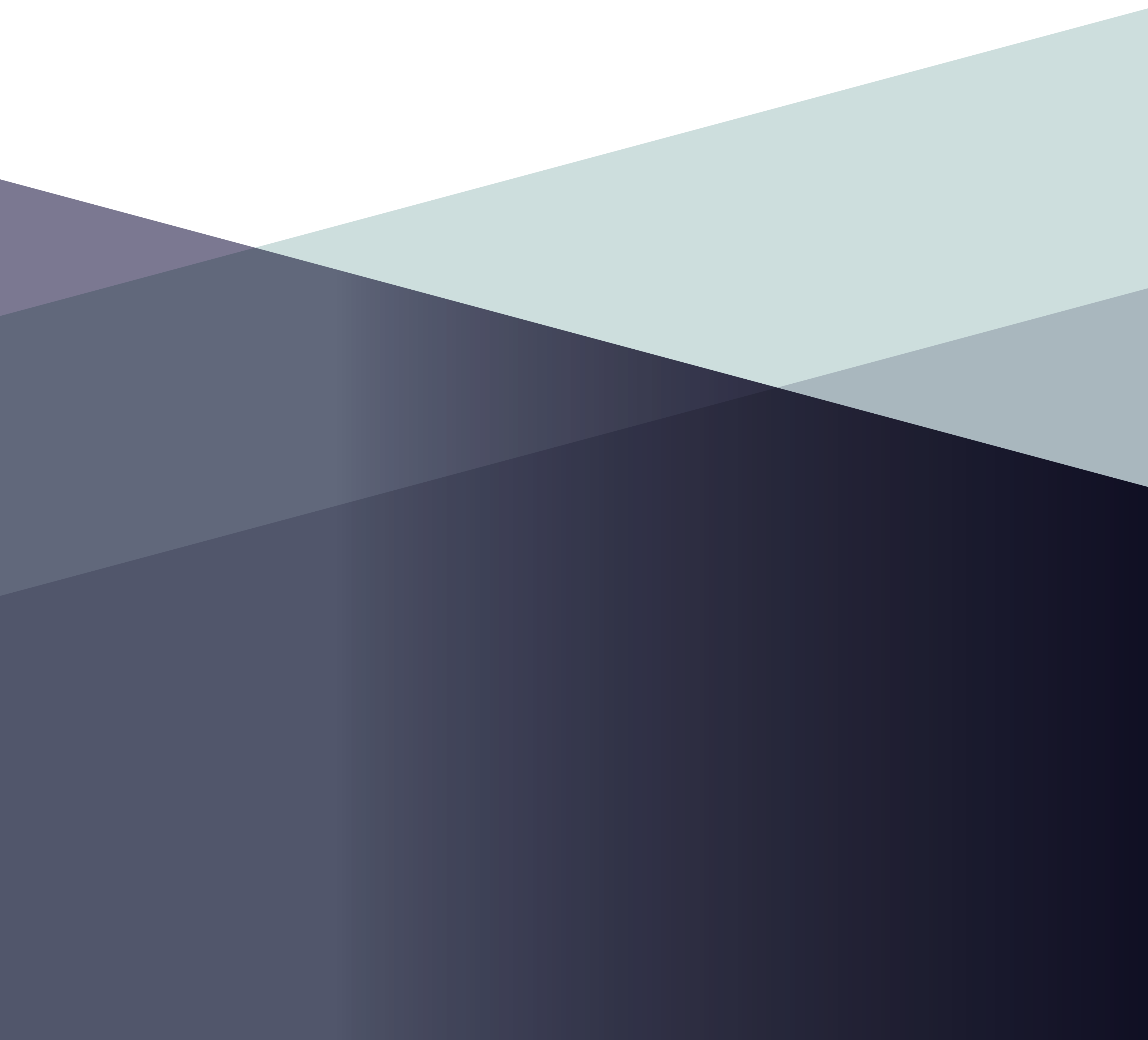
An Coimisiún Pinsean
The Pensions Commission

Report of the Commission on Pensions



Contents

Chairperson's Foreword 5

Executive Summary 7

The Commission's Conclusions and Recommendations 15

Table of Abbreviations 22

Chapter 1: Setting the Scene 24

1.1. Establishment of the Pensions Commission 24

1.2. Terms of Reference 24

1.3. Context and Scope of the Commission 25

1.4. Membership of the Pensions Commission 26

1.5. Support to the Commission 27

1.6. Transparency of work 27

1.7. Consultation Process 27

1.8. Technical Sub-Committee 29

1.9. Structure of this Report 30

Chapter 2: The State Pension System 31

2.1. The Pension System in Ireland 31

2.2. The State Pension System 31

2.3. Trends in number of pensioners by scheme 33

2.4. Trends in number of pensioners by gender 34

2.5. Trends in expenditure by scheme 35

2.6. The State Pension System and Poverty Prevention 37

2.7. Value for money of the State Pension 40

2.8. Conclusions 41

Chapter 3: The Social Insurance Fund 42

3.1. The Social Insurance system in Ireland 42

3.2. Social Insurance Fund income and expenditure 44

3.3. Key developments in the social insurance policy 48

3.4. Conclusions 49

Chapter 4: Demographic and Expenditure Projections 50

4.1. Sustainability Challenges 50

4.2. Demographic Changes 51

4.3. International Comparisons 54

4.4. Expenditure Projections 55

4.5. Limitation of Projections 58

4.6. Conclusions 58

Chapter 5: The Commission's Approach to its Work		**59**
5.1.	Sustainability	59
5.2.	Fiscal Sustainability	59
5.3.	Social Sustainability	63
5.4.	Implementation Principles	64
5.5.	The Commission's Conclusions and Recommendations	64
Chapter 6: Funding State Pensions – Structural		**66**
6.1.	PAYG financing of State Pensions	66
6.2.	Separate account within the SIF for State Pension contributions	67
6.3.	Annual Exchequer contribution to the SIF	69
6.4.	Alternatives considered	71
6.5.	Universal Pension	74
6.6	The Commission's Recommendations	78
Chapter 7: Payment Rates		**80**
7.1.	Background	80
7.2.	Consultation Findings	82
7.3.	Adequacy and Sustainability	82
7.4.	Smoothed earnings	82
7.5.	Alternative approaches to benchmarking and indexation	85
7.6.	Independent body	86
7.7.	The Commission's Recommendations	87
Chapter 8: Total Contributions Approach		**89**
8.1.	Policy Context	89
8.2.	Current Methodologies for Calculating SPC Rate	90
8.3.	Consultation	93
8.4.	International Context	93
8.5.	Fully moving to a Total Contributions Approach	95
8.6.	Transitional Arrangements	96
8.7.	Fiscal Impact	96
8.8.	Gender, Equality and Poverty Proofing	97
8.9.	Alternatives Considered	98
8.10.	The Commission's Recommendations	99
Chapter 9: Long Term Carers		**101**
9.1.	Introduction	101
9.2.	Barriers to accessing State Pensions	101
9.3.	Identification of Long-Term Carers	102
9.4.	Current Recognition of Carers in the State Pension System	103
9.5.	State Pension System – Safety Net for Carers	104

9.6. Consultation 104
9.7. International Examples 105
9.8. Sub-Committee – Proposal for Long-Term Carers 106
9.9. Alternatives Considered 108
9.10. Costs 110
9.11. Gender, Equality and Poverty Proofing 112
9.12. Implementation Considerations 113
9.13. The Commission's Recommendations 114
Chapter 10: Retirement Age in Employment Contracts 115
10.1. Current Framework 115
10.2. Consultation Findings 118
10.3. Policy Issues 118
10.4. Policy Objectives 119
10.5. Alternatives Considered 121
10.6. Fuller working lives 123
10.7. Fixed-term contracts 124
10.8. The Commission's Recommendations 125
Chapter 11: State Pension Age 127
11.1. Introduction 127
11.2. Previous Policy Reforms 127
11.3. International Context 128
11.4. Consultation Findings 129
11.5. State Pension Age Savings 131
11.6. Implementation Considerations 133
11.7. Effective Retirement Age 133
11.8. Gender, Equality and Poverty Proofing 134
11.9. Alternatives Considered 138
11.10. The Commission's Recommendations 139
Chapter 12: Flexible Access 140
12.1. Background 140
12.2. International examples of flexibility 140
12.3. Deferred Access – Actuarial Increases 141
12.4. Deferred Access – Continue building SPC entitlement 143
12.5. Early Access – Long Contribution History 145
12.6. Alternatives Considered 148
12.7. Flexible Access - combined options 149
12.8. The Commission's Recommendations 150

Chapter 13: Increasing Social Insurance Fund (SIF) Income	**151**
13.1. Background	151
13.2. Class S PRSI (self-employed)	151
13.3. Class A PRSI (employers and employees)	155
13.4. Base broadening measures	159
13.5. Extending PRSI liability to people aged 66 and older	160
13.6. Removing PRSI exemption for supplementary pension income	162
13.7. Conclusions	165
13.8. The Commission’s Recommendations	166
Bibliography	**167**
Appendices	**172**
Appendix 1A: Organisational Submissions to the Public Consultation	172
Appendix 1B: Technical Sub-Committee Terms of Reference	174
Appendix 2A: Information on State Pension Schemes	175
Appendix 2B: State Pension Schemes Recipients/Beneficiaries, 2010 - 2020	177
Appendix 2C: SPC, SPNC, and WCP Recipients by Gender, 2010 - 2020	178
Appendix 2D: Expenditure on State Pension Schemes (€ millions), 2010 - 2020	179
Appendix 3A: Financing of the Social Insurance Fund (€ millions) 2010-2020	180
Appendix 3B: 2021 PRSI Rates	181
Appendix 3C: PRSI Classes and Benefits	183
Appendix 3D: PRSI Credited Contributions	185
Appendix 3E: SIF Performance 1952-2020	187
Appendix 3F: Recent Developments to the Social Insurance System	189
Appendix 4A: Overview of Labour Market Data	191
Appendix 4B: Overview of Government Policies Aimed at Older Workers	195
Appendix 5A: Gender, Equality and Poverty Proofing	198
Appendix 5B: Gender, Equality and Poverty Proofing Policy Options	204
Appendix 5C: Packages that Address Fiscal Sustainability	220
Appendix 8A: TCA and Yearly Average Approach	225
Appendix 9A: Carer Social Welfare Payments	232
Appendix 11A: Recognition of Arduous and/or Hazardous Jobs in Europe	238
Appendix 13A: 2016 Survey of the Self-Employed	243

Chairperson's Foreword

Irish people are living longer and staying well and healthy for longer which is really good news. It presents great opportunities but also a big challenge for all of us - how to make sure that the State Pension will still be enough to at least prevent poverty when there are many more people drawing it for many more years. This, in a nutshell, is the task given to the Pensions Commission in November 2020. It is by no means the totality of pension issues facing Ireland but is an essential foundation.

The Commission's remit is a narrow, focussed one which is considered in detail in this Report. However, it would be short-sighted not to note that this pensions challenge arises in the context of significant economic and financial challenges for the State, not confined to the health emergency, which will put pressures on Government spending and on Exchequer revenues. It would also be remiss not to note that some of those pressures will come from the broader needs of those people who are living longer, in relation to care and housing for example.

The Pension Age

The immediate driver for the establishment of the Commission was public disquiet at the prospect of a pension age increase in the context of the 2020 general election. It is notable that the disquiet was not confined to soon-to-be-pensioners. This suggests that the community attaches a very strong value to the State Pension, and a deep-seated community expectation for certainty that an adequate pension will be provided for them. It is notable too that housing and the health service scored much higher in voters' concerns at that time.

The Sustainability Question

While there are ranges in the projections, the trend is clear. The Commission is satisfied that the cost of the State Pension Contributory will increase very significantly - of the order of 65 per cent by 2030, which is no longer in the distant future. By about 2040, expenditure on State Pensions could consume the entire social insurance fund if nothing changes.

Whether this is fiscally sustainable or not will be a matter of policy choices made from time to time by Governments about spending priorities, taxation policies and sustainable levels of Government debt. But allocating the entire social insurance fund to the State Pension is unlikely to be socially sustainable when choices come to be made in relation to funding for housing, unemployment, the health service, and climate change for example, or between support for different generations.

The Commission's overall conclusion

Given these pressures, and to meet the community expectation of certainty, the Commission considers that it would be a strategic risk not to take steps to shore up the fiscal sustainability of the State Pension in its own right. The Commission has made several recommendations in this regard but in summary they are based on the values of social solidarity. On the principle that people hope to draw a State Pension for quite a long time and that everyone wants it to be enough to keep

the older members of our community free from risk of poverty, the Commission considers that everybody ought to contribute to help ensure that outcome, on the following basis:

- The entire community by way of a dedicated annual Exchequer contribution to the Social Insurance Fund from general taxation
- Future pensioners, by gradually paying more PRSI
- Future pensioners by accepting a very gradual increase in the pension age – much more gradual than previously planned
- Existing pensioners by paying more PRSI on other income which they might have.

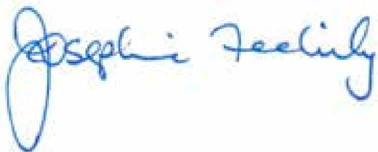
This approach is supported by recommendations to improve the structure and transparency of pension funding, for better communication and for independent benchmarking of pension rates. There are recommendations to address the specific needs of long-term carers and the retirement age in employment contracts. The Government asked the Commission for options, and these are set out in this Report, noting that changes to one element will require balancing amendments to others.

Acknowledgements

The Commission worked remotely for almost all its term. This presented a challenge which was only overcome by immense co-operation among members, who mostly did not know each other, and by very significant and unstinting support from the Secretariat, led by Roshin Sen. Our Technical sub-committee led by Roma Burke brought essential expertise and reassurance to the broader Commission, and Vice-Chair Ita Mangan gave invaluable support when it was needed.

Presenters, experts, and advocates gave generously of their time and perspectives and over 200 submissions and 1,100 online survey responses were made to the Commission.

Go raibh míle maith agaibh go léir.



Josephine Feehily
Chairperson

Executive Summary

Introduction and Context

The *2020 Programme for Government, Our Shared Future ('the Programme')* provided for the establishment of a Commission on Pensions: "to examine sustainability and eligibility issues with State Pensions and the Social Insurance Fund. The Commission will outline options for Government to address issues including qualifying age, contribution rates, total contributions and eligibility requirements."

This followed the 2020 General Election, during which the planned increase in the State Pension age to 67 with effect from 1st January 2021 featured to a notable extent. This public concern endures and was borne out in subsequent surveys and in many submissions to the Commission. The *Programme* also committed that, pending the Commission's report and any subsequent Government decisions, the State Pension age would remain at 66 years and the increase to 67 years would be deferred. This was implemented in the Social Welfare Act 2020, which repealed the legislative provisions increasing the State Pension age.

The Commission was also asked in its Terms of Reference to consider the issue of retirement ages in private employment contracts that are set below the State Pension age, and how the State Pension system can further accommodate long-term carers. The full Terms of Reference are listed in Box 1 below.

Box 1: Commission's Terms of Reference

The Terms of Reference for the Commission, taking account of issues of cross-generational equity, are to:

1. Review the current State Pension arrangements in terms of scheme types (the State contributory and the State non-contributory pensions), eligibility criteria, and trends in numbers qualifying, levels of expenditure, and levels of social insurance contributions, taking account, where relevant, of socio-demographic characteristics (for example, gender)
2. Review the projected changes in demographics, earnings and the labour market, and associated costs – examining information, data and analysis from various sources including the CSO, IFAC, Department of Finance studies, the Department of Public Expenditure and Reform, the Department of Social Protection, the *Actuarial Review of the Social Insurance Fund*, the EU and the OECD
3. Review previous analyses of the State Pension arrangements and recommendations for changes including those set out in the National Pensions Framework 2010, the OECD Review of Pensions in Ireland 2013 and the *Roadmap for Pensions Reform 2018 – 2023*
4. Review the situation in other countries, the changes they have planned or legislated for and the approaches taken
5. Seek views of recognised experts and representative/advocacy groups by inviting submissions and/or presentations
6. Examine how private sector employment contracts specifying retirement ages below the State Pension age may be impacting on the State's finances and pension system
7. Consider how people who have provided long-term care for incapacitated dependants can be accommodated within the State Pension system
8. Develop a range of options for the government to consider in order to address the sustainability of the State Pension and the Social Insurance Fund in terms of pension age, eligibility criteria, contribution rates, pension calculation methods and pension payment rates
9. Submit a report on its work, findings, options and recommendations to the Minister by 30th June 2021

The Commission noted that the scope of its work was positioned within a set of parameters and decisions already made by Government (see Chapter 1). These parameters include the continued existence of the Social Insurance Fund and of a State Pension based on contributions. The Commission concluded that its task, and the most appropriate and useful contribution it could make to the development and sustainability of the State Pension system was to consider and make proposals for amendments within the existing overall structure.

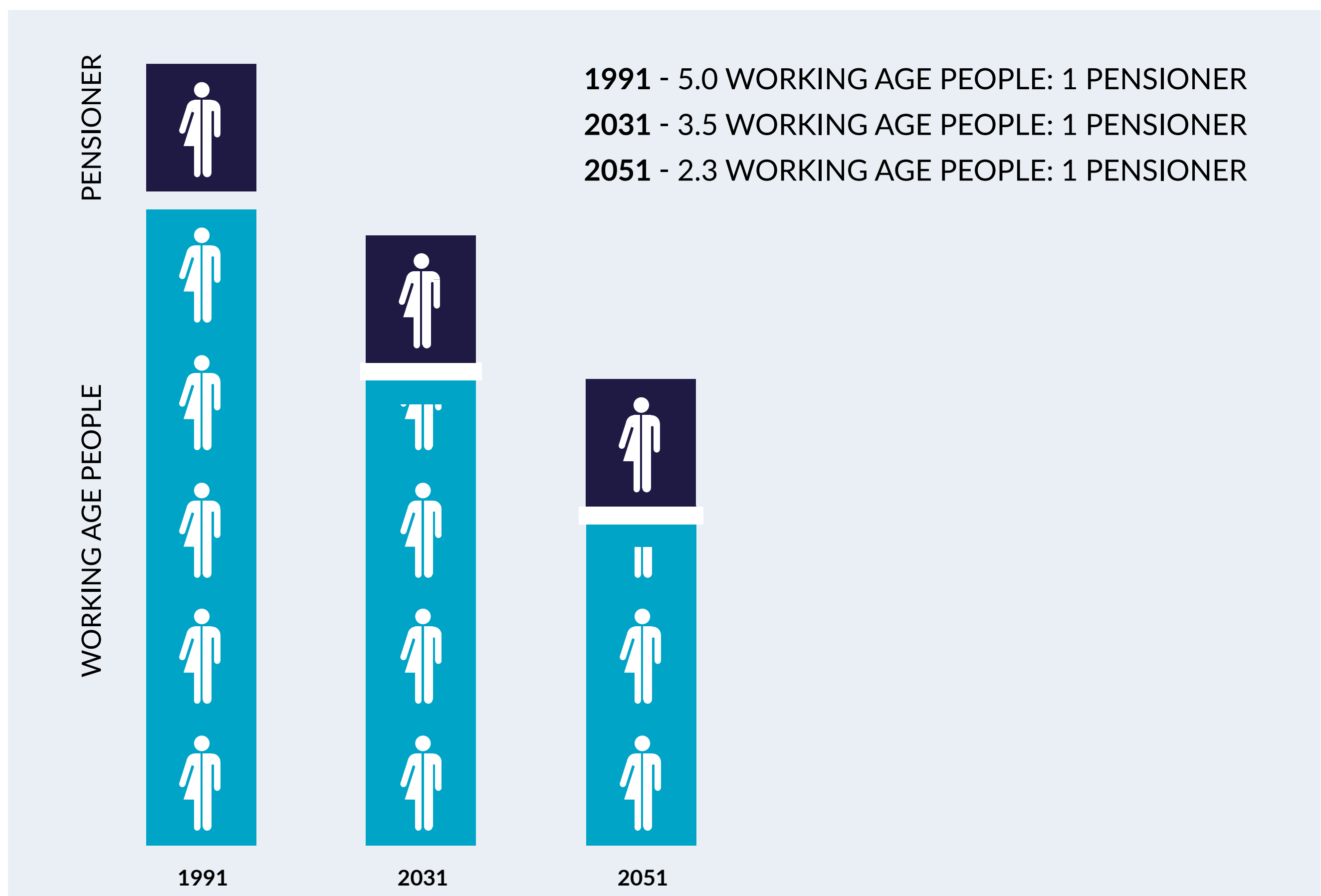
Sustainability Challenges

The Commission considered the scale of the fiscal sustainability challenge facing the State Pension system[1] and the Social Insurance Fund, based on analysis from a range of sources, including the Department of Finance and the Irish Fiscal Advisory Council, demographic projections from the Central Statistics Office, and material from the Commission's public consultation process. An update of the most recent *Actuarial Review of the Social Insurance Fund* (2017) was commissioned in order to have up-to-date projections of shortfalls in the Social Insurance Fund.

