a person with relatively more contributions, but with time spent outside the labour market, could be paid a reduced rate.

5 Public Service Pensions

5.1. Overview

This section outlines some relevant background facts regarding both the Single Public Service Pension Scheme (Single Scheme) and the pre-existing schemes.

Since 1995, new entrants to the public service receive superannuation benefits which are integrated with the State Pension (Contributory). The aim of this reform was to prevent "over pensioning" where both an occupational public service pension and the State Pension (Contributory) would both be payable.

The Single Scheme was introduced with effect from 1 January 2013 to improve the sustainability of public service pensions. It is a legislative scheme established under the Public Service Pensions (Single Scheme and Other Provisions) Act 2012. It is the default pension scheme for all new entrants to the public service since 1 January 2013, subject to very limited exceptions. The normal retirement age for Single Scheme members is aligned with the State Pension Age.

Those who joined the public service prior to that date are generally members of a range of public service pension schemes with different terms known as the "pre-existing schemes".

5.2. Features of the Single Scheme

There are three core reform elements inherent in the Single Scheme:

Later normal retirement ages

In the vast majority of cases, the normal retirement age of Single Scheme members is aligned to the age of eligibility for the State Pension (Contributory). This compares with the position in the pre-existing public service pension schemes, where normal retirement age is either 60 or 65, depending on date of recruitment.

Career Averaging

The Single Scheme benefits (pension and retirement lump sum) are based on average earnings over a public service career. This approach is in contrast to pre-existing public service pension schemes, where the benefits are based on service and final salary.

CPI indexation

The Single Scheme applies annual CPI indexation to increase the value of Scheme benefits accrued each year up to a member's retirement. This approach differs from pre-existing arrangements, where the pension and lump sum benefits are based on final salary and service.

5.3. Membership of Single Scheme

By the end of 2020 there were 166,000 Single Scheme members representing an average annual increase in membership of over 20,000 since 2013. As the default public service pension scheme, Single Scheme membership will continue to increase further. Single Scheme members are likely to form the majority of public service pensioners by the second half of the century.

5.4. Projected Savings from Single Scheme

When the Single Scheme was being developed in 2012, it was estimated that it would produce a long-term annual reduction in public service pension expenditure of 35% compared to the alternative of maintaining the pre-existing pension arrangements. The majority of these savings are expected to materialise after 2050, when significant volumes of Single Scheme members would become eligible to retire. The estimated long-term public service pension expenditure reductions were further quantified at €1.8 billion annually (based on 2012 price levels). The individual measures that were expected to give rise to those savings are:

Later normal retirement ages - the later normal retirement ages for Single Scheme members were expected to deliver approximately 17% of the Single Scheme's total savings.

Career Averaging - as pay levels during the early career stages tend to be lower than pay levels at retirement, the career average structure of the Single Scheme was expected to deliver approximately 28% of the Single Scheme's total savings.

CPI indexation - the CPI indexation of Single Scheme benefits accrued up to retirement, as well as to Single Scheme pensions in payment, were estimated to deliver in the region of 55% of Single Scheme savings.

5.5. Link to State Pension Age

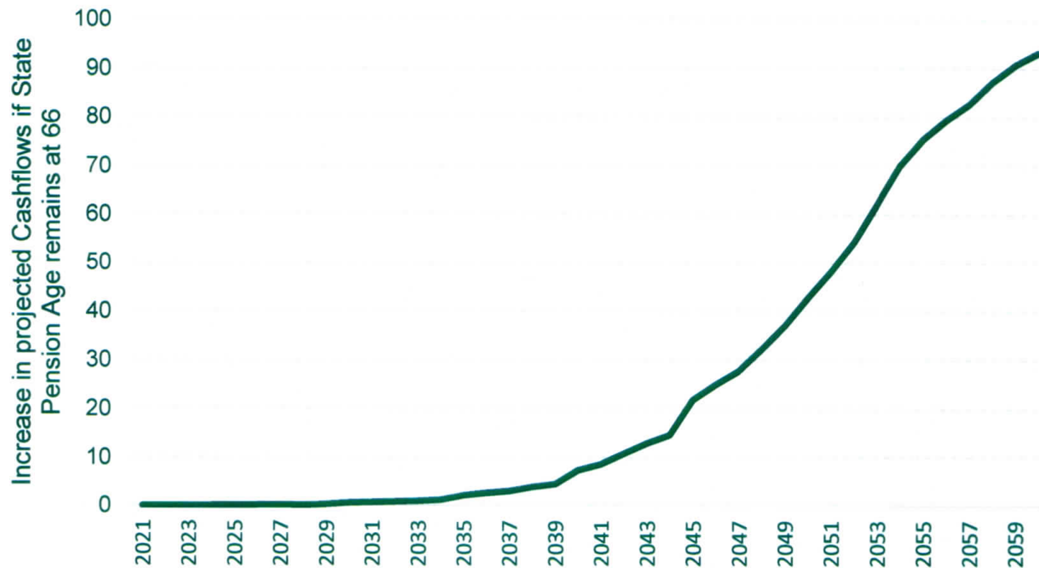
For 90% of Single Scheme members (the main exceptions being uniformed grades such as Prison Officers, members of An Garda Síochána, etc.), the normal retirement age is aligned to the age of eligibility for the State Pension (Contributory). That means that the earliest age at which most members of the Single Scheme can retire and receive their pension benefits is the same as their age of eligibility for the State Pension (Contributory).