Some key statistics underpinned the Commission's deliberations.

- **Demographics:** the ratio of the working age population to the older population is changing. In 1991, there were 5 working age people for every pensioner. At the moment, this ratio is about 4.5 working age people to every pensioner. By 2031, this is projected to fall to 3.5 working age people to every pensioner and by 2051, to 2.3 working age people to every pensioner.

Figure 1: Old-age dependency ratios, 1991 - 2051



Source: CSO Presentation to the Pensions Commission on Ireland's Demography.

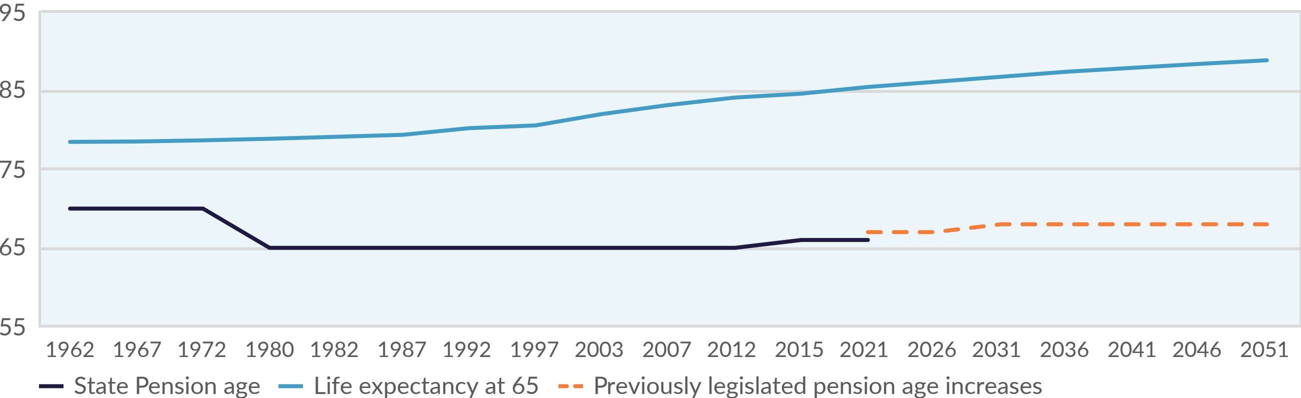
[1] 'State Pension', 'State Pensions' or the 'State Pension system' is used as appropriate to refer to the various State Pensions payments made by the Department of Social Protection – namely, the State Pension Contributory, the State Pension Non-Contributory, Widow/er's or Surviving Civil Partner's Contributory Pension and the Occupational Injuries Benefit - Death Benefit Scheme.

Ireland, in common with most developed economies, funds its State Pension system on a Pay-As-You-Go basis. This means that current workers fund the State Pension payments of current pensioners. In an ageing population, this means that a smaller proportion of working age people will have to fund the pension payments of an increasing pensioner population.

- **Longevity:** Thankfully, people are living for longer and are healthier than previous generations. A man aged 65 has a life expectancy of 18.3 years, while a woman aged 65 has a life expectancy of 21 years (CSO figures for 2016). This has increased by approximately 5 years in the last two decades and is expected to increase by a further 3 years in the next two decades (to 21.9 years for a man aged 65 and 24 years for a woman aged 65 by 2041).

Figure 2 below shows the life expectancy for people aged 65 from 1962, just after the State Pension Contributory came into existence and the State Pension qualifying age. The difference between the two lines represents the average duration of State Pension payment.

Figure 2: Life expectancy from age 65, and State Pension qualifying age, 1962 - 2051

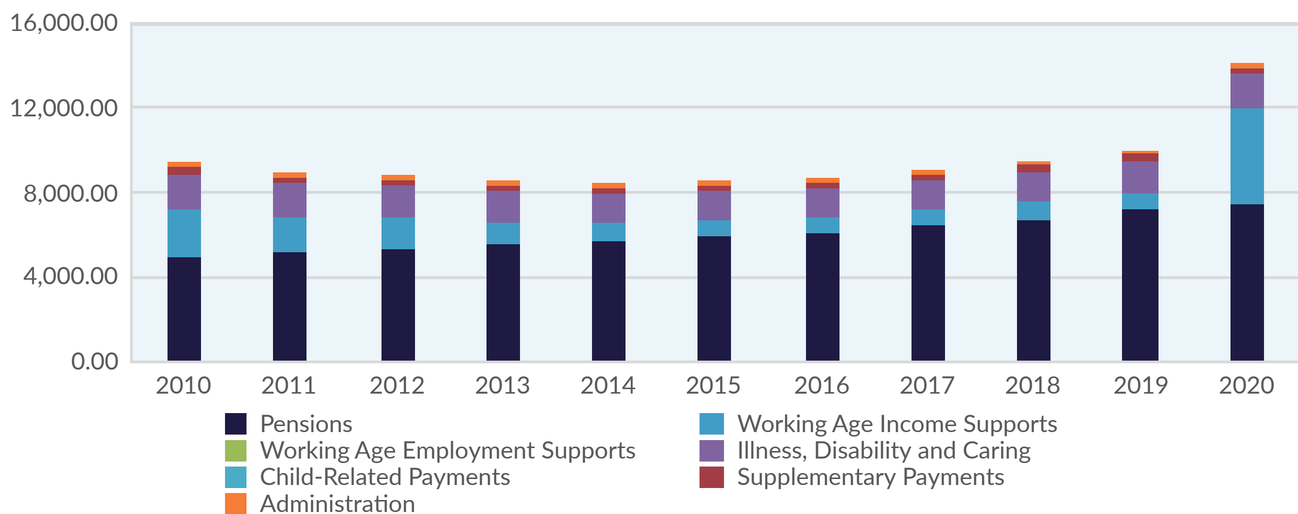


Source: IFAC Long-Term Sustainability Report, and CSO Projections

This shows that the duration of State Pension payments has been increasing steadily over time and will continue to increase further. This is good news, and it would be a strategic risk not to plan and provide for this change, not least in terms of income adequacy for older people.

State Pension expenditure: As a result of the ageing of the population and increasing life expectancy, the number of pensioners has been increasing steadily over the past decade, and projected to increase significantly into the future. Correspondingly, expenditure on State Pensions has been increasing steadily and significantly over the past decade. This is evident through the increasing amount of expenditure both in absolute terms – Social Insurance Fund (SIF) expenditure on State Pensions was less than €5 billion in 2010 and over €7.4 billion in 2020 – and in relative terms, where the proportion of the SIF spent on State Pensions steadily increased from 2010 to 2019. While there was a relative decrease in 2020, this was a consequence of the introduction of the Pandemic Unemployment Payment and is unlikely to affect the trend. Figure 3 below shows the increasing levels of expenditure in the context of the overall expenditure by the SIF.

Figure 3: Social Insurance Fund expenditure, 2010 to 2020



Source: Department of Social Protection, Annual Statistical Report Table A1

Analysis by the Department of Finance finds that, as a result of the ageing population, expenditure on State Pensions is projected to significantly increase over time – more than doubling from 3.8 per cent of GNI* in 2019 to 7.9 per cent in 2050, and increasing further to 9.3 per cent of GNI* by 2070. The update of the *Actuarial Review of the Social Insurance Fund* projects annual shortfalls in the SIF of €2.36 billion in 2030, rising to €8.56 billion in 2040, €13.35 billion in 2050 and €21.1 billion in 2070. These shortfalls predominantly arise due to projected increases in State Pension expenditure.

Adequacy

The fiscal sustainability of the State Pension system cannot be considered separately from the adequacy of the system. At the first meeting of the Commission, the Minister for Social Protection, Heather Humphreys TD, made it clear that the Government would not reduce current State Pension rates of payment. The Commission agreed from the outset that the Programme commitment in relation to the "maintenance of the State Pension as the bedrock of the Irish pension system" required that the State Pension continue to have an overarching objective of ensuring that the pension paid to recipients is adequate, as a minimum, to protect pensioners from poverty. In this regard, the Commission recommends the immediate implementation of benchmarking and indexation for future State Pension rate increases, as set out in the *Roadmap for Social Inclusion 2020 - 2025*, and furthermore recommends periodic reviews of this benchmark to ensure that it remains effective at preventing pensioner poverty (see Chapter 7).

In addressing fiscal sustainability challenges, the Commission considered social sustainability challenges to be equally as important. The Commission defined social sustainability as seeking to ensure that increasing financial costs can be shared fairly and equitably within and between generations. In this regard, the potential gender, equality and poverty impacts of possible policy reforms were considered together with the impact of policy reforms on fiscal sustainability. Where possible, these impacts were quantified, and in all cases, safety nets and mitigating factors were outlined. Where the safety nets were deemed to be inadequate, the Commission did not recommend the policy reform. A summary table of these considerations is set out in Appendix 5B of the Report.

Reforms to Address Fiscal Sustainability

In accordance with its Terms of Reference, the Commission considered a range of options for the sustainable financing of the State Pension system and the Social Insurance Fund in the coming decades, in the context of known increasing State Pension costs arising from an ageing population.

Within the State Pension system and the Social Insurance Fund, there are two broad approaches that can be taken to address fiscal sustainability challenges. Expenditure can be moderated through changes to payment rates or to eligibility conditions. SIF income can be increased by amending elements of its current tripartite funding arrangements.

- **Moderate expenditure:**
  - Reductions in weekly payment rates;
  - Design of the rate of payment calculation method (Total Contributions Approach**);**
  - Changes to eligibility conditions, such as increasing the State Pension age;
- **Increase SIF revenue:**
  - Increases in employer, employee and self-employed PRSI contribution rates;
  - Introduce PRSI base broadening measures;
  - Extend the role of Exchequer contributions beyond its current function of financing residual deficits.

Among the options that the Commission had been asked to consider, payment rates and the design of the Total Contributions Approach were not seen as policy levers appropriate to generate savings, given the State Pension's primary policy objective of preventing pensioner poverty.[2]

The specific policy levers considered by the Commission to meet the projected shortfalls in the Social Insurance Fund include:

- Increases to PRSI contribution rates for the self-employed, employees and employers;
- PRSI base broadening measures;
- Increasing the State Pension age; and
- Commencing annual Exchequer contributions to the State Pension Fund.

Using any one of these policy levers by itself to meet the projected shortfalls in the SIF would require such an extreme change that it would be impractical or even impossible to implement. Accordingly, the Commission considered a range of combinations of these policy levers and examined four packages in particular, set out in Table 1 below (see Chapter 5). In each case, the policy levers are adjusted in order to meet fully the projected shortfalls in 2030, 2040, and 2050. A specific focus on increasing PRSI for the self-employed is integral to each of the packages on grounds of fairness and equity. Currently self-employed PRSI is notably lower at 4 per cent than that applying in the case of other workers.

Table 1 below outlines the Commission's consideration of policy levers to address fiscal sustainability. The Commission's full set of recommendations are set out further below, including additional funding recommendations for broadening the PRSI base.

---

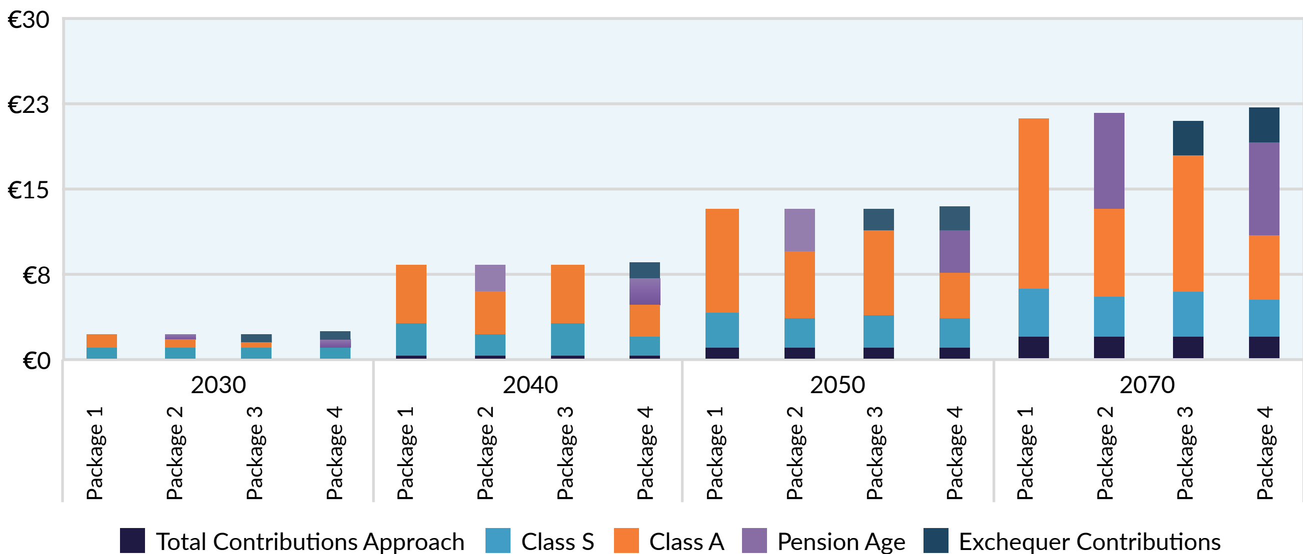
[2] While there are projected savings with the full implementation of the Total Contributions Approach and abolition of the Yearly Average Approach to calculating State Pension Contributory rate entitlement, this is primarily as a result of no longer being able to choose between the two calculation methods which has been driving increases in the average payment rates awarded in State Pension Contributory since it was introduced in 2019 (this is explained more fully in Chapter 8).

Table 1: Reform packages to address fiscal sustainability

Policy levers in each package	Adjustment
Package 1: PRSI rate increases	
Self-employed (Class S)	Increase from 4% to 10% initially by 2030, then to higher Class A Employer rate: 3.25 percentage point increase by 2040 1.1 percentage point increase by 2050
Employers and employees each (Class A)	0.6 percentage point increase by 2030 1.6 percentage point by 2040 1.1 percentage point increase by 2050
Package 2: PRSI rates and State Pension age increase	
Self-employed (Class S)	Increase from 4% to 10% initially by 2030, then to higher Class A Employer rate: 2.95 percentage point increase by 2040 0.15 percentage point increase by 2050
Employers and employees each (Class A)	0.3 percentage point increase by 2030 1.6 percentage point by 2040 0.15 percentage point increase by 2050
Pension age increase	Pension age to increase from 2028 by 3 months each year, reaching 67 in 2031 Further increases of 3 months every 2 years from 2033, reaching 68 in 2039.
Package 3: PRSI rates and Exchequer contributions	
Self-employed (Class S)	Increase from 4% to 10% initially by 2030, then to higher Class A Employer rate: 2.8 percentage point increase by 2040 0.9 percentage point increase by 2050
Employers and employees each (Class A)	0.2 percentage point increase by 2030 1.55 percentage point by 2040 0.9 percentage point increase by 2050
Exchequer contributions	10% of SPC expenditure
Package 4: PRSI rates, State pension age increase and Exchequer contributions	
Self-employed (Class S)	Increase from 4% to 10% initially by 2030, then to higher Class A Employer rate: 2.4 percentage point increase by 2040 0.1 percentage point increase by 2050
Employers and employees each (Class A)	No increase required by 2030 1.35 percentage point increase by 2040 0.1 percentage point increase by 2050
Pension age increase	Pension age to increase from 2028 by three months each year, reaching 67 in 2031 Further increases of 3 months every 2 years from 2033, reaching 68 in 2039.
Exchequer contributions	10% of SPC expenditure

Figure 4 below sets out the savings in each Package associated with each measure and how they contribute to meeting projected shortfalls out to 2070. The impact of sharing the costs across all four policy levers is evident.

Figure 4: Contributions of policy reforms to projected shortfalls, Packages 1 – 4 (€billions)



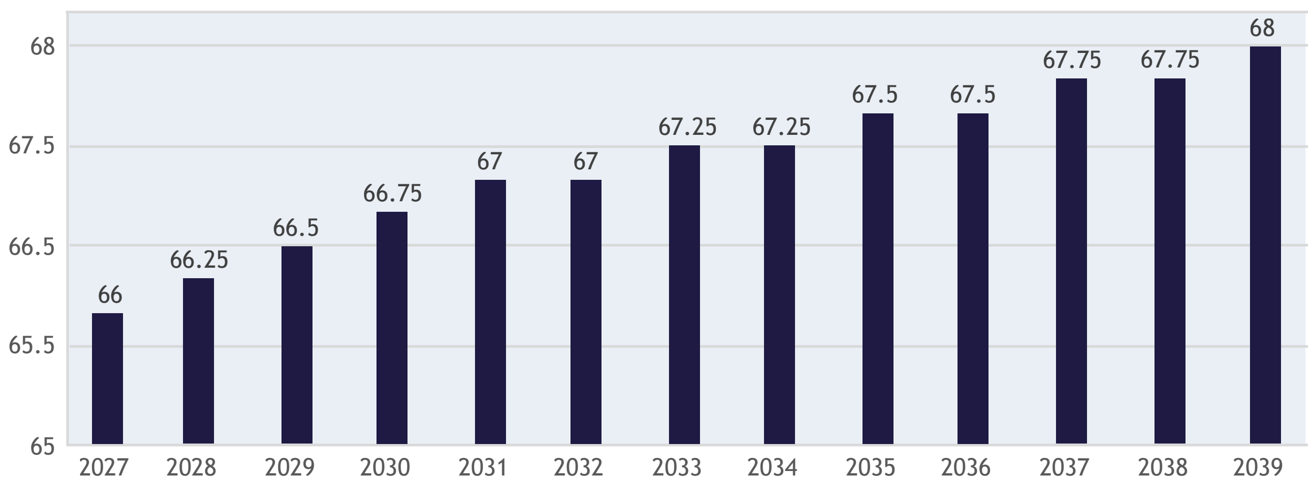
On the basis of the analysis, by a significant majority (10 out of 11 members[3]), the Commission recommends Package 4 which applies all the levers, starting on the funding side, and including a very gradual increase in the State Pension age from 66 to 68 beginning in 2028. This recommendation addresses a public call for flexibility by including a provision that the State Pension may be deferred for a period up to age 70 during which time entitlement would continue to accrue (see Chapter 12).

While recognising the concerns that arose previously with the planned increase in the pension age, the Commission notes that:

- Certainty regarding the availability of a State Pension following the payment of social insurance contributions requires a sustainable SIF. In this regard, the combination of adjustments recommended by the Commission meet the projected shortfalls in the SIF focussing on the coming decades and out to 2070
- Reliability regarding a basic pension amount which will increase in a predictable way and will be sufficient to protect against poverty is an overarching requirement which is strengthened if Commission's recommendations in relation to benchmarking and indexation are implemented (see Chapter 7);
- One of the greatest concerns related to the gap between the traditional retirement age in employment contracts (65) and the State Pension age (66) has been partially addressed by the introduction of the Benefit Payment for 65 Year Olds scheme. This will be further addressed if the Commission's recommendation that the retirement age in employment contracts be aligned by law with the State Pension age (see Chapter 10) is implemented. This legislation should be enacted in advance of any increase in the State Pension age;
- A very gradual incremental increase in the State Pension age from 2028 by 3 months every year until reaching 67 in 2031 (10 years from now), and further increases of 3 months every second year reaching 68 in 2039 will spread the impact of the pension age increase on upcoming pensioners (see Chapter 11). Figure 5 below sets out the State Pension qualifying ages that would apply from 2027 until 2039, based on the Commission's recommendation.

[3] The member nominated by ICTU did not support any increase in the State Pension age.

Figure 5: Proposed State Pension qualifying ages, from 2027 to 2039.



- This recommendation addresses intergenerational and broader social solidarity by providing for very broad burden sharing across society in the form of:
  - A permanent annual Exchequer contribution from general taxation of 10 per cent of State Pension Contributory expenditure each year (see Chapter 6),
  - Gradual increases in PRSI for employers, employees and the self-employed (see Chapter 13), and
  - Base broadening measures which would see PRSI being paid on all income except the State Pension and other social protection benefits (see Chapter 13).
- As part of this recommendation, the Commission also sees merit in including further flexibility by recognising long contribution histories as an option (see Chapter 12). This option would include a provision whereby those who choose to retire at 65, and have a long Total Contributions (TCA) record of 45 years, may receive a full pension. This option would form part of a package of reforms that use all the policy levers set out above, including increasing pension age, and is made sustainable by the combined implementation of all elements. Additional costs associated with this option would be met in the proposed PRSI contribution rates under Package 4.

Based on its analyses, the Commission submits to Government that the implementation of this package of policy reforms would result in meeting the shortfalls identified in the KPMG's 2021 update of the *Actuarial Review*. Detailed tables as to how these shortfalls are met are provided in the Report (Appendix 5C).

The Commission emphasises the need for enhanced transparency, and ongoing communication relating to State Pension reform to secure public understanding of the importance of sustainability, certainty and poverty prevention. Changes as important as pension age should not come as a surprise (see Chapter 5).

Flexible access to State Pensions

A clear view that emerged from the public consultation process and was shared by the Commission is that a one-size-fits-all approach to accessing the State Pension Contributory is no longer appropriate given the changing nature of people's labour market experiences and the welcome increases in life expectancy. The Commission recommends a range of policy reforms that would introduce flexibility in accessing the State Pension Contributory, including:

- Deferred access to the State Pension Contributory with an actuarial increase in the weekly rate of payment;

- Deferred access with continued payment of full PRSI contributions past State Pension age, which would improve a person's social insurance record for State Pension Contributory purposes;
- As set out above, as an option, done in conjunction with a State Pension age increase, the Commission sees merit in having access to a full State Pension Contributory from age 65 for those with a long contribution history (45 years of contributions or more, calculated on a Total Contributions basis.) By itself, this option is a cost measure and, in this context, the relevant age of 65 may need to move in line with movement in the State Pension age.

Long-term carers

The Commission recognises the extremely valuable contribution to society made by carers. Through its consultation process, the Commission identified a number of barriers experienced by long-term carers in accessing State Pensions. Long-term carers, defined as those caring for more than 20 years, can find it difficult to acquire the 520 paid contributions required to access the State Pension Contributory. In addition, those who qualify for the State Pension Contributory may not have all their years caring recognised in the calculation of their rate of entitlement because of the 20 year cap on HomeCaring periods.

The Commission recommends that if necessary to meet the "paid" contribution requirements, long-term carers should be given access to the State Pension Contributory by having retrospective contributions paid by the Exchequer in respect of gaps in their contribution history arising from periods of caring. The contributions would be exclusively for State Pension Contributory purposes, and would be recognised as paid contributions both for the purposes of qualifying for the State Pension Contributory and for the calculation of their rate entitlement under the Total Contributions Approach (see Chapter 9).

The full list of Commission's recommendations is outlined below.

The Commission's Conclusions and Recommendations

General (Chapters 1 – 5)

- The Commission supports measures that encourage economic growth and competitiveness and increase labour market participation, including for older workers.
- The Commission recommends that any of the proposals that are progressed by Government are subject to further gender, equality and poverty proofing.
- The Commission emphasises the need for enhanced transparency, and recommends ongoing communication relating to State Pension reform to secure public understanding of the importance of sustainability, certainty and poverty prevention.

Funding State Pensions (Chapter 6)

- The Social Insurance Fund (including the State Pension system) should continue to be financed on a Pay-As-You-Go basis.
- The Commission recommends the creation of a separate account in the Social Insurance Fund (SIF) for State Pensions. The separate identification, accounting, and reporting of State Pension contributions will provide transparency in relation to how State Pensions are financed, and the Fund's ability to meet its commitments on an ongoing basis.
  - The volatility of working age payments makes it difficult to calculate the level of contributions needed to keep the SIF in balance. Due to the largely predictable nature of State Pension spending, a separate State Pension SIF account would enable a calculation of the level of contributions required to balance State Pension expenditure.

  - A separate SIF account for State Pensions would enable any funds in the account to be ring-fenced for State Pension expenditure and not used for other payments. For instance, the financial impact of introducing enhanced working age benefits would not affect State Pension funding (or vice versa).
  - A separate State Pension SIF would increase transparency as there would be a clear visibility of State Pension income and expenditure, and funding adequacy.
  - This would enable consideration to be given for a creation of separate State Pension contribution rate, by sub-dividing PRSI.
- The Commission supports the principle of annual Exchequer contributions to the 'State Pension' account of the SIF. Rather than rely on Exchequer subventions only when the SIF is in deficit, the State should identify and allocate a separate Exchequer contribution to the SIF State Pension account.
  - This could be based on a minimum percentage of the previous year's expenditure on the State Pension Contributory being paid into the SIF State Pension account on an annual basis by the Exchequer. For the purposes of its work and in order to carry out costings, the Commission used an indicative Exchequer contribution of 10 per cent of State Pension Contributory expenditure per annum.
  - This approach would formalise the tripartite basis of SIF funding by employees/self-employed, employers, and the State, envisaged at its foundation by providing an annual Exchequer contribution to the State Pension element of the SIF.
  - In so doing, it would be in line with the tripartite approach being considered for the automatic enrolment retirement savings system which would have a legislative basis for the provision of a dedicated direct Exchequer contribution and/or tax expenditure.
  - The formalised basis for this funding would enable the State to plan for non-labour revenue sources to help fund the State Pension system. Relying solely on PRSI increases to fund the State Pension system in the context of an ageing population would likely have negative labour market impacts.
  - This Exchequer funding would also help fund some of the solidarity aspects of the State Pension system.
  - Sufficient Exchequer contributions, while demographics are relatively favourable, could enable a buffer to be built-up in the State Pension SIF. A buffer would operate to address unexpected falls in income, and could be used to maintain the value of pension payments required under benchmarking.
  - The Commission notes that, should a deficit arise, an Exchequer subvention would also be required to meet any shortfall.
- The Commission endorses the early introduction of an automatic enrolment retirement savings system, which will introduce a funded component to the pension system and improve retirement income adequacy for future pensioners.

Payment rates (Chapter 7)

- The Commission recognises and supports the State Pension system as the bedrock of the pensions system, and its first pillar function of preventing pensioner poverty.
- The Commission endorses the general principle of benchmarking and indexation of State Pension payments.

- The Commission supports the use of benchmarking and indexation as a means ofproviding certainty to pensioners, maintaining the relative value of State Pension paymentscompared to earnings growth and price inflation, and ensuring that the poverty prevention role of the State Pension system is maintained.
- Benchmarking and indexation can help with fiscal sustainability by framing the potential level of increases in State Pension payment rates; however, it can adversely affect fiscal sustainability if the design does not prevent 'ratchet' effects.

- To ensure that the State Pension system continues to provide a level of income that effectively prevents pensioner poverty, and to address public calls for certainty in the value of State Pension payments for current, upcoming and future pensioners, the Government should immediately implement the smoothed earnings approach to benchmarking and indexation as outlined in the *Roadmap for Social Inclusion 2020 – 2025*.
  - The Commission is mindful that benchmarking State Pension rates against earnings will not necessarily protect against poverty. While recognising that a State Pension rate benchmarked at 34 per cent of average earnings would have been effective at preventing pensioner poverty in the past (see Technical Sub-Committee Working Paper No. 4 on Benchmarking and Indexation for details), the Commission cautions that this does not mean that it will continue to do so in the future.
- The Commission supports the establishment of an independent standing body that would advise Government on pension rates of payment as calculated initially by the smoothed earnings benchmarking and indexation mechanism recommended above, in a manner analogous to the Low Pay Commission as proposed in the *Roadmap for Social Inclusion 2020 - 2025*.
  - The Commission recommends that this independent standing body should periodically review the effectiveness of the benchmarking and indexation approach in preventing pensioner poverty, including a consideration of poverty by household type (single and couple pensioners households and pensioners living with others).
  - The body could propose amendments to the benchmark if the review found that the benchmark was not effective at preventing pensioner poverty, or the body could takeits findings and wider social and economic factors into consideration when making itsrecommendation on rates to Government.
  - Recommended increases in the weekly rates of payment should apply to all State Pension schemes.
- The Commission recommends that this body and its functions be established on a legislative basis.
- The Commission commends the recent policy approach to Budget increases in the Living Alone Allowance and recommends that this pattern of enhanced increases in the weekly rate of the Living Alone Allowance continue to provide targeted support to single pensioner households who are at greater risk of poverty.

Total Contributions Approach (Chapter 8)

- The Commission recommends that the full transition to a Total Contributions Approach and the abolition of the Yearly Average approach to calculating entitlement to the State Pension Contributory rate of payment should be implemented as soon as possible, pending the passage of necessary legislation and IT system changes.
  - Since 2019, both calculation methods are in operation, with the better rate from the two calculation methods awarded. This has created further anomalies and unfairness in the system, whereby people with fewer contributions are still able to qualify for higher levels of payment. This also works to increase the cost of the State Pension Contributory at a structural level.

- The Commission recommends that for those who are better off having their pension entitlement calculated under the Yearly Average approach, a phased transition to the Total Contributions Approach should apply gradually over a 10 year period.
  - The Commission recommends that for the transition period, where a person does not qualify for the maximum weekly rate of payment under the Total Contributions Approach and would have been better off under the Yearly Average Approach, a proportion of the rate will be calculated under the Yearly Average Approach and the remainder under the Total Contributions Approach.
  - These proportions will gradually change over time – pensioners who would be better off under the Yearly Average approach who qualify for the State Pension Contributory in the first year of the transition will receive 90 per cent of the rate calculated under Yearly Average approach, and 10 per cent under the Total Contributions Approach for the duration of their pension payment. Pensioners qualifying in the second year of the transition, will receive 80 per cent of the rate calculated under Yearly Average, and 20 per cent under the Total Contributions Approach for the duration of their pension payment, and so on, with the full transition completing over 10 years. This is similar to the approach taken in Norway when they introduced a change in the calculation method.
- In terms of the specific design of the Total Contributions Approach (TCA), the Commission recommends that the current 'Interim' TCA should become the definitive TCA i.e. 40 years – or 2,080 contributions – required at State Pension age to qualify for a maximum rate pension. This includes 10 years of credited contributions and 20 years of HomeCaring periods, but with a cap of 20 years combined credited and HomeCaring periods.
- The Commission recommends the issuing of regular PRSI contribution statements in an easy to understand format so that PRSI contributors are aware of their level of contributions and how this relates to the level of State Pension Contributory that they can expect to receive. These could be made available in real-time on MyGovID or could be issued to a person's digital post-box.

Long-Term Carers (Chapter 9)

- The Commission recommends that long-term carers (defined as caring for more than 20 years) should be given access to the State Pension Contributory by having retrospective contributions paid for them by the Exchequer when approaching pension age for any gaps in their contribution history arising from caring.
- The contributions would be exclusively for State Pension Contributory purposes, and would be recognised as paid contributions both for the purposes of the qualifying for the State Pension Contributory and for the purposes of calculating pension rate entitlement under the Total Contributions Approach.
  - This would deal with the barrier for long-term carers who, because of the length of their caring lives, are unable to acquire 520 paid PRSI contributions or who qualify for a reduced rate of pension.
- The relevant Government Department(s) should examine, in conjunction with relevant stakeholders, options for the creation of a statutory 'Family Carer Register' which could, in time, facilitate the identification of long-term family carers for State Pension Contributory purposes as well as assisting in the planning and delivery of services for family carers. This could be considered as part of the *Programme for Government* commitment to update the *National Carers' Strategy.*

Retirement Age (Chapter 10)

- The Commission recommends aligning retirement ages in employment contracts with the State Pension age, by introducing legislation that allows but does not compel an employee to stay in employment until State Pension age. Any such legislation must meet the standard required by the Equality Directive (objectively justified by a legitimate aim as set out in Article 6)
- The proposed policy objectives of this legislation would be that:
  - In general, an employer cannot set a compulsory retirement age below the State Pension age;
  - It would be important to ensure that a worker's property rights in terms of their ability to retire at a time of their choosing (regardless of the gap in relation to accessing the State Pension) and receive a pension under their existing occupational or personal pension scheme is not adversely affected;
  - Where possible, the same terms and conditions regarding the provision of insurance, financial services and related benefits should apply to all employees, subject to the availability of these benefits from providers and the cost not being disproportionate for employers;
  - This legislation would apply to existing and new employment contracts;
  - In strictly limited cases where a retirement age below the State Pension age continues to apply (as a result of legislation, collective agreement or at individual employment level), employers would be required to give notice to workers in order to ensure that the worker is aware that a retirement age below the State Pension age applies, and to evidence compliance with the law in terms of objective justification by a legitimate aim and appropriate and necessary means;
  - This legislation would not affect employment contracts where the retirement age is set above State Pension age and would only apply to contracts with a compulsory retirement age;
  - While the State may introduce such legislation, it would need to be independently reviewed on a periodic basic to ensure that it still meets the grounds of objective justification with a legitimate aim.
  - Social partners are encouraged to take this recommendation on board through agreement, collectively or locally, in advance of the legislation being enacted.

- The Commission supports measures that facilitate and encourage fuller working lives. Social partners, relevant Government bodies, and the Workplace Relations Commission should consider and issue guidance on measures to facilitate those who wish to continue working past retirement age, with proposals to be considered at appropriate fora, including the Labour Employer Economic Forum.
- The Commission recommends a review by the relevant Government Department or statutory body to:
  - Provide clarity on the use of successive post-retirement fixed term contracts and to establish whether there is coherence in the application of the Protection of Employees (Fixed-Term Work) Act 2003 and the Employment Equality Acts 1998 – 2015.
  - Review the application of the Employment Equality Acts 1998 – 2015 to the provision and non-provision of insurance or related financial services benefits to employees on age discrimination grounds.

State Pension Age (Chapter 11)

- By a significant majority (10 out of 11 members), the Commission[4] recommends a gradual incremental increase in the State Pension age by three months each year commencing in 2028, reaching 67 in 2031 (10 years from now), with further increases of three months every second year reaching 68 in 2039.
  - One of the main concerns with an increase in the State Pension age – the gap between the traditional retirement age in employment contracts (65) and the State Pension age (66) has been partially addressed with the introduction of the Benefit Payment for 65 Year Olds and will be further addressed if the Commission's recommendation to align retirement ages in employment contracts with the State Pension age is implemented. This legislation should be enacted in advance of any increase in the State Pension age.
  - The gradual implementation will reduce the impact of the pension age increase on upcoming pensioners.
  - The increase in the State Pension age will apply to all State Pension schemes.

Flexible access to State Pensions (Chapter 12)

- The Commission recommends that access to the State Pension should be on a flexible basis.
- The Commission recommends that a person may choose to defer access to the State Pension up to age 70, and receive a cost neutral actuarial increase in their State Pension payment.
- The Commission recommends that a person can continue to pay social insurance contributions past State Pension age at their existing PRSI contribution rate (employees, employers and the self-employed) to improve their social insurance record for State Pension Contributory purposes.
- These PRSI contributions will enable individuals without a full contribution record (and who have deferred access to the State Pension) to become entitled to the State Pension Contributory, or increase the pension rate of payment, as a consequence of the additional paid contributions.
- As an option for Government to consider, done in conjunction with a State Pension age increase, the Commission sees merit in recognising long PRSI contribution histories by including a provision whereby those who choose to retire at 65, and have a long Total Contributions (TCA) record of 45 years, may receive a full pension.
  - Done on its own, this is a cost increasing measure. By limiting access to those with a long contribution history, and retaining a retirement condition, the costs of this option are curbed. In light of experience with take-up, it may need to be reviewed as the pension age increases.

[4] The member nominated by ICTU did not support any increase in the State Pension age

Increasing Social Insurance Fund (SIF) Income (Chapter 13)

- The Commission recommends increasing the self-employed PRSI contribution rate. In the first instance, the Commission recommends that Class S PRSI for all self-employed income is gradually increased from 4 per cent to 10 per cent. In the medium term, the Class S PRSI rate should be set at the higher rate of Class A employer PRSI (currently 11.05 per cent).
- Increase the Class A rate of PRSI for both employers and employees.
  - The level of increases required depend on the package that the Government chooses implement (if any). The Commission recommends Package 4 set out above, which will not require PRSI rate increases for employers and employees until after 2030. It will require a 1.35 percentage point increase in Class A each for both employers and employees by 2040.
- The Commission considered a range of PRSI base broadening measures.
  - Broadening the base will reduce the burden on current PRSI contributors, will reduce the required effective tax on labour income (with its attendant negative labour market efficiency effects) and will enhance intergenerational equity.
- The Commission recommends maintaining the exemption from PRSI on all social welfare payments.
- Other than social welfare payments, the Commission recommends removing the exemption from PRSI for those aged 66 or over.
  - The Commission recommends that all those over State Pension age should pay PRSI on a solidarity basis (Class K) on all income currently subject to PRSI.
- The Commission further recommends removing the exemption to pay PRSI on supplementary pension income (occupational and personal pensions, and public sector pensions).

Table of Abbreviations

AROP	At-Risk-of-Poverty
AVC	Additional Voluntary Contribution
CA	Carer's Allowance
CPI	Consumer Price Index
CSG	Carer's Support Grant
CSO	Central Statistics Office
DC	Defined Contribution
DCA	Domiciliary Care Allowance
DEASP	Department of Employment Affairs and Social Protection
DFIN	Department of Finance
DPER	Department of Public Expenditure and Reform
DSP	Department of Social Protection
ECOFIN	Economic and Financial Affairs Council
EEA	European Economic Area
EEE	Exempt Exempt Exempt
EET	Exempt Exempt Taxable
EHECS	Earnings, Hours and Employment Costs Survey
ESPN	European Social Policy Network
ESRI	Economic and Social Research Institute
GDP	Gross Domestic Product
GNI	Gross National Income
GNI*	Modified Gross National Income
HSE	Health Services Executive
HICP	Harmonised Index of Consumer Prices
IBEC	Irish Business and Employers' Confederation
IDPRTG	Interdepartmental Pensions Reform and Taxation Group
ICTU	Irish Congress of Trade Unions
IFAC	Irish Fiscal Advisory Council
IHREC	Irish Human Rights and Equality Commission
ILO	International Labour Organization
IQA	Increase for a Qualified Adult
IQC	Increase for a Qualified Child
ISSA	International Social Security Association
MISSOC	Mutual Information System on Social Protection
NACE	Nomenclature of Economic Activities
NAE	National Average Earnings
NDC	Notional Defined Contribution

Table of Abbreviations (continued)

NESC	National Economic and Social Council
NPRF	National Pensions Reserve Fund
NTF	National Training Fund
NWCI	National Women's Council of Ireland
OECD	Organisation for Economic Co-operation and Development
PAYE	Pay-As-You-Earn
PAYG	Pay-As-You-Go
PREST	Poverty Reduction Effect of Social Transfers
PRSA	Personal Retirement Savings Account
PRSI	Pay Related Social Insurance
S.I.	Statutory Instrument
SIF	Social Insurance Fund
SILC	Survey on Income and Living Conditions
SIPTU	Services Industrial Professional and Technical Union
SPC	State Pension Contributory
SPNC	State Pension Non-Contributory
SPT	State Pension Transition
TCA	Total Contributions Approach
USC	Universal Social Charge
VC	Voluntary Contribution
WCP	Widow's, Widower's or Surviving Civil Partner's (Contributory) Pension
WRC	Workplace Relations Commission
YA	Yearly Average

Chapter 1: Setting the Scene

1.1. Establishment of the Pensions Commission

The *Programme for Government: Our Shared Future* (The *Programme*) provided for the establishment of a Commission on Pensions, "to examine sustainability and eligibility issues with State Pensions and the Social Insurance Fund. The Commission will outline options for Government to address issues including qualifying age, contribution rates, total contributions and eligibility requirements."

This provision followed the 2020 General Election, during which the planned increase in the State Pension age to 67 with effect from 1st January 2021 featured to a notable extent as a matter which influenced voters. This public concern endures and was borne out in subsequent surveys and in many submissions to the Commission.

The *Programme* further provided that, pending the Commission's report and any subsequent Government decisions, the State Pension age would remain at 66 years and the increase to 67 years would be deferred. This was subsequently implemented in the Social Welfare Act 2020.

1.2. Terms of Reference

The Commission was asked to develop options for Government on issues such as the State Pension qualifying age, contribution rates, calculation methods, eligibility conditions and payment rates. The Commission was also asked to consider the issue of retirement ages in private employment contracts that are set below the State Pension age, and how the pension system can further accommodate long-term carers.

In accordance with its Terms of Reference, the Commission was requested to submit a report on its work, findings, options and recommendations to the Minister for Social Protection by 30th June 2021. The Programme for Government stated that the Government will take action, having regard to the recommendations of the Commission, within six months of receipt of the report.

The full Terms of Reference for the Commission are presented in the Executive Summary.

1.2.1. Policy Context

The *Programme* includes a range of commitments which set a policy context for the Commission's deliberations. The Commission also had regard to relevant policy objectives and provisions of the *Roadmap for Pensions Reform 2018 - 2023* and the *Roadmap for Social Inclusion 2020 – 2025*.

Together with the Commission's Terms of Reference, these provided a set of parameters for the Commission's work.

The following are the principal relevant commitments in the *Programme*, edited for relevance and readability.

- We will maintain the State Pension as the bedrock of the Irish pension system.
- We will introduce a Total Contributions Approach aligning a person's contributory pension more closely with the contributions they make.
- We will introduce a system to enable people to defer receipt of their contributory State Pension on an annual basis to include actuarial increases in payment as soon as practicable.
- We will facilitate those without a full social insurance record to increase their retirement provision by choosing to continue making PRSI payments beyond pension age.
- We will examine options for a pensions solution for carers, the majority of whom are women, particularly those of incapacitated children, in recognition of the enormous value of the work carried out by them.

- We will consider increasing all classes of PRSI over time to replenish the Social Insurance Fund to help pay for measures and changes to be agreed, inter alia to the State Pension system.
- We will request the Low Pay Commission to examine Universal Basic Income…resulting in a universal income pilot in the lifetime of the Government.
- We will establish a Commission on Welfare and Taxation to independently consider how best the tax system can ensure that there are sufficient resources available to meet the cost of public services and supports in the medium and long terms. In doing its work, the Commission on Welfare and Taxation must have particular regard to the impact of the COVID-19 Emergency, as well as long-term developments such as ageing demographics.[5] (pages 25-26, 51-52 and 74-76).

1.3. Context and Scope of the Commission

In the course of its work, the Commission reviewed its Terms of Reference and the strong clear Government commitments set out above. In her opening address to the Commission, the Minister for Social Protection made it clear that the Government would not reduce the current rates of pension. It quickly became evident that the scope of the Commission's work was positioned within a set of parameters and decisions already made by Government. These parameters include the continued existence of the Social Insurance Fund and of a State Pension based on contributions. The Commission further noted the establishment of the Commission on Taxation and Welfare, with responsibility for relevant aspects of the taxation system, including tax expenditures and the commitment to a pilot Universal Basic Income.

In addition, during the course of its work, in February 2021, the new Benefit Payment for 65 Year Olds was introduced. While the introduction of this payment did not change the provision of income supports already available to 65 year olds, it did explicitly recognise 65 as being an age at which targeted income supports could be required. Effectively the Commission's work was bounded by many policy decisions that had already been made or tasks which had been allocated to other Commissions or bodies.

The Commission concluded that its task, and the most appropriate and useful contribution it could make to the development and sustainability of the State Pension system was to consider and make proposals for amendments within the existing overall structure and system. In forming this view, the Commission noted that while it was keen to avoid duplicating or impinging on the work of other bodies, it might make recommendations referring matters to other bodies with relevant scope.

The Commission also decided from the outset that the, "maintenance of the State Pension as the bedrock of the Irish pension system" required that the pension continue to have an overarching objective of ensuring that the pension paid to recipients is adequate, as a minimum, to protect them from poverty.

[5] The Commission on Taxation and Welfare was established by the Government in June 2021. Its Terms of Reference include examination of the structure and sustainability of the Social Insurance Fund including consideration of the output of the Commission on Pensions and the NESC Report on the *Future of the Irish Social Welfare System*.

1.4. Membership of the Pensions Commission

The membership of the Commission is set out below

Table 1.1: Pensions Commission Members

Josephine Feehily	Chairperson, former Chair of the Office of the Revenue Commissioners and Chair of the Policing Authority of Ireland.
Ita Mangan	Vice Chair, Barrister and former Chair of the Citizens Information Board, Chair of the Board of Age & Opportunity, Member of the Board of the Irish Hospice Foundation and formerly Chair of the Advisory Group on Tax and Social Welfare.
Ethel Buckley	Ethel Buckley, ICTU nominee and Deputy General Secretary of SIPTU.
Roma Burke	Actuary and Partner with Lane, Clark & Peacock, Chair of the Pensions Council, a member of the Society of Actuaries of Ireland and former Chair of its Pensions Committee, and an independent non-executive director of Dublin Simon Community.
Seamus Coffey	Economist and Lecturer in University College Cork (UCC), a member of the external advisory board to the Irish Government Economic and Evaluation Service and former Chair of the Irish Fiscal Advisory Council.
Tony Donohoe	Ibec nominee, Policy Advisor with Ibec, Chair of the Expert Group on Future Skills Needs and member of the Higher Education Authority.
Dr Aedín Doris	Labour Economist, a Lecturer in Maynooth University, and Managing Editor of the Economic and Social Review.
Jackie Maguire	Chief Executive of Meath County Council and host of the Age Friendly Shared Service, Chair of the Local Government Management Agency, and former Chair and current member of the Executive Committee of City and County Management Association.
John McGrane	Director General of the British Irish Chamber of Commerce, the Executive Director of the Family Business Network, Founder of NSI Technology and of Kmend.com, and co-Founder of Board Ready.
Ian Power	CEO of SpunOut.ie, a member of the Board of the Citizens Information Board (CIB), a member of the Board of Community Foundation for Ireland, and formerly President of the National Youth Council of Ireland.
Anne Vaughan	Former Deputy Secretary General of the Department of Social Protection, former member of the Pensions Authority, and current Chair of the National Statistics Board.
Jack Keyes*	Principal Advisor for Age Friendly Ireland, Associate Lecturer IPA, former County Manager Cavan County Council, and Senior Advisor in policy formulation and implementation.

*Jack Keyes was a member of the Commission for meetings 1-3 before having to resign due to unforeseen circumstances. Jackie Maguire replaced him on the Commission from meeting 6 onwards.

Named officials from the Department of Social Protection, the Department of Public Expenditure and Reform, the Department of Finance, and the Department of Enterprise, Trade and Employment also attended meetings with 'observer' status.

1. 5. Support to the Commission

The Commission[6] had the support of a Secretariat which arranged meetings, administered its budget, oversaw research and data collection, and drafted its meeting papers. The Secretariat also arranged the public consultation process.

The Secretariat served as the liaison with the Department of Social Protection by providing information to the Department when required in the form of data and information for parliamentary questions, representations, and briefing material. The Secretariat sourced statistical data and policy information from the Department (and other Departments and external bodies) to the Commission as required.

1. 6. Transparency of work

The Commission held a total of 17 meetings from November 2020 to June 2021. Due to COVID-19 restrictions the Commission's meetings took place by video conference from November 2020 to May 2021. From June 2021, in-person meetings took place, in line with health and safety guidelines, and with video-conferencing available. A final meeting was held in July to finalise the Report.

In the interests of transparency, the agenda and minutes of Commission meetings were published on the Commission's website after meetings. Presentations made by external organisations at meetings were also published on the website so that the public would be aware of the inputs received by the Commission.

Submissions made to the Commission's public consultation will be published on its website after the final report has been submitted to Government.

Submissions from Stakeholder Forum speakers and representative groups were published on the website (and a live recording of the event was made available to the general public after the event had taken place).

The Commission has also published a number of press releases in order to inform the public of its role and to promote its public consultation process and the Stakeholder Forum. These were all made available on the Commission's website.

1. 7. Consultation Process

Item five of the Commission's Terms of Reference asked it to, "Seek views of recognised experts and representative/advocacy groups by inviting submissions and/or presentations".

Over the course of its work, the Commission invited a number of experts to present and speak to the Commission on a range of specific issues. Table 1.2 below sets out the external organisations that presented to the Commission.

[6] Secretariat: Roshin Sen (Secretary), Dr Kasey Treadwell Shine, Margaret Mulhall, Louise Banable, Brian Purcell.
Administrative Support: Evelyn Harrington, Cathy Conlon, David Bradley.

Table 1.2: External speakers at Commission meetings

Meeting Number	Speaker	Organisation	Presentation Title
2	James Hegarty, Statistician	Central Statistics Office	Ireland's Demography
2	Sebastian Barnes, Chair Dr Eddie Casey, Secretary	Irish Fiscal Advisory Council	Long-Term Sustainability Report: Fiscal challenges and risks 2025 – 2050
2	David Hughes, Economics Division Matthew McGann, Economics Division	Department of Finance	Ageing Report: Irish Pension Expenditure Projections 2019 – 2070
3	Joanne Roche, Director and Actuary	KPMG	Actuarial Review of the Social Insurance Fund
4	Dr Helen Russell, Research Professor	ESRI	The Ageing Workforce in Ireland: Working Conditions, Health and Extending Working Lives
12	Dr Anne-Marie McGauran, Policy Analyst Dr Helen Johnston, Senior Policy Analyst	National Economic and Social Council	Future of the Irish Social Welfare System: A focus on financial sustainability

In addition, as noted above, the Commission sought the views of members of the public, representative groups, and recognised experts by inviting submissions to the Commission's public consultation. The purpose of the consultation process was to inform the Commission's work, including its deliberations on recommended reform options as per its Terms of Reference.

The Pensions Commission's public consultation process, *Have your say on sustainable State Pensions into the future*, ran from 9th February to 9th March 2021 inclusive. The Commission asked interested individuals and organisations to send in written submissions by post or by email, or to respond to an online survey. Over 200 individual and organisational submissions and over 1,100 survey responses were received. The public consultation provided the Commission with valuable insights into the different views and experiences of the State Pension system across Irish society.

At its 9th Meeting (24th March 2021), the Commission specifically considered the consultation findings in relation to long-term carers, and subsequently invited relevant representative organisations, as set out in Table 1.3 below, to discuss this issue in more detail at its 10th Meeting (2nd April 2021).

Table 1.3: Consultation on long-term carers

Speaker	Organisation	Presentation Title
Orla O' Connor, Director Sandra McCullagh, Economic Equality Coordinator	National Women's Council of Ireland	Care in Ireland's Pension System
Catherine Cox, Head of Communications & Policy Clare Duffy, Policy & Public Affairs Manager	Family Carers Ireland	Ending the Pension Penalty for Caring

Following this, on 21st April 2021, the Commission hosted a virtual Stakeholder Forum. A representative range of organisations and individuals who responded to the Commission's public consultation process were invited to participate in the Stakeholder Forum. The Forum was an opportunity to bring people and organisations that made submissions together with Commission members and national and international speakers, to examine pension reform proposals in more depth. Members of the public were also invited to view the event live.

The Forum facilitated an exchange of experiences, knowledge and insights amongst key stakeholders and Commission members. In particular, presentations and discussion contributed to the Commission's knowledge of the impact of any State Pension reforms on young people, women, older people, workers and employers. Table 1.4 below sets out the external organisations that delivered presentations to the Stakeholder Forum.

Table 1.4: Speakers at the Commission's Stakeholder Forum

Presenter	Organisation
Andrew Reilly, Labour & Social Affairs Directorate	OECD
Dr Nat O'Connor, Senior Public Affairs & Policy Specialist	Age Action Ireland
Dr Claire Keane, Senior Research Officer	ESRI
Orla O'Connor, Director	National Women's Council of Ireland
Maeve McElwee, Director of Employer Relations	Ibec
Dr Laura Bambrick, Social Policy and Legislative Officer	ICTU
Jack Eustace, Governance & Policy Officer	SpunOut

A list of the organisations that made submissions to the Commission's consultation process can be found in Appendix 1A. All relevant submissions made to the Commission will be published on the Commission's website alongside the publication of this Report.

The Commission wishes to thank all those individuals and groups who took the time to make submissions to the public consultation process, and the various speakers at the Commission's meetings and the Stakeholder Forum. The Commission also wishes to thank all those who provided detailed briefing material to the Commission, including the Departments of Finance; Social Protection; Public Expenditure and Reform; and Enterprise, Trade and Employment; the Central Statistics Office, the Workplace Relations Commission; the Pensions Authority, and the Revenue Commissioners.

1. 8. Technical Sub-Committee

The Pensions Commission established a Technical Sub-Committee ('the Sub-Committee') as it recognised that its views and recommendations on the sustainability and adequacy of the pension system must be transparent, evidence-based and stated in a straightforward manner. The objective of the Sub-Committee was to examine relevant material in order to provide evidence-based information to the Commission to enable it to form a view on issues around the sustainability and adequacy of the pension system over time (the next 30 to 50 years).

The specific areas that the Sub-Committee reviewed related to population and expenditure projections, the role of the State Pension in preventing pensioner poverty, and the proposed approach to benchmarking and indexation of State Pension rates of payment.

The Sub-Committee's full Terms of Reference can be seen in Appendix 1B. The members of the Sub-Committee are listed in Table 1.5 below.

Table 1.5: Technical Sub-Committee Members

Roma Burke	Chairperson, Actuary
Seamus Coffey	Economist
Dr Aedín Doris	Economist

The Sub-Committee examined the material made available to the Commission through the Secretariat, presentations made by a range of external organisations, and submissions made through the public consultation process. It produced four Working Papers for agreement by the Commission. Any conclusions in these papers relate to the Terms of Reference of the Sub-Committee and should not be construed as recommendations of either the Sub-Committee or the Pensions Commission.

The four Working Papers, published separately, are:

Working Paper 1 – *Population and Labour Force Projections*

Working Paper 2 – *Expenditure Projections*

Working Paper 3 – *Poverty Prevention and State Pensions*

Working Paper 4 – *Benchmarking and Indexation*

1.9. Structure of this Report

This report is structured around the Commission's Terms of Reference. Chapters 1 to 4 set out the relevant background to the State Pension system, the Social Insurance Fund and relevant demographic and expenditure projections. Chapter 5 sets out the Commission's methodology in terms of developing sustainable options for Government to consider. Chapters 6 to 13 present the detailed considerations underpinning the Commission's recommendations. Each chapter, in line with the Commission's Terms of Reference, considers the findings of previous policy documents, international comparisons and inputs from the Commission's consultation process.

- Chapter 1: Setting the Scene
- Chapter 2: The State Pension System
- Chapter 3: The Social Insurance Fund
- Chapter 4: Demographic and Expenditure Projections
- Chapter 5: The Commission's Approach to its Work
- Chapter 6: Funding State Pensions – Structural
- Chapter 7: Payment Rates
- Chapter 8: Total Contributions Approach
- Chapter 9: Long-Term Carers
- Chapter 10: Retirement Age in Employment Contracts
- Chapter 11: State Pension Age
- Chapter 12: Flexible Access
- Chapter 13: Increasing Social Insurance Fund (SIF) Income

Chapter 2: The State Pension System

This chapter provides a high-level overview of the key features of the Irish State Pension system, as required under the Commission's Terms of Reference. Ireland's State Pension system is a significant component of a broader retirement income landscape that can include not only State and supplementary pension income, but other cash benefits, returns from assets and income from other sources. This chapter provides an overview of the Department of Social Protection schemes within the State Pensions system, in terms of the scheme eligibility conditions and the trends in scheme numbers and expenditure. The effectiveness of State Pension arrangements at reducing poverty is also set out, along with its redistributive role. The value of State Pensions is also examined.

2.1. The Pension System in Ireland

A widely used three pillar structure typifies most countries' pension systems:

1. **First Pillar:** The first pillar's objective is poverty prevention. In Ireland, the State Pension system is the first pillar.
2. **Second Pillar:** The second pillar is designed to provide a standard of living related to pre-retirement earnings. Second pillar pension provision is usually provided through public sector and occupational pension schemes, and may be mandatory in a particular employment.
3. **Third Pillar**: This pillar is voluntary, with the purpose of enabling people to save if they wish to do so. In Ireland, savings can be set aside by individuals by means of additional voluntary contributions (AVCs) to their occupational pensions or through various individual pension products. These may be suitable for individuals who are self-employed.

A person's retirement income may consist of income from one or more pillars. The Commission is conscious of the interactions between the different pillars of the Irish pension system. However, consistent with its Terms of Reference, the focus of the Commission's work is on the first pillar State Pension system and its role as the bedrock of the Irish pension system as a whole.

For many Irish people State Pension payments will be their only or primary source of retirement income. Research by the ESRI, using the Irish Longitudinal Study on Ageing (TILDA) data, found that 55 per cent of men and 28 per cent of women were in receipt of supplementary pension income (Nolan et al, 2019). CSO data shows that about 56 per cent of men and about 54 per cent of women were contributing to a pension (occupational and/or personal pension) in Q3 2020. Looking at the private sector workforce alone, the *Roadmap for Pensions Reform* estimates that just 35 per cent of workers have supplementary pension cover.

Of those with no supplementary pension coverage, the CSO found that almost six in every ten (59.7 per cent) workers cited the State Pension as their future expected source of retirement income.

As noted in the 2014 *OECD Reviews of Pensions Systems: Ireland*, Ireland was at the time – and remains – an outlier within OECD countries as it did not have mandatory or automatic enrolment second-pillar pension provision for all workers, that is supplementary pension provision through employers based on earnings. In this regard, the *Programme for Government* commits to introducing an automatic enrolment retirement savings system.

2.2. The State Pension System

The Old Age Pension Act (1908) provided for the first State funded pension scheme in Ireland. This was a non-contributory means-tested pension payment available for those aged 70 and over. Following the establishment of the Social Insurance Fund in 1952, the Social Welfare Act of 1960 provided for the Old Age Contributory Pension, now known as the State Pension Contributory.

The current State Pension system in Ireland reflects the design of the Irish welfare system more broadly. Ireland has a flat rate system of payment across the range of its social welfare schemes. The Irish social welfare system is made up of three key elements:

1. **Contributory entitlement to specific benefits** is determined on the basis of a person meeting clearly defined eligibility criteria for a particular contingency (such as unemployment or old age) and also having sufficient Pay Related Social Insurance (PRSI) contributions over their working lifetime. The State Pension Contributory and the Widow/er's or Surviving Civil Partner's Contributory Pension are examples of contributory social insurance benefit schemes.
2. **Non-Contributory entitlement to specific payments** is made on the basis of similar eligibility criteria relating to a particular contingency (such as unemployment or old age). However, entitlement to non-contributory or social assistance payments is further determined by a means test rather than a social insurance contribution record. This means test takes account of the income and assets of the person (and spouse or partner, if applicable) applying for the relevant scheme. The State Pension Non-Contributory is an example of a non-contributory social assistance payment scheme.
3. **Universal payments** are paid to all eligible applicants without reference to either a means test or a social insurance contribution record. Child Benefit is an example of a universal payment, as is the Household Benefits package for those aged 70 and over.

Social insurance benefits are funded through the Social Insurance Fund (SIF) - see Chapter 3 for more details. Social assistance payments are financed through general taxation.

There are four pension schemes within the Department of Social Protection's (DSP) Pensions Programme.

1. State Pension Contributory
2. State Pension Non-Contributory
3. Widow/er's or Surviving Civil Partner's Contributory Pension, and
4. Occupational Injuries Benefit Death Benefit.

The State Pension Contributory is DSP's biggest scheme in terms of recipient numbers and expenditure. The latter two are survivor's payments for widows, widowers and surviving civil partners. The four payments are discussed in turn, with further details in Appendix 2A.

2.2.1. State Pension Contributory (SPC)

In order to qualify for SPC, a person must have:

- Paid at least 520 contributions of the relevant class (10 full years of PRSI contributions between the ages of 16 and 66) and;
- Reached the State Pension qualifying age of 66 and;
- Entered insurable employment before reaching 56 years of age.

If the insured was a self-employed person, they must have paid at least one Class S contribution before reaching age 66 and regularised any outstanding liabilities relating to their self-employment with the Revenue Commissioners before payment can be made.

The current maximum weekly rate of payment is €248.30, with reduced rates payable for those with lower levels of PRSI contributions.

The SPC is not means-tested. There is no retirement condition so a person may continue to work fulltime after reaching State Pension age and collect their SPC at the same time. A person does not have to be resident in Ireland in order to receive their SPC payment. It is estimated that approximately 10 per cent of recipients live outside of Ireland.

Spouses, civil partners and cohabitants of those in receipt of a SPC may receive an Increase for a Qualified Adult (IQA) allowance, which is paid directly to them. The rate of payment is approximately 90 per cent of the SPC rate for Qualified Adults aged 66 and over (with a lower rate for Qualified Adults under the age of 66). The IQA payment is means-tested based on the qualified adult's personal means.

2.2.2. State Pension Non-Contributory

People aged 66 and over may qualify for the means-tested SPNC, if they do not have enough contributions to qualify for the SPC or if they qualify for a reduced rate of SPC.

The SPNC is not funded by the SIF but by the Exchequer. The maximum rate of SPNC is €237 per week, which is 95 per cent of the maximum rate of the SPC. There is no IQA payment for spouses, civil partners and cohabitants of SPNC recipients aged 66 and over. These individuals can apply for the SPNC in their own right.

2.2.3. Widow/er's or Surviving Civil Partner's Contributory Pensions

The Widow/er's or Surviving Civil Partner's Contributory Pension (WCP) can be paid to the husband, wife or civil partner of a deceased person of any age. Currently, 260 paid contributions are required to qualify for the payment. The social insurance conditions can be met through the social insurance contributions of the claimant or of the deceased civil partner/spouse. If a WCP recipient remarries, or starts to cohabit, the WCP is no longer payable. The WCP is not means-tested and, as there is no retirement condition, a recipient can continue to work.

For those aged 66 and over, the maximum rate of payment is the same as the SPC, currently €248.30 per week. A person cannot receive a WCP and the SPC at the same time - they will be paid whichever is the higher amount.

A small number of people receive the Occupational Injuries Benefit Widow/er's or Surviving Civil Partner Contributory pension (also known as the Occupational Injuries Benefit Death Benefit Scheme). This benefit applies where a person dies because of an accident at work or occupational disease, or where a person was receiving a Disablement Pension assessed as 50 per cent or more at the time of their death. A person cannot receive the pension if they remarry or cohabit. The pension is not means-tested.

For those aged 66 and over, the maximum rate of payment under the Death Benefit Scheme is €252.70 a week (higher than the SPC rate). There were 741 recipients at the end of 2020. The Death Benefit payment is paid out of the SIF and the scheme had expenditure of just over €10 million in 2020 with €10.5 million allocated for 2021. Due to the specific nature of this scheme and the small numbers involved, this scheme is not discussed further in this chapter.

2.3. Trends in number of pensioners by scheme

DSP data shows that there has been a steady increase in the number of SPC recipients over the last number of decades. In 1990, there were approximately 73,000 SPC recipients compared to almost 450,000 by the end of 2020. The number of SPNC recipients has dropped from about 116,000 in 1990 to just over 95,000 at the end of 2020.

The number of recipients of State Pension schemes between 2010 and 2020 can be seen in Figure 2.1 below. In overall terms, the figure illustrates the trend of rapidly increasing numbers of SPC recipients over the last decade. The SPNC and WCP have far fewer recipients and the trend has been fairly flat over the last decade (with a slight increase in WCP recipients and a slight fall in SPNC recipients). SPC IQA payments have been included in the figure below, as these payments are made directly to the dependant adult – however, the payment is an increase paid on the SPC claim.

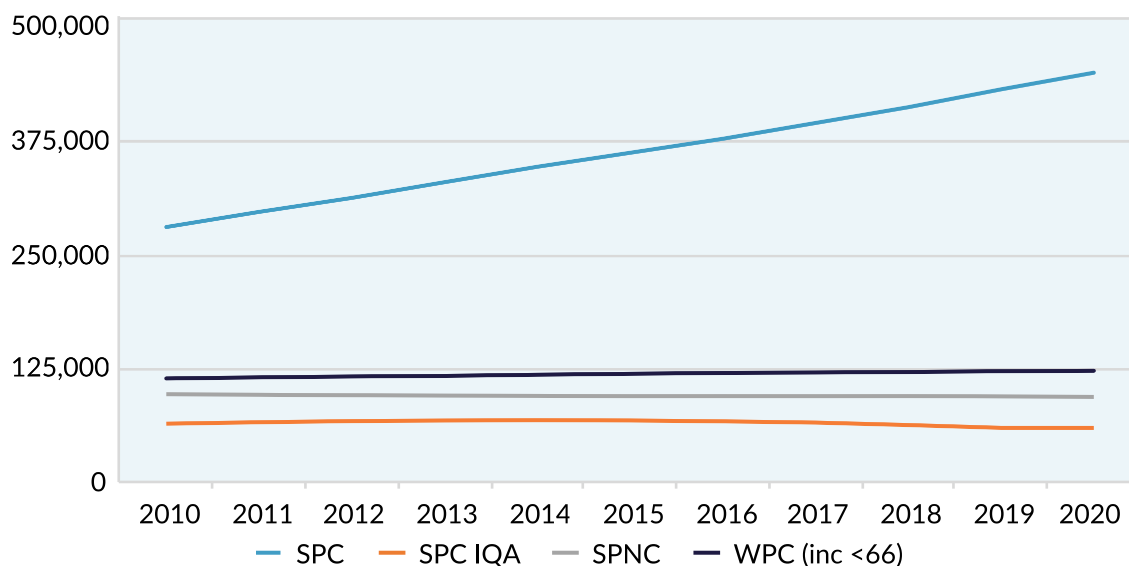
There were 449,442 SPC recipients at the end of 2020. Between 2010 and 2020 there has been an increase of 169,023 SPC recipients. In other words, at the end of 2020 there were 60 per cent more SPC recipients than a decade earlier.

There were 58,015 SPC IQA payments made at the end of 2020. The number of those in receipt of IQA payments has been decreasing over the past number of years. There has been a drop of 7,016 SPC IQA beneficiaries (almost 11 per cent) from 65,031 SPC IQA beneficiaries in 2010.

There were 95,465 SPNC recipients at end 2020. The number of SPNC recipients has remained broadly steady, although slightly declining, over time. The number of SPNC recipients has fallen from 97,179 in 2010. This is a decline of 1,714 SPNC recipients (almost 2 per cent) over the decade.

The Widow/er's or Surviving Civil Partner's Contributory Pension (WCP) can be paid to a qualifying person of any age. At the end of 2020, there were 123,019 recipients of this payment, with approximately three quarters aged 66 and over. The number of WCP recipients has increased from 114,579 in 2010. This is an increase of 8,440 WCP recipients (about 7 per cent) over the decade.

Figure 2.1: Number of recipients of largest State Pension schemes, and SPC IQA numbers 2010 - 2020



Source: DSP (2020), DSP (2021)

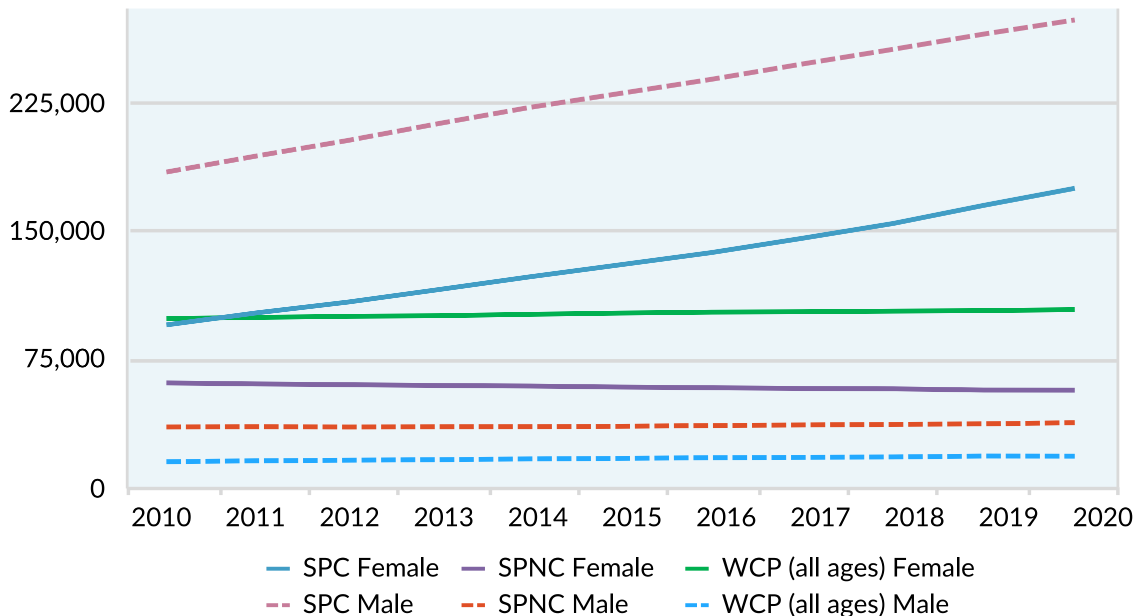
A full table of State Pension scheme recipients by scheme and year is set out in Appendix 2B.

2.4. Trends in number of pensioners by gender

Figure 2.2 below shows the number of SPC, SPNC, and WCP recipients by gender from 2010 to 2020. It shows that while the number of male and female recipients of SPC have both increased over the time period, the proportionate increase has been much greater for women (an increase of 83 per cent) than men (an increase of 48 per cent). In this regard, while women made up 34 per cent of SPC recipients in 2010, this increased to 39 per cent in 2020. With the increase in women qualifying for SPC, there has been a corresponding decline in the number of women in receipt of SPNC and the SPC IQA. While there has been an overall decline in the number of SPNC recipients from 2010 to 2020, when examined by gender, it is evident that there has been an increase in the number of men qualifying for SPNC (a 7 per cent increase from 2010) and a decrease in the number of women (a 7 per cent decline from 2010).

Figure 2.2 below also shows the number of WCP recipients by year of the period 2010-2020. It should be noted that these figures include all WCP recipients including those below State Pension age although, as noted before, DSP (2020) reports that about three quarters (76 per cent) are age 66 or older. The number of female WCP recipients has risen by 4.7 per cent and the number of male WCP recipients has increased by 21.4 per cent. These increases are possibly as a result of the increasing population and longer life expectancy. The narrowing gender gap between male and female life expectancy is possibly a factor in the increase in the number of male WCP recipients. See Appendix 2C for recipient numbers over the past 10 years broken down by gender.

Figure 2.2: Number of SPC, SPNC, and WCP recipients by gender 2010 - 2020



Source: DSP (2021), DSP (2020)

2.5. Trends in expenditure by scheme

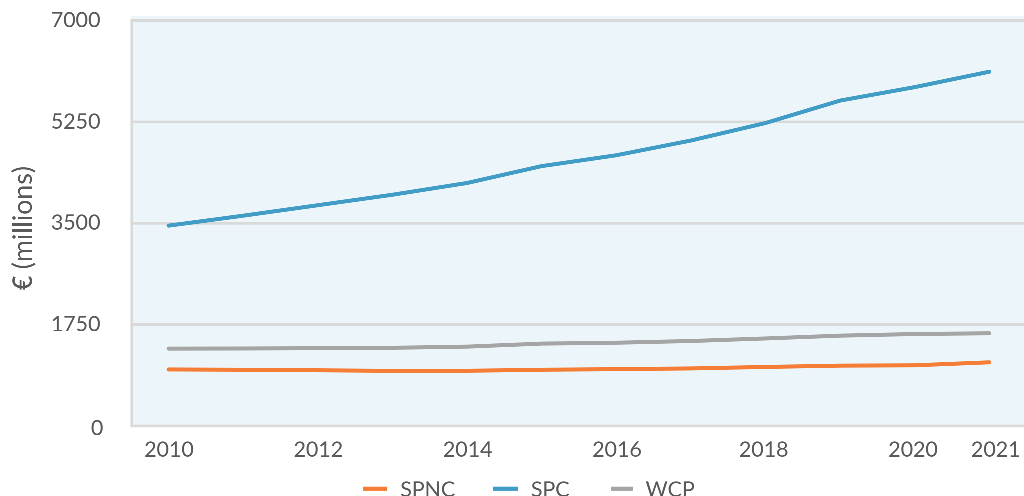
The SPC is the Department of Social Protection's largest scheme in terms of expenditure, with €5.8 billion spent in 2020 and €6.1 billion allocated for 2021. Expenditure on the SPNC was just over €1.0 billion in 2020, with a €1.1 billion expenditure allocation for 2021. The WCP had expenditure of almost €1.6 billion in 2020 and has a €1.6 billion expenditure allocation for 2021.

Expenditure on the SPC, SPNC, and WCP has increased for all three schemes since 2010. The largest increase in expenditure is for the SPC which has increased from €3.5 billion in 2010 to €5.8 billion in 2020. This is an increase in SPC expenditure of almost €2.4 billion since 2010 (or almost 70 per cent). The cost of the SPNC has also increased from €977.3 million in 2010 to just over €1.0 billion in 2020 (an increase of 7.3 per cent). WCP expenditure has risen from €1.3 billion in 2010 to about €1.6 billion in 2020 (an 18.8 per cent increase).

The reason for the rise in SPC expenditure is primarily due to the increase in the number of recipients (as a result of increasing numbers of new pensioners and existing recipients living longer – demographics are discussed in more detail in Chapter 4). The increase in rates (as well as IQA and IQC rate increases and the Living Alone Allowance) during the last decade has also added to expenditure – in this regard, although the number of SPNC recipients has fallen, expenditure on the scheme has increased slightly due to the rise in payment rates. WCP expenditure has increased by over 18 per cent since 2010 due to increases in payment rates and because the number of recipients has risen by just over 7 per cent.

Figure 2.3 below shows the increased costs of the SPC, SPNC, and the WCP over the period 2010 to 2021. Please note that, unlike the data above, this graph contains the estimated 2021 expenditure on these schemes.

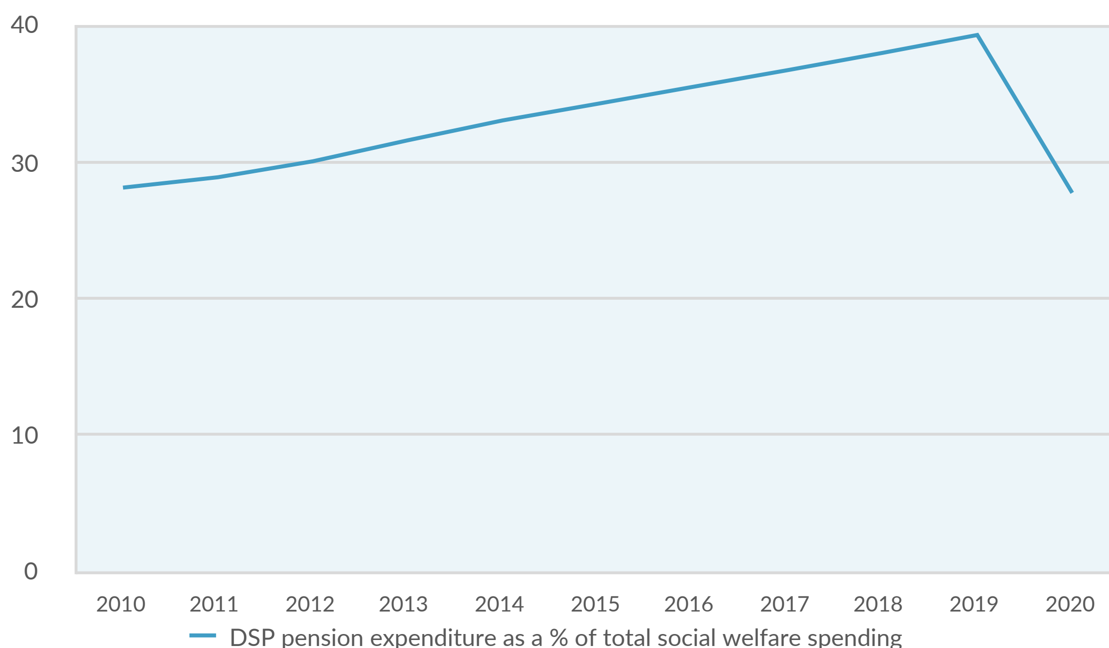
Figure 2.3: Expenditure on SPC, SPNC, and WCP, by year 2010 - 2021



Source: DSP (2021), Government of Ireland (2021), DSP (2020)

Figure 2.4 below shows that, from 2010 to 2019, there has been a steady increase in the amount of DSP Pension Programme expenditure as a proportion of total social welfare spending. In 2010 Pension Programme spending made up about 28 per cent of the Department's social welfare expenditure. This steadily increased until it reached 39.3 per cent of total social welfare expenditure in 2019. However, expenditure on the State Pensions fell to 27.8 per cent of total social welfare expenditure in 2020 due to significant increases in other areas of social welfare expenditure, as a consequence of pandemic-related spending. Data showing the proportion of social welfare expenditure spent on the Pension Programme from 2010 to 2020 is available in Appendix 2D.

Figure 2.4: DSP Pension Programme expenditure as a percentage of total social welfare spending, 2010 - 2020



Source: DSP (2021), DSP (2020)

The increasing costs of the State Pension system can be considered in terms of general Government expenditure. Pension Programme expenditure made up 5.4 per cent of general Government expenditure in 2010 (based on general Government expenditure of €109.2 billion) (DSP, 2020). By the end of 2020, the Pension Programme expenditure made up 8.1 per cent of general Government expenditure (based on general Government expenditure of €104.2 billion) (DSP, 2021).

2.6. The State Pension System and Poverty Prevention

As noted earlier, the policy objective of the first pillar in a pension system is poverty prevention. State Pensions in Ireland are extremely effective at reducing poverty. Without any social welfare payments, CSO data from the most recent *Survey of Income and Living Conditions (2019)* found that 85.6 per cent of people aged 65 and over would be at risk of poverty. With State Pensions payments, this reduces to 25 per cent. With the inclusion of secondary benefits, such as the Fuel Allowance and the Household Benefits Package, this further decreases to 10.5 per cent.

It should be noted that research has found that people living alone in retirement are a group with a higher probability of having inadequate retirement income compared to other groups (Beirne et al, 2020). However, the overall effectiveness of the State Pension system as a poverty prevention measure is one of the reasons that those aged 65 and over have the lowest at-risk-of-poverty rate compared to any other age group. The Technical Sub-Committee (see Chapter 1) examined State Pensions and Pensioner Poverty in some detail in its Working Paper 3. This section sets out some of their main findings that the Commission noted in its deliberations, as well as other relevant material.

2.6.1. Poverty among older people

In Ireland, there are three main indicators of poverty which are used by the CSO to provide information on living conditions for Irish people:

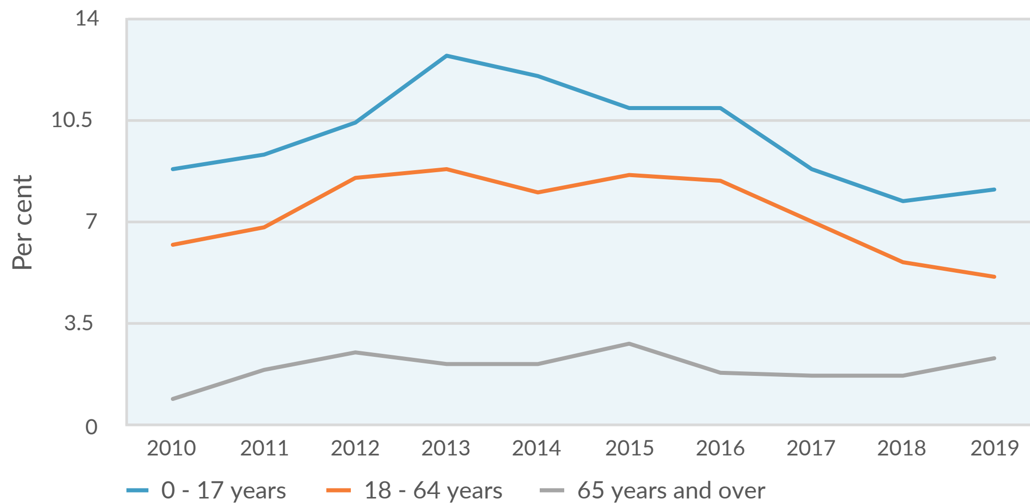
1. **At-risk-of-poverty rate:** Defined as below 60 per cent median equivalised household income.
2. **Basic deprivation rate:** People with an enforced lack of 2 or more goods and services (out of a list of 11 items which are considered the norm for people in society), due to an inability to afford them, are considered to be deprived.
3. **Consistent poverty rate:** People classed as being both at-risk-of-poverty *and* experiencing deprivation. This indicator has both a relative (at-risk-of-poverty) and an absolute (deprivation) component.

2.6.2. Consistent Poverty

One of the targets of the *Roadmap for Social Inclusion 2020-2025* is, “To reduce the consistent poverty to 2% or less.” (p.15)

In 2019, the consistent poverty rate for those aged 65 and over was 2.3 per cent, compared to 5.1 per cent for those aged 18 to 64 and 8.1 per cent for those aged under 18. Figure 2.5 below shows that consistent poverty rates for those aged 65 and over has been lower than for those of working age and for children in the last decade. The consistent poverty rate for those aged 65+ was 0.9 per cent. This likely reflects Government efforts to maintain State Pension payments through successive Budget measures during the Great Recession and the current pandemic.

Figure 2.5: Consistent Poverty by Age Group 2010 - 2019

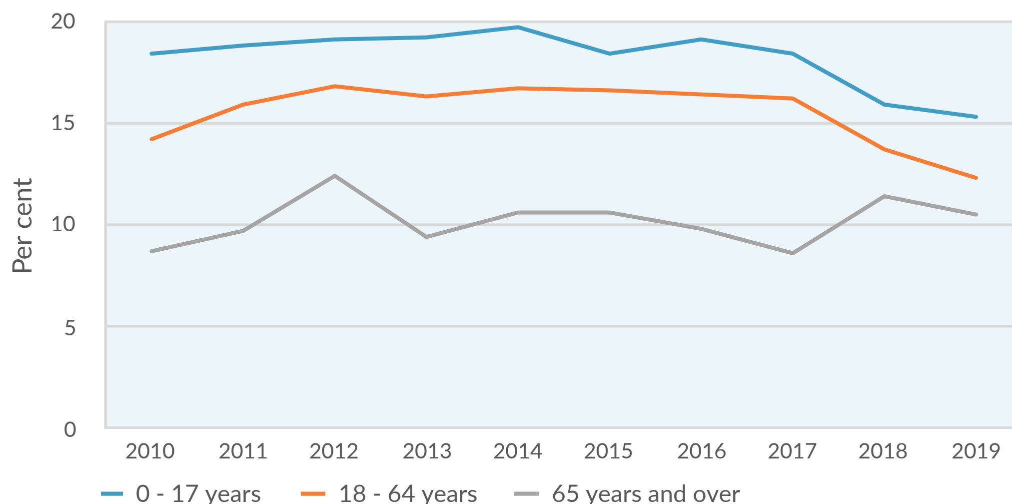


Source: CSO, CSO-SILC

2.6.3. At-risk-of-poverty

As can be seen in Figure 2.6 the at-risk-of-poverty trends of those of working age and those aged over 65 were similar until 2017, when it increased for those aged 65 and over, and decreased for those aged under 65. As the at-risk-of-poverty rate is a relative measure, increases in employment and earnings of the working age population increased the income of this group at a faster rate than experienced by pensioners. The at-risk-of-poverty rate therefore converged considerably in respect of older and working age adults.

Figure 2.6: At-risk-of-poverty rate by Age Group 2010 - 2019

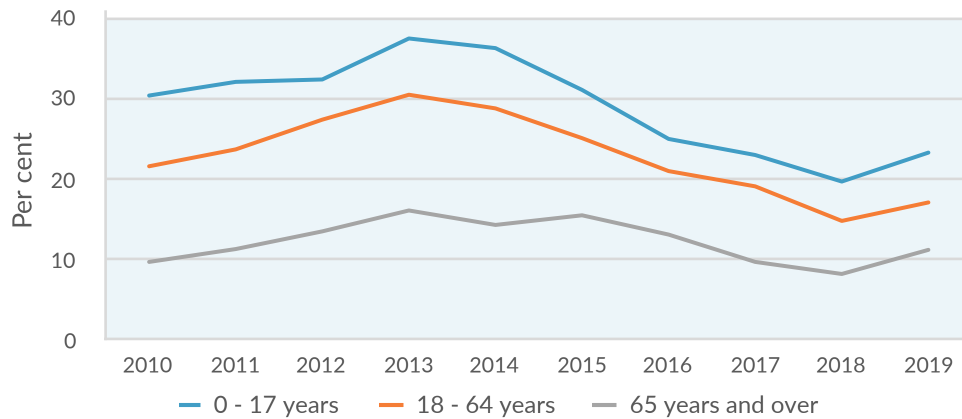


Source: CSO, CSO-SILC

2.6.4. Deprivation

Figure 2.7 below, shows deprivation rates by age group. The graph shows that the deprivation rate increased for all age groups over the period 2018 to 2019. This in contrast to Figure 2.5 above, which shows that, while consistent poverty decreased slightly between 2018 and 2019 for those aged 18 to 64 (and increased for retired people), the deprivation rate increased. This suggests that the income position of working age adults improved over the period (thereby lowering the consistent poverty rate) but the deprivation rate did not.

Figure 2.7: Deprivation Rate by Age Group 2010 - 2019



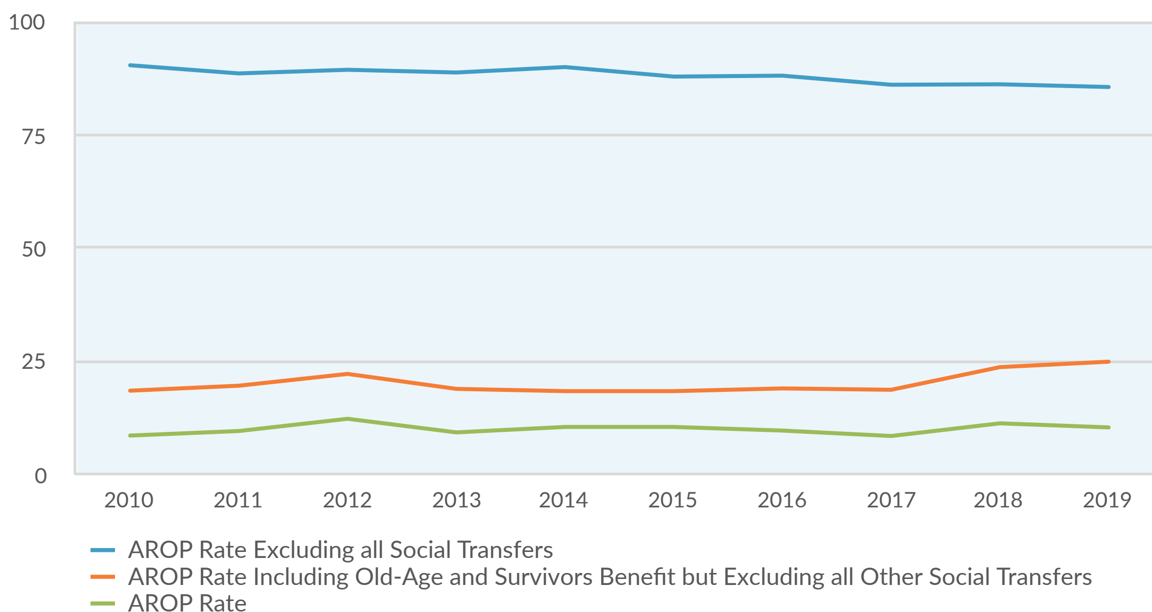
Source: CSO, CSO-SILC

2.6.5. Poverty Reduction Effect of Social Transfers (PREST)

A measure to assess the effectiveness of the State Pension system on poverty reduction (specifically) is to examine the 'poverty reduction effect of social transfers'. Figure 2.8 shows that without social transfers, those aged 65 and over would consistently have at-risk-of poverty rates between 80 per cent and 90 per cent ('AROP Rate Excluding All Social Transfers') over the past decade. However, old-age social transfers (including State Pensions) lower the at-risk-of-poverty rate by over 60 percentage points in every year from 2010 to 2019 inclusive ('AROP Rate Including Old-Age and Survivors Benefit but Excluding all Other Social Transfers'). Finally, including all social transfers (such as secondary benefits and allowances) further reduces the at-risk-of-poverty rate for people age 65 and older ('AROP Rate').

In 2019, without any social transfers, the at-risk-of-poverty rate for those aged 65 and over would have been 85.6 per cent. Including State Pensions but excluding secondary benefits and allowances, the rate fell to 25 per cent. Including all social transfers, the rate fell to 10.5 per cent.

Figure 2.8: At-risk-of-poverty rate (%) before and after social transfers for age 65+, 2010 - 2019



Source: CSO, CSO-SILC, Statbank Table SIA48

2.6.6. Consultation Findings

The majority of organisational or personal submissions to the public consultation did not refer to the SPNC. A small number of submissions referred to reviewing the means test for SPNC. While the Commission did not identify any poverty issues arising from the SPNC scheme which would require a review, it notes that there have not been any changes to the thresholds in the SPNC means tests in over a decade. Some concerns were raised about long-term carers potentially having difficulty qualifying for the SPNC (see Chapter 9 for the Commission's recommendations to improve access to State Pensions for long-term carers).

The Technical Sub-Committee (see Chapter 1) found that the SPNC element of the State Pension system was an effective safeguard against pensioner poverty. The safety net function of SPNC is a critical component of the State Pension system in Ireland.

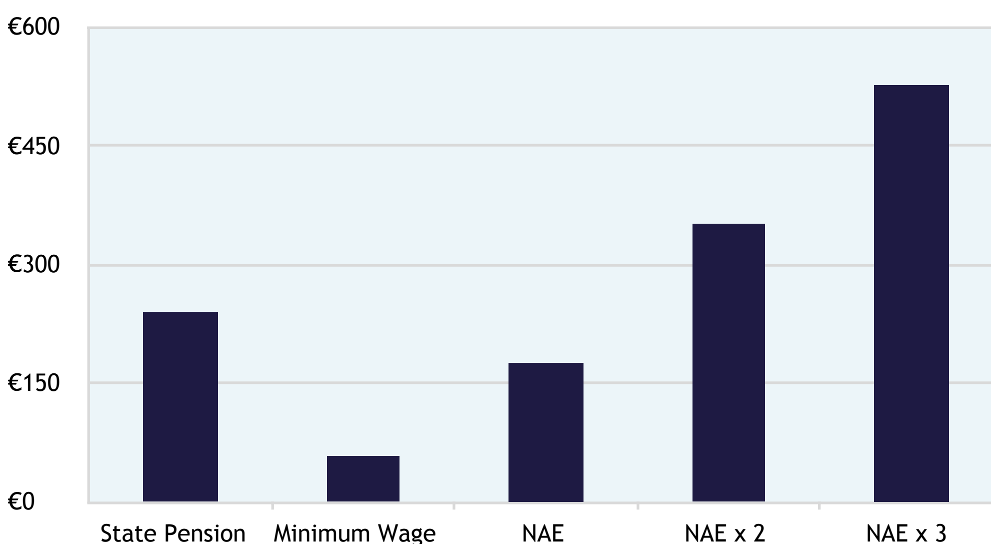
While the majority of organisational or personal submissions to the public consultation did not explicitly refer to WCP, concerns expressed in relation to preventing poverty for single pensioner households are particularly relevant to recipients of this scheme.

2.7. Value for money of the State Pension

As Ireland operates a flat rate State Pension payment, which does not link the value of social insurance contributions paid to the value of the State Pension payment received, the social insurance system operates on a redistributive basis and provides better value for money for lower earners.

The *Report of the Interdepartmental Pensions Reform & Taxation Group* noted that average and low income earners received significantly higher income from the SPC than they would have received if their Class A PRSI contributions (employer and employee) had been invested in a defined contribution (DC) pension scheme and an annuity purchased at retirement. Based on data from the 2015 *Actuarial Review*, Figure 2.9 below shows that a person on national average earnings (NAE) who is entitled to a full State Pension would receive a private pension of €176 (or about 74 per cent of the 2015 maximum State Pension rate). The equivalent amount for a person on minimum wage would be €56 a week (or about 23 per cent of the 2015 maximum State Pension rate).

Figure 2.9: Average weekly pension level that could be purchased if Class A accumulated contributions were invested and used to purchase a hypothetical private pension



Source: Government of Ireland (2020)

Using the Pensions Authority's Pension Calculator[7] it is possible to estimate the percentage of salary that a person would need to save each year over a 40 year period to provide a pension of €13,000 per annum at age 66 by saving through a Personal Retirement Savings Account (PRSA).

Based on a salary of €40,000 (close to the current level of average earnings) the Pensions Authority's calculator estimates that the contribution rate required to save for a €13,000 pension is a minimum of 22.7 per cent of annual salary (€9,080 a year or €363,200 in total) if a person started saving at age 26.

In this regard, social insurance benefits offer excellent value for money for those on the lower part of the income distribution. For those at the higher end of the income distribution, the State Pension system is redistributive and such contributors generally get back less than they pay in.

2.8. Conclusions

- The trends in State Pensions scheme numbers and expenditure shows that SPC numbers are increasing significantly while the number of recipients and expenditure on other State Pensions schemes – WCP and SPNC – are respectively stable or gradually declining.
- In this regard, while the Commission considered the State Pensions system as a whole, in terms of developing sustainable options for Government to consider, it focused primarily on SPC as there is not a sustainability challenge with either the WCP or the SPNC.
- It should be noted that the potential impact of changes to SPC on SPNC were considered by the Commission. These are referenced, as appropriate, in relevant sections of the Report.
- The Technical Sub-Committee found that the SPNC element of the State Pensions system was an effective safeguard against pensioner poverty. The safety net function of SPNC is a critical component of the State Pensions system in Ireland.
- A small number of responses to the public consultation process stated a need to review the means test for SPNC. While the Commission did not find any evidence of poverty concerns that would be give rise to the need for a review, the Commission notes that the SPNC means test has not been substantively amended in well over a decade.
- While the majority of organisational or personal submissions to the public consultation did not explicitly refer to WCP, concerns expressed in relation to preventing poverty for single pensioner households are particularly relevant to recipients of this scheme.
- The SPC is extremely effective at preventing pensioner poverty. Rates of poverty, using the three main poverty measures (the at-risk-of-poverty rate, the consistent poverty rate, and the deprivation rate), are lower for people age 65 and older than for other age groups.
- The poverty reduction effect of old-age social transfers (including State Pensions) can be seen by the fact that these social transfers have significantly reduced the at-risk-of-poverty rate for people age 65 and over, from 85.6 per cent in 2019 to 10.5 per cent.
- The Irish social insurance system provides better value for money for lower earners because the flat rate of State Pension payment does not link the value of social insurance contributions to the value of the State Pension received.

[7] The Pensions Authority, Pension Calculator. Assumptions include that your retirement fund pays an annual management charge of 1% per annum. In addition, a 5% contribution charge is assumed to be paid on each regular contribution (based on Standard PRSA fees and charges maximum limits). The projected accumulated retirement fund is converted to an annual pension using a long term average conversion rate. The actual conversion rate at retirement may differ from the conversion rate used in the example above. All figures shown above are in present day terms.

Chapter 3: The Social Insurance Fund

This chapter presents an overview of the development of social insurance policy and the Social Insurance Fund (SIF). The SIF finances the payment of social insurance benefits including the State Pension Contributory. The SIF is funded on a tripartite basis by Pay Related Social Insurance (PRSI) contributions from employers and workers, with the State funding any deficits that arise when expenditure exceeds income. This chapter sets out the trends in the performance of the SIF over the last 40 years in relation to income, expenditure and Exchequer subventions.

3.1. The Social Insurance system in Ireland

The Social Welfare Act 1952 paved the way for the establishment of the SIF in 1953 and the introduction of the PRSI system. In contrast with social assistance or universal payments, the contributory social insurance system links access to social welfare benefits directly to participation in the labour force. This link between social welfare benefits and labour force participation provides the mechanism for financing social insurance benefits through the collection of contributions based on earnings or other forms of income.

For most people, their social insurance contribution record is based largely on contributions paid into the system during periods of employment (as employees and/or self-employed people). However, the system can also take account of periods spent out of the workforce through unemployment, illness and/or caring responsibilities as, in certain circumstances, individuals may be eligible to receive credited contributions (see section 3.1.3 for information about credited contributions).

In this regard, the social insurance system is based on two fundamental principles that inform the development of social insurance policy in Ireland:

- **The Contributory Principle** where there is a direct link between contributions paid and entitlements to social insurance benefits such as the State Pension Contributory.
- **The Solidarity Principle** where contributions are combined in the SIF and benefits are weighted towards contributors who are more vulnerable, demonstrating solidarity between workers and generations. The solidarity principle recognises absences from the labour market arising from a number of contingencies. A recent example of the solidarity principle in action in social insurance policy development was the introduction of HomeCaring periods in the calculation of State Pension rate entitlement (discussed in more detail in Chapter 8).

Through its combination of the contributory and solidarity principles, the social insurance system seeks to address the issue of income support in a way that is financially sustainable, that establishes entitlement to social insurance benefits as a matter of rights, and that commands wide public support.

The National Economic and Social Council (2020: 6) noted that, "As the OECD remarked about the contributory pension, the absence of a strong contribution-related rationale means that – far from being contributory – the pension has 'numerous elements of redistribution which have a more universal character'". The Commission supports both the contributory and solidarity principles of the social insurance system.

3.1.1. Overview of the Social Insurance Fund

Social insurance benefits (including the State Pension Contributory) are funded by the SIF. SIF expenditure includes a wide range of other benefits as well as pension payments, such as Invalidity Pension, Illness Benefit, Carer's Benefit, Jobseeker's Benefit, Maternity/Paternity Benefit, Parental Benefit, Treatment Benefits, Guardian's Contributory Payment.

SIF income is made up of a combination of PRSI contributions from employers, employees and the self-employed. The majority of SIF income is paid by employers – in 2020 employer PRSI contributions made up some 63 per cent (€7.2 billion) of total PRSI receipts. This compares to 24 per cent (€2.8 billion) paid by employees and just under 6 per cent (€0.6 billion) paid by self-employed contributors. Income from other sources made up the remainder of SIF income. See Appendix 3A for a full breakdown of SIF income from 2010 to 2020 inclusive.

The SIF operates on a Pay-As-You-Go (PAYG) basis, which means that current contributions fund current payments. The PAYG method of financing first pillar pensions systems is used across the EU and in other countries with developed social insurance systems. In the event of a shortfall between SIF income (i.e. PRSI receipts) and SIF expenditure (i.e. the cost of social insurance benefits paid out of the SIF) the Exchequer pays a subvention to cover the deficit.

This tripartite funding of the SIF by employers, employees/self-employed, and the State ensures a broad base for financing SIF income and ensures that social insurance benefits are available to the majority of workers in Ireland.

3.1.2. How the PRSI system operates

The PRSI system creates a relationship between the employment or self-employment status of a person, the rate of PRSI contribution payable, and the benefits receivable (including pensions) as a result of these contributions. An individual can be insured for social insurance purposes in one of three ways as either:

1. An employed contributor;
2. A self-employed contributor, or
3. A voluntary contributor

The rate of PRSI contribution payable is dependent on earnings (the contributory principle), but the benefits paid out in relation to pensions are not linked to earnings or the value of a person's PRSI contributions (the solidarity principle).

In general, if a person is employed/self-employed between the ages of 16 and 66, the payment of social insurance is compulsory.

There are different classes of PRSI. Insured persons are required to pay social insurance contributions based on their level of income and the PRSI class under which they are covered. The majority of employees are covered under Class A. Once weekly earnings exceed €38, an employee under Class A has access to the full range of long-term and short-term social insurance benefits. The €38 weekly earnings threshold for social insurance coverage in Ireland is very low compared to other European countries. Therefore, most of those with very low earnings and/or in precarious work are currently covered by the social insurance system. See Appendix 3B for a list of current PRSI contribution rates and Appendix 3C for a breakdown of PRSI classes, the social welfare benefits covered by each class, and the number of beneficiaries in each class.

The self-employed – Class S – also do relatively well in Ireland compared to other European countries in terms of the value of their social insurance contributions (see Chapter 13 for further details). Since 1988 they are covered for social insurance, including the State Pension, once they earn more than €5,000 a year.

These PRSI contributions provide entitlement to benefits under various social insurance schemes. As such, PRSI contributions are calculated as a percentage of gross reckonable earnings of employees (and self-employed persons) – subject to various thresholds, allowances and ceilings. Usually, both the employer and the employee pay a share of the contribution, and these are paid into the SIF, which in turn provides the money to fund social insurance schemes.

Social insurance contributions paid by employers, employees, self-employed workers, and voluntary contributors are collected primarily through the Revenue PAYE income tax system and are paid into the SIF. Employers are legally obliged under social welfare legislation to make the appropriate deductions and remit them to enable employees to claim the associated benefits if and when the need arises.

In addition, employers of certain classes of contributors are required to pay an additional National Training Fund Levy of 1 per cent to support a broad range of employment training initiatives that are administered by the Department of Further and Higher Education, Research, Innovation and Science. Although the PRSI system is used to collect this levy, it is separate to the social insurance system.

Following the extension of PRSI coverage between 1988 and 1995 (to self-employed workers, part-time workers and new civil and public servants) the Irish social insurance system is now a comprehensive system covering most workers. An overview of key developments to the social insurance system is outlined in Section 3.3.

3.1.3. PRSI credited contributions

PRSI credits are an integral part of the social insurance system. The primary purpose of the PRSI credited contributions scheme ("credits") is to protect social welfare benefits and pensions of employed contributors by covering gaps in their social insurance record when they are not in a position to pay PRSI, such as during periods of unemployment, illness, or other reasons.[8]

For the most part, credited contributions are linked to having an underlying entitlement to a social welfare payment while temporarily out of the labour force, or during periods of statutory leave such as parental or maternity leave, where the person has an attachment to the labour market. While credits do not, on their own, give an individual an entitlement to receive social insurance benefits, they can assist in the case of short-term benefits and long-term benefits, for the qualifying condition of having a certain amount of contributions and/or credits over a specified period.

As credits cannot be used to satisfy minimum paid contribution conditions, they are only of value to a person who also satisfies the "paid contribution" criterion, for example, the requirement to have at least 520 paid employment contributions for SPC. See Appendix 3D for details about the qualifying conditions for credited contributions and the types of PRSI credits.

3.2. Social Insurance Fund income and expenditure

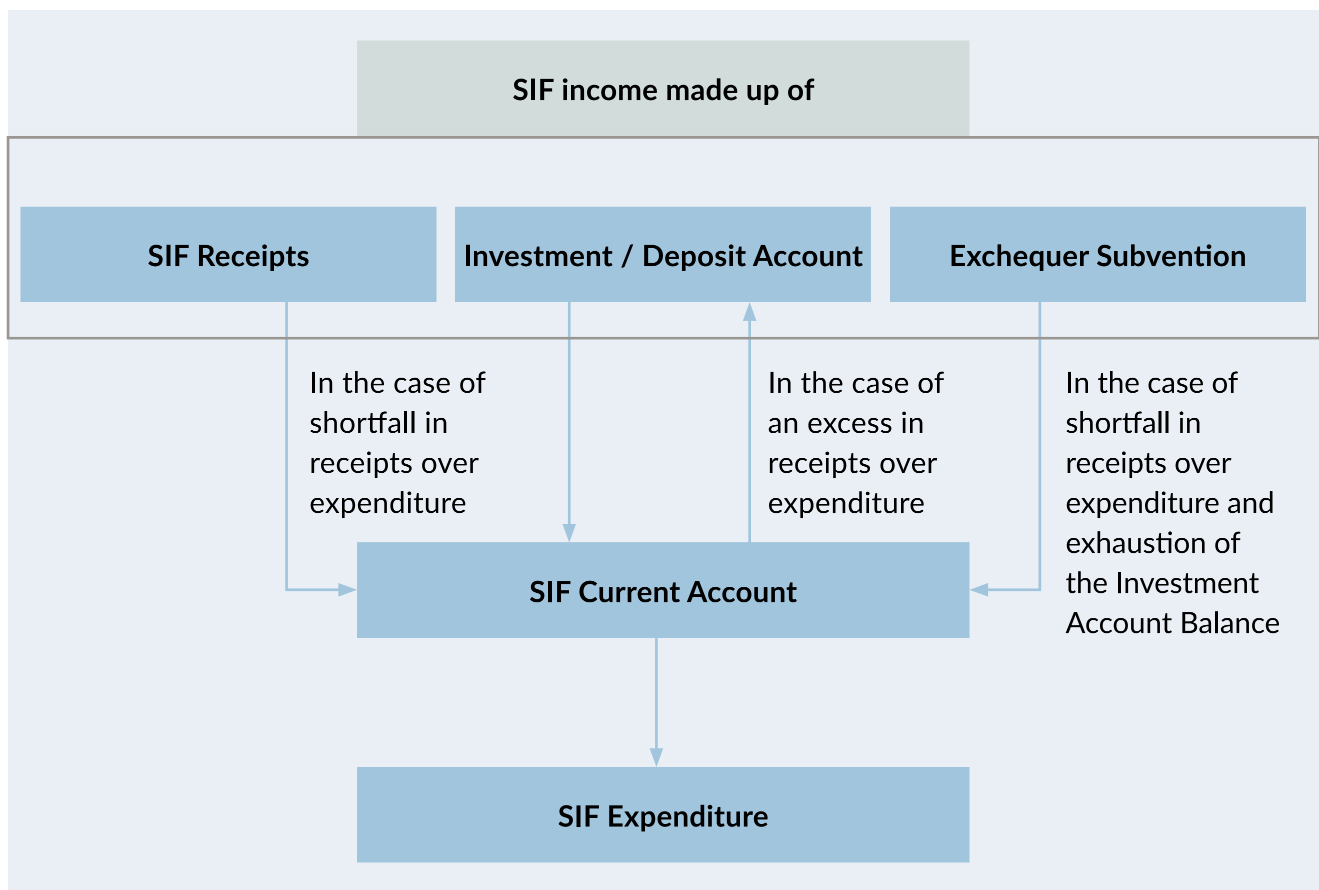
SIF income policy is set by the Minister for Social Protection subject to the consent of the Minister for Finance. SIF expenditure policy is set by the Minister for Social Protection and the Minister for Public Expenditure and Reform. Under section 9 of the Social Welfare Consolidation Act 2005, the SIF comprises of a Current Account, managed by the Minister for Social Protection, and an Investment Account, managed by the Minister for Finance.

Sums payable out of the SIF come from the Current Account and any surplus is held in the Investment Account. If there is a shortfall in these contributions which leads to a deficit in the Current Account, the balance must be made up from the Investment Account in the first instance and otherwise from funds provided by the Exchequer through a subvention.

Unlike the level of PRSI contributions of employers and employees/self-employed, which are set in legislation, the State's Exchequer subvention is a "residual" contribution designed to make up whatever shortfall may arise between the SIF's income and expenditure. Figure 3.1 below illustrates how the SIF operates.

[8] The Homemaker's Scheme and the HomeCaring Periods Scheme are discussed in Chapter 8 on the Total Contributions Approach and Chapter 9 on Long-Term Carers. Although both the Homemaker's Scheme and HomeCaring periods make it easier for a person to qualify for the SPC, neither scheme provides credited contributions – in this regard, the eligibility conditions for credited contributions are more onerous.

Figure 3.1: Flowchart of SIF Income and Expenditure



Source: Department of Social Protection

It should be noted that since the establishment of the SIF, it has been envisaged that Exchequer funding is an integral element of financing the social insurance system, with the cost of benefits being paid for equally on a tripartite basis by social insurance contributions from workers, employers and the Exchequer. This is discussed further in Chapter 6, Funding State Pensions - Structural.

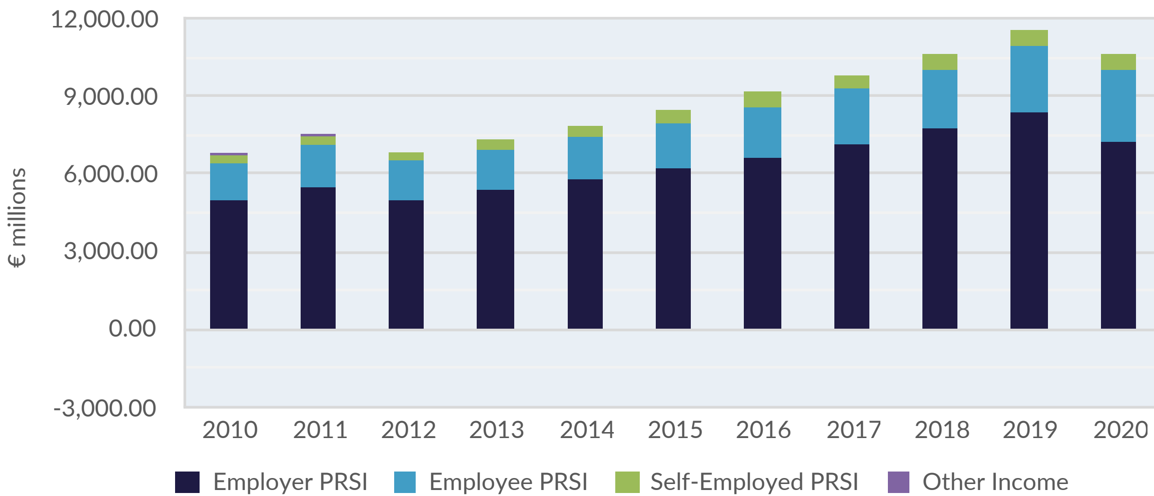
Today's PRSI contributors support both past and current contributors, while also building up entitlement to future benefits and pensions. This way of paying for social insurance payments, including State Pension benefits is a 'social contract' between workers, employers and pensioners and the State. Current workers and employers therefore support current pensioners, and the State supports all groups by covering any deficit in the SIF.

As the SIF is financed on a PAYG basis it operates on the assumption that there is a sufficient number of current workers paying sufficient contributions into it in order to balance payments to beneficiaries including pensioners. While the proportion of workers to older people (the old-age dependency ratio) is currently favourable relative to the EU average, Ireland's population is expected to age rapidly over the coming decades (see Chapter 4 on Demographic and Expenditure Projections) thereby resulting in less favourable ratios.

3.2.1. Social Insurance Fund income

Figure 3.2 below displays the sources of income for the SIF. The SIF is primarily financed by PRSI contributions from employers, employees, and the self-employed. Income from contributions made up 99.6 per cent of all SIF income in 2019. A small amount of income comes from other sources, such as the recovery of benefits.

Figure 3.2: Financing of the Social Insurance Fund 2010 – 2020, € millions



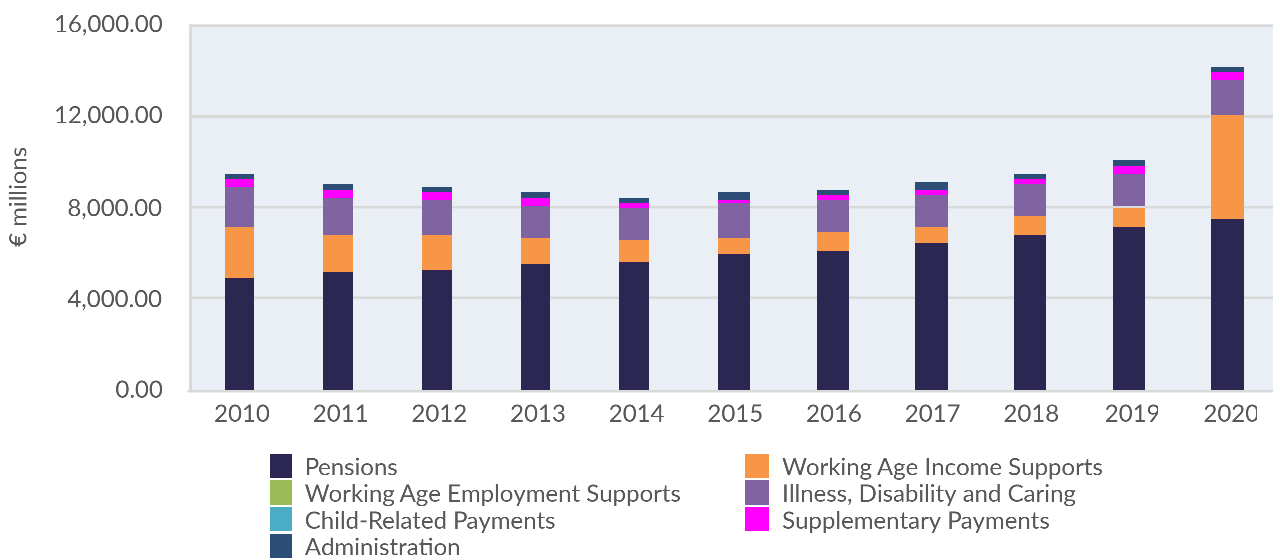
Source: Department of Social Protection

3.2.2. Social Insurance Fund expenditure

The SIF is used to finance a range of social insurance benefits including SPC, WCP, Jobseeker's Benefit, Maternity Benefit, Paternity Benefit, Parent's Benefit, Treatment Benefit, Carer's Benefit, Illness Benefit, and Invalidity Pension. In response to the pandemic, additional benefits were introduced in 2020 – the Pandemic Unemployment Payment and an Enhanced Illness Benefit Payment. In addition, in 2021, a new Benefit Payment for 65 Year Olds was introduced.

Figure 3.3 below illustrates the steady rise in State Pension social insurance payments from 2010 to 2020, increasing from less than €5 billion in 2010 to more than €7.4 billion in 2020. Expenditure on working age income supports is more volatile and far less predictable than expenditure on State Pension payments. High levels of expenditure on Jobseeker's Benefit during the recession in 2010 was apparent, followed by declines in working age payments thereafter. In 2020, the impact of the pandemic and the associated steep increases in working age payments, as a consequence of the introduction of the Pandemic Unemployment Payment, is strikingly evident.

Figure 3.3: Social Insurance Fund Expenditure 2010 - 2020, € millions



Source: DSP (2021), DSP (2020) Table A1

3.2.3. Exchequer subventions

As noted above, the SIF operates on a PAYG basis, with the Exchequer acting as the residual financier of the Fund, where there is a shortfall between social insurance income in the Fund and the cost of social insurance benefits paid.

After the SIF was established in 1952, deficits were the norm for over 40 years – the SIF has recorded a surplus of income over expenditure in only 15 years out of the 69 years since it was established (less than one in every four years). The resulting Exchequer subventions have ranged from less than 2 per cent of SIF expenditure to over 40 per cent of SIF expenditure in a given year.

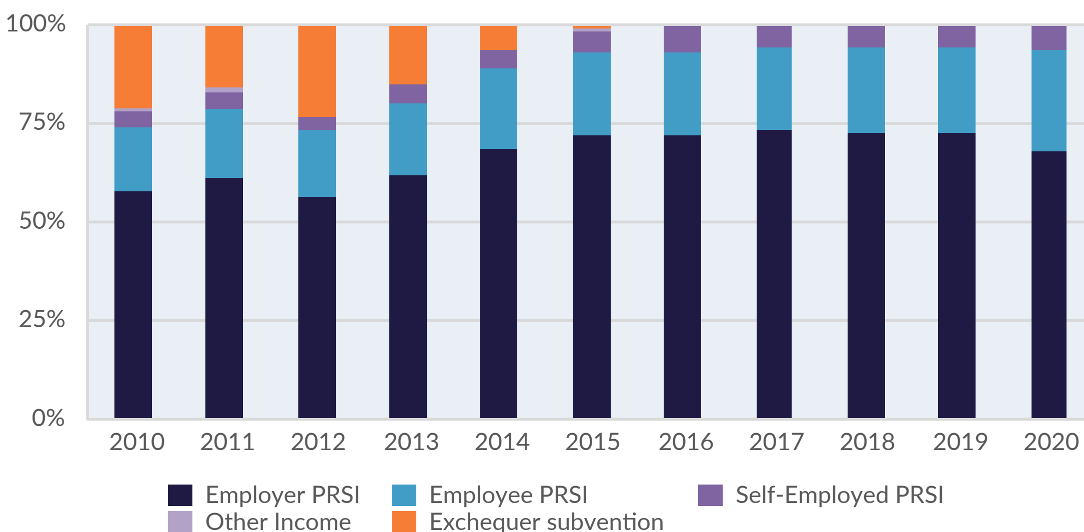
The SIF was in deficit from 1952 until 1997. It recorded a surplus each year between 1997 and 2007, by which time, it had accumulated a surplus of over €3.6 billion. However, the SIF subsequently recorded a deficit in each of the years from 2008 to 2015. The SIF surplus was eliminated by early 2010, as the recession resulted in a sudden increase in the number of jobseekers eligible for SIF benefits, and a reduced SIF income due to a fall in the number of people in employment. The cumulative deficit over these years was €11.9 billion, of which €3.6 billion was funded from the surplus accumulated over the period 1997 to 2007, with the balance of €8.3 billion funded by means of Exchequer subvention.

In 2016, a surplus of €453 million was recorded, the first surplus since 2007. Further surpluses of €730 million, €1.1 billion and €1.6 billion were recorded in 2017, 2018 and 2019 respectively, resulting in an accumulated surplus of €3.9 billion at the end of 2019.

The Social Welfare (COVID-19) (Amendment) Act 2020 provided for Pandemic Unemployment Payment expenditure (on or after 6th August 2020) to be charged to the SIF. A deficit of €3.4 billion was recorded on the SIF in 2020. This was funded from the accumulated surplus of €3.9 billion, reducing the surplus to €453 million at end of 2020. See Appendix 3E for a full table of SIF income and expenditure from its establishment in 1952 to 2020.

Figure 3.4 below shows the proportion of SIF expenditure funded by SIF income and Exchequer subventions from 2010 to 2020 inclusive. Exchequer subventions funded close to or more than 20 per cent of all SIF expenditure from 2010 to 2013 inclusive. As the economy recovered from the recession, the level of subvention declined and there were no subventions required from 2016 to 2020 inclusive.

Figure 3.4: Financing of SIF Expenditure, 2010 – 2020



Source: DSP (2021), DSP (2020), Table A3

NESC (2020:8) noted in respect of SIF performance over time that, "These cyclical changes may mask the gradual, long-term growth of pension commitments. In the absence of greater policy clarity about the SIF and the funding of insurance benefits, there is a danger that a cyclical surplus could be invoked as evidence of the 'sustainability' of the SIF, obscuring the urgent need to resolve the role of the SIF in funding benefits."

3.2.4. Actuarial Review of the Social Insurance Fund

An actuarial review of the SIF is required every five years under Section 10 of the Social Welfare (Consolidation) Act 2005 (previously Section 7A of the Social Welfare Act 1998). The most recent review, published in 2017, examined the state of the SIF at the end of 2015. The 2015 outlook was considerably different from that projected in the 2010 *Review*. Economic recovery post-recession was well under way – employment trends were favourable, growth was positive, and the SIF had a modest surplus of income over expenditure in the short-term.

However, the *Review* projected that expenditure would exceed income over the medium to long-term (estimated from 2021 due to ageing population impacts), with pensions making up a significant amount of this expenditure. The *Review* also considered the impacts of various policy reforms on the Social Insurance Fund e.g. the introduction of a Total Contributions Approach from 2020 and extending social insurance benefits to the self-employed. Chapter 4 provides details of the projected shortfalls, as provided in an update of the 2015 *Review* undertaken for the Commission's information.

3.2.5. International comparisons

As noted above, in common with other EU Member States and other countries with developed social insurance systems, social insurance benefits are funded on a PAYG basis. According to 2019 OECD data, Ireland's social security contributions are the lowest in the EU when assessed as a percentage of the national economy or total taxation (excluding Denmark which funds its social security system through general taxation).

The rates of employer, employee, and self-employed PRSI mean that Ireland is towards the lower end of social insurance contributions as a percentage of income. However, it is important to note that individual EU Member States have different rules around eligibility, retirement age, and levels of benefits for State Pensions so it is not possible to directly compare the value of social insurance contributions paid and the benefits received. The range of benefits covered also differ internationally, with some countries having long-term care benefits covered by the social insurance system, while in Ireland these are mostly Exchequer funded.

In addition, some EU countries, unlike Ireland, have different funds for different social security benefits. This means that there may be separate funds and separate contribution rates for social security, mandatory health insurance, State Pensions, or other supports.

The redistributive nature of the Irish system means that Irish social insurance rates and the tax wedge are low for low earners, and more aligned with international comparisons for higher earners.

3.3. Key developments in the social insurance policy

Over the last 30 years or so, the policy orientation of successive Governments has been directed at widening social insurance coverage and improving benefits available in the social insurance system.

The 1986 *Report of the Commission on Social Welfare* has had a major influence on social insurance policy through the implementation of its recommendations on the extension of social insurance coverage to part-time workers, the self-employed, and public servants. Furthermore, new benefits – such as Carer's Benefit – were introduced, and major changes to benefit entitlement conditions have been made. A list of the principal changes to the social insurance system is set out in Appendix 3F.

In 1988 social insurance for self-employed workers was introduced. Over time, the range of benefits that the self-employed have access to has been extended and self-employed contributors are now covered for most of the benefits available under the social insurance scheme, which represents approximately 93 per cent of the value of all benefits paid by the SIF.

The extension of social insurance coverage to part-time workers in 1991 (as recommended by the Commission on Social Welfare 1986) had a significant gender impact and improved the level of social insurance coverage for women. This policy enabled part-time workers (earning in excess of £25 per week – now €38) to be covered by full-rate social insurance.

In 2011 the rate of Class S PRSI was increased from 3 per cent to 4 per cent (although the income floor, after which self-employed workers pay PRSI on all income, was raised from €3,174 to €5,000). However, the rate of PRSI contribution for a self-employed earner on an average wage (4 per cent) is significantly lower than the PRSI contribution for an employee on a similar wage (15.05 per cent between employee and employer contributions).

Since January 2014, unearned income from rents, investments, dividends and interest on deposits and savings is liable to PRSI at 4 per cent. Anyone with unearned income of over €5,000 is considered to be a 'chargeable person' and is liable to pay the PRSI charge at 4 per cent on all their unearned income. This PRSI charge is paid at Class K and does not entitle the person to any social insurance benefits.

3.4. Conclusions

- The Social Insurance system is based on two fundamental principles: the contributory principle, where there is a direct link between contributions paid and entitlements to social insurance benefits (such as the State Pension Contributory), and the solidarity principle, where contributions are combined in the SIF and benefits are weighted towards contributors who are more vulnerable, demonstrating solidarity between workers and between generations.
- In common with other social insurance systems internationally, the social insurance system operates on a Pay-As-You-Go (PAYG) basis, whereby current contributors fund current payments.
- The Social Insurance Fund is financed on a tripartite basis with social insurance contributions paid by employers and employees/the self-employed, and State financing (through general taxation or borrowing) any deficits that arise. The majority of SIF income is from employers.
- Deficits and Exchequer subventions have been the norm in the history of the Social Insurance Fund – the SIF has been in deficit for more than 3 out of every 4 years since it was established in 1952.
- Expenditure on State Pensions payments has been steadily and significantly increasing over time. This is in contrast to the countercyclical and more volatile expenditure on working age payments.
- The social insurance system has improved its coverage over time, to include the self-employed in 1988, part-time workers in 1991 and civil and public sector workers in 1995, whereby the vast majority of workers are now covered by the system.

Chapter 4: Demographic and Expenditure Projections

The previous chapters set out the trends in State Pension recipient numbers and expenditure in the past, including the growing impacts of pension expenditure on the Social Insurance Fund (SIF). This chapter considers the future, and examines projections for demographic changes and State Pension related expenditure. Irish people are living longer and healthier lives. This is a positive change for society overall, but it also results in significantly increased State Pension costs. Demographic projections show that the coming decades will be marked by a transition towards a much older population structure.

This chapter will review sustainability challenges including projected demographic changes and the impact on State Pension expenditure. The views expressed in the public consultation process, and the impacts of changing some of the modelling parameters are considered. While there are limitations to projections, the overall trend is that there are an increasing number of pensioners, living well beyond the current pension age of 66. This will have implications for the amount of expenditure required to fund the State Pension system in the future.

4.1. Sustainability Challenges

Evidence from a range of sources shows that current State Pension arrangements[9] will face considerable sustainability challenges within the next 10 years. Three key changes will drive these challenges:

- Increases in longevity – older people are living for longer, which results in the duration of State Pension payments increasing. The proportion of a person's life spent in retirement compared to employment is increasing.
- Increases in the number of older people also drives increases in State Pension expenditure.
- Population ageing – there will be a much larger proportion of older people relative to younger age cohorts, which results in a less favourable old age dependency ratio, with relatively fewer working age people supporting an increasing number of pensioners.

As noted in the Commission's consultation paper, *Have your say on sustainable State Pensions into the future*, there is some debate on how soon and to what degree there will be sustainability challenges, given Ireland's relative population / ageing advantages compared to other EU Member States and the degree to which these changes might be slowed by, for instance, increased fertility rates or net inward migration. However, results from a wide range of projections, based on different sets of assumptions, suggest that even with 'best case' assumptions, these demographic and ageing trends will happen within a relatively short time horizon.

The next sections outline some of the available data in relation to these issues. Further details are available in the Technical Sub-Committee's Working Paper 1 on *Population and Labour Force Projections.*

[9] The term 'arrangements' is used to distinguish those aspects of the Irish State Pension system that directly relate to why, how much and in what way pension payments are made and to whom. Different State Pension schemes will have different arrangements.

4.2. Demographic Changes

This section sets out relevant data in relation to changes in life expectancy and old age dependency ratios.

4.2.1. Increasing Life Expectancy

Thankfully, people are living longer and are healthier than previous generations. A baby born in Ireland in 2021 has a life expectancy of 93.6 (UNICEF, 2021). At the same time, young people are staying longer in education, benefitting them and Irish society. This also means that they start their working life later than previous generations.[10] Consequently, people are spending less of their life at work, and more of it in retirement.

CSO figures in Table 4.1 below indicate that Irish life expectancy at birth, age 5 and age 65 increased from 1926 to 2015.

Table 4.1: CSO Life expectancy at birth, aged 5 and aged 65 classified by gender, 1926 - 2016

	Males - Years			Females - Years		
Period	**Birth**	**Age 5**	**Age 65**	**Birth**	**Age 5**	**Age 65**
1926	57.4	59.5	12.8	57.9	59.2	13.4
1946	60.5	61.5	12.0	62.4	62.5	13.1
1966	68.6	65.7	12.4	72.9	69.6	14.7
1986	71.0	66.8	12.6	76.7	72.4	16.2
2006	76.8	72.2	16.6	81.6	76.9	19.8
2016	79.6	74.9	18.3	83.4	78.7	21.0

Source: CSO Database VSA30 Period Life Expectancy at Various Ages

CSO's projections in Table 4.2 below indicate future steady gains in life expectancy from birth and from age 65 in the coming decades.

Table 4.2: Projected life expectancy from birth and age 65, by gender

	Birth		Age 65	
Period	**Males**	**Females**	**Males**	**Females**
2020-2022	80.8	84.3	19.3	21.7
2025-2027	81.8	85.1	20.0	22.3
2030-2032	82.7	85.9	20.7	22.9
2035-2037	83.6	86.5	21.4	23.5
2040-2042	84.3	87.1	21.9	24.0
2045-2047	84.9	87.7	22.4	24.5
2050-2052	85.6	88.3	22.9	24.9

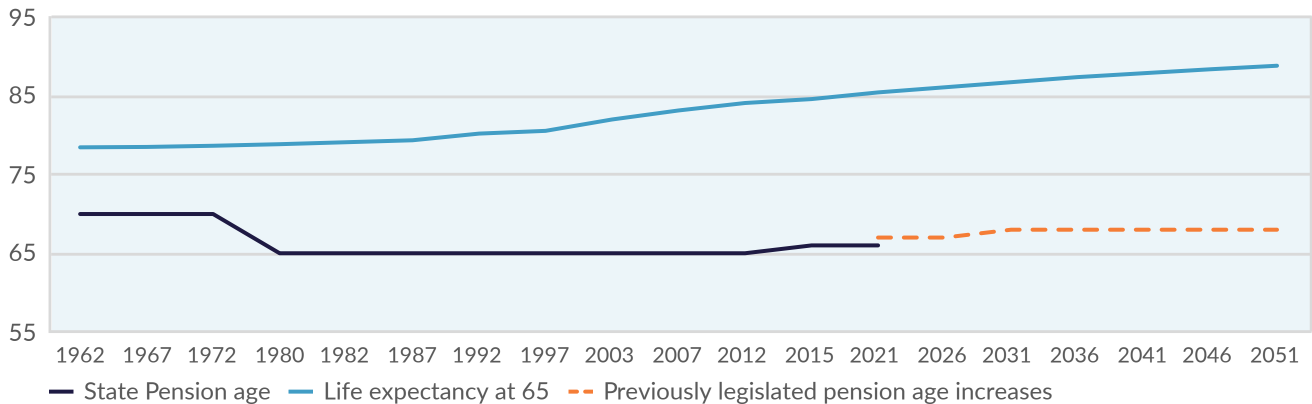
Source: CSO's projections available at: https://www.cso.ie/en/releasesandpublications/ep/p-plfp/populationandlabourforceprojections2017-2051/mortalityassumptions/

[10] The CSO's Labour Force Survey (QLF18) shows that in Q1, 1998 the employment rate for young people aged 15 to 19 inclusive was 34.5 per cent, and it was 75 per cent for young people aged 20 to 24 inclusive. In Q1, 2019 the equivalent employment rates were 16.3 per cent for young people aged 15 to 19 inclusive, and 64.2 per cent for those aged 20 to 24. The 2021 employment rates are lower again, reflecting the impacts of the pandemic. In contrast, the employment rates for those aged 25 to 34 increased from 76.9 per cent in Q1, 1998 to 80.9 per cent in Q1, 2019.

IFAC and the Department of Finance also make projections for changes to life expectancy, and their figures are consistent with the trends seen in the CSO figures.

The overall trend is that people are increasingly living well beyond the current State Pension age of 66. This can lengthen the proportion of the person's life spent in retirement and in receipt of State Pension payments. Figure 4.1 below shows the difference between the State Pension age and life expectancy. The previously legislated increases in the State Pension age are also displayed. The difference between this line and the life expectancy at age 65 would be the average duration of payment. Had the previously legislated pension age increases gone ahead, the duration of State Pension payments would still be projected to increase.

Figure 4.1: Life expectancy at age 65 and the State Pension age



Source: IFAC Long-Term Sustainability Report and CSO Projections

4.2.2. Old-Age Dependency Ratio

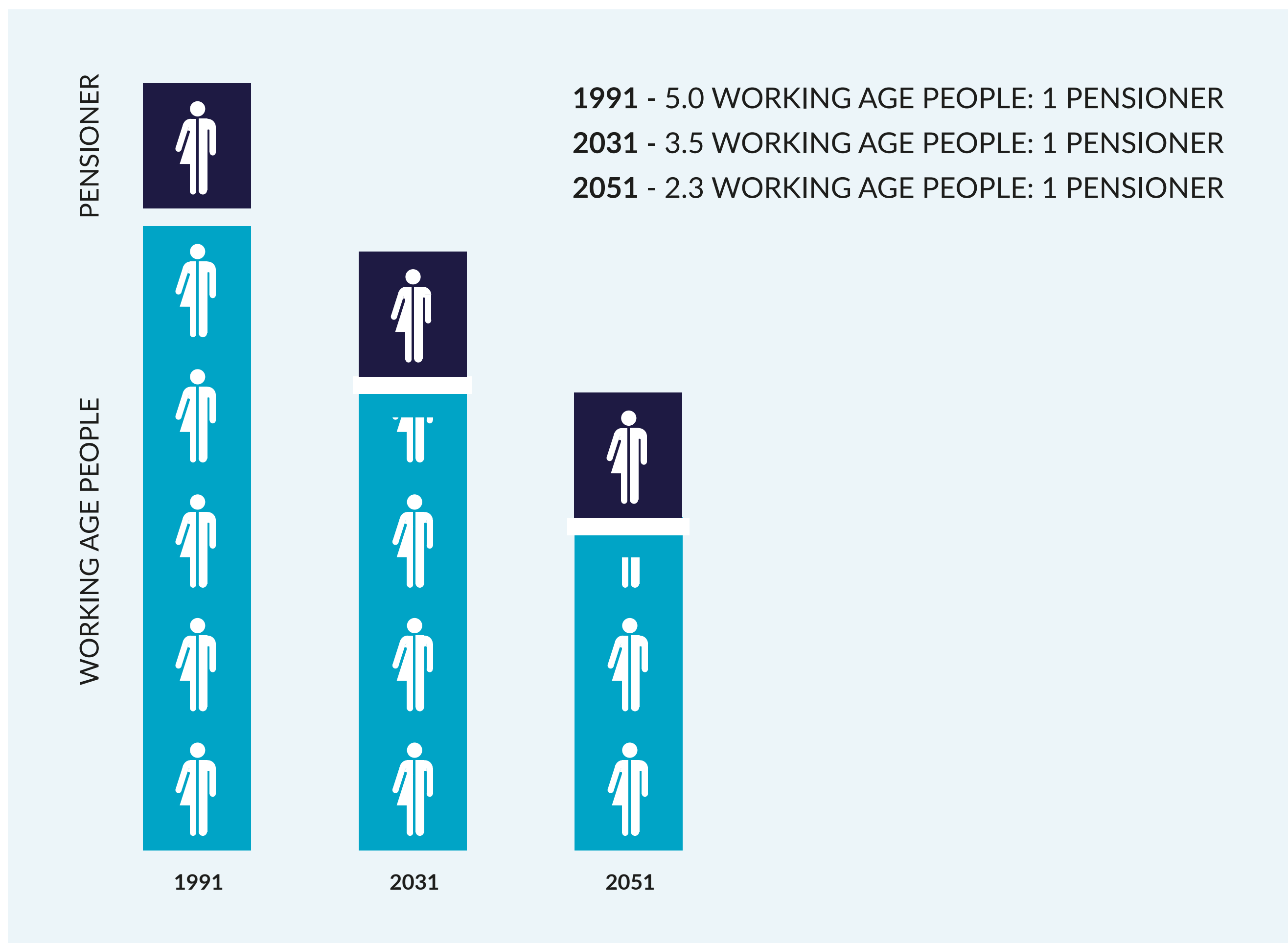
Demographic projections indicate a significant increase in the average age of the Irish population in the coming decades. Defining or quantifying the social sustainability challenges arising from demographic change is difficult. One measure that can be used as a proxy for assessing social sustainability is the old-age dependency ratio. This indicates the ratio between the number of older people (generally aged 65 and over, with the assumption that this cohort is generally economically inactive) and the number of working age people (generally aged between 15 and 64, or 20 to 64). The value is expressed per 100 persons of working age (15-64).

It should be noted that while the old-age dependency ratio is a useful indicator, it is not particularly nuanced. Older people aged 65 and over are not necessarily economically inactive and 'dependent' and many of those of 'working age' are not working. In this regard, dependency ratios are purely based on the ratio of different age groups, and do not reflect the economic contribution of different sub-groups of the population which are key to pension sustainability.

In 2021, according to CSO figures, there are almost 4.4 working age people (15 to 64) for every person aged 65 and over.[11] By 2051, this is projected to fall to 2.3 working age people for every person aged 65+. Figure 4.2 below illustrates the projected decline in the old-age dependency ratio over the coming decades.

[11] See CSO database PEC15 Projected Dependency Ratios from 2016 available at data.cso.ie.

Figure 4.2: Ratio of the working age population (15 - 64) to those aged 65+



Source: CSO Presentation to the Pensions Commission on Ireland's Demography

The implications of this ageing of the population structure is that in a Pay-As-You-Go system such as the social insurance system (outlined in Chapter 3), a relatively smaller number of working age people will have to fund the State Pensions of an increasing number of pensioners.

The Commission considered the extent to which these demographic changes are inevitable, and whether measures to incentivise increases in birth rates or encourage inward migration could work to halt current trends. These are discussed in more detail in the Technical Sub-Committee's Working Paper 1. While migration trends can change quickly in response to economic developments, this is not the case with fertility. By way of example, the average age of first-time mothers has been steadily increasing over the past 40 years (from 24.9 years of age in 1979 to 31.3 years of age in 2019), while the fertility rate (the number of children born per woman) has significantly declined from 3.2 in 1979 to 1.7 in 2019. The number of women of key child-bearing age is also likely to decline over the coming decade due to the ageing of the population.

Maintaining the current dependency ratio in 2051 would require a working age population (15-64) of almost 7.2 million people by 2051. This would be 3.3 million people in excess of the CSO's high migration projection (M1F2). In order to achieve a working age population of 7.2 million people in 2051, this would require fertility and migration rates that are multiples of the official CSO projections. Accordingly, it does not appear feasible or reasonable to conclude that either fertility or migration can resolve the projected ageing of the population.

4.2.3. Labour Force Participation

Labour force participation rates are important considerations in an ageing population – if participation rates increase, then a greater proportion of the working age population is attached to the labour market, which could help the relatively smaller working age population to pay for increasing pension costs. See Appendix 4A for an overview of labour market data including differences in labour market participation by gender, age, and education levels. Creating the conditions to enable working later in life is a Government policy objective which is supported by the Commission (see Appendix 4B). Such policy efforts can help to re-balance the proportion of working lives to retirement lives, in turn improving the sustainability of State Pension arrangements as well as creating economic and social benefits for individuals, families, communities and society.

The Commission notes that projections for labour force participation by the CSO, IFAC and DFIN all assume quite significant increases in the participation rate of working age people. However, the overall participation rate as a proportion of the total adult population falls as the population ages (see Technical Sub-Committee Working Paper 1 for more details on this). The impact of increasing labour force participation of older workers is discussed later in this chapter in the context of sensitivity analyses carried out by the Department of Finance for the 2021 *Ageing Report*.

4.3. International Comparisons

The 2021 *Ageing Report* included current and projected old-age dependency ratios of EU Member States. It defines the working age population as aged 20 to 64 inclusive. Table 4.3 is ranked in order of the change in the old-age dependency ratio over the projection period, from 2019 to 2070. Ireland is in the top half of the table in terms of the level of change in the old-age dependency ratio