When the Single Scheme was established in 2012, Section 7 of the Social Welfare and Pensions Act 2011 provided that the eligible age to receive the State Pension (Contributory) would increase to 67 years from January 2021, with a further increase to 68 years from 1 January 2028. It was on the basis of these legislated increases that the projected savings of 17% attributed to a later normal retirement age in the Single Scheme vis-a-vis the pre-existing public service pension scheme, and referred to in Para 5.4 were calculated.

Following the repeal of Section 7 of the Social Welfare and Pensions Act 2011, both the State Pension age and the Single Scheme normal retirement age remain at 66 years. Single Scheme members who would have previously been required to wait until 67 or 68 to retire, are in a position to retire at the age of 66, thereby receiving their occupational pension and their State Pension either one or two years earlier than expected. This will impose an ongoing cost, not just on the Social Insurance Fund in respect of the earlier than expected payment of the State Pension but also for the Exchequer in terms of the pay and pensions bill.

Figure 11 shows the incremental projected Single Scheme pension expenditure in the case of the State Pension Age remaining at 66 relative to the case of the State Pension Age increasing to age 67 in 2021 and 68 in 2028 as set out in the Roadmap for Pension Reform 2018-2023.

Figure 11: Projection of Single Scheme Expenditure, € millions



Source: D/PER

As a relatively new scheme, the profile of pension obligations in respect of the Single Scheme is immature, with few pensioners in payment and current obligations relating predominantly to young employees. Benefits are not expected to substantially materialise until 2045, and thus the impact of a change to the State Pension Age will become most significant from then onwards.

It is expected that the overall cost associated with the State Pension Age remaining at 66 would increase annually until it represented in the region of 5% of the total annual public service pensions bill. This is projected to add approximately €93 million to annual occupational pension expenditure by 2060 with long term cost implications of more than €4.0bn over time.

5.6. Integration of public service pensions

Approximately 86% of serving staff are members of public service pension schemes which are integrated with the State Pension (Contributory). There are a variety of different terms (e.g. accrual rates, retirement age etc.) attaching to these schemes depending on date of entry.

An important feature for these schemes which is worth highlighting relates to integration with the social insurance system. From April 1995, the Government implemented a reform to public service occupational pensions; all future entrants to the public service from that point would pay full PRSI, be fully insured and be eligible for the State Pension as a part of their overall pension entitlement.

Essentially, this means that social insurance benefits such as the State Pension are taken into account as part of the overall pension benefits for retired public servants. The aim of this reform was to prevent "over pensioning" where both an occupational public service pension and the State Pension would both be payable.

6 Conclusion

The changing demographic composition of the Irish population in the coming decades will pose significant challenges for the management of public expenditure. While it will continue to grow in absolute terms, the working age population will reduce relative to the number of retirees, from 5 people of working age at present to just over two people of working age for each retiree in the middle of this century.

Overall, it is important that any recommendations of the Pensions Commission are fully costed in terms of public expenditure requirements with sources and degree of funding clearly identified.

As outlined in this submission, reforms of the State Pension system should be considered in the context of the following:

- Ensuring that any reform is examined in terms of its impact on public expenditure and how it will be funded;
- Ensuring that reforms place future public expenditure on pensions on a sustainable footing;
- Ensuring that there is an adequate revenue stream to fund pension expenditure;
- Pension expenditure should also be considered within the wider economic and political context:
  - The potential for pension expenditure to crowd out other public expenditure;
  - The issues with the cyclical nature of SIF expenditure, as highlighted by COVID-19. In particular, the SIF surplus of almost €4bn (excess of income over expenditure) which was recorded over the years 2016-2019 has been exhausted to fund additional COVID-19 related expenditure in 2020. A subvention from the Exchequer will be required this year to make up the difference between income and expenditure.
- Being cognisant of the implications that the decisions regarding the State Pensions have on the public service pensions system, notably in relation to the Single Pension Scheme, which is the default pension scheme for public servants recruited since 1 January 2013.

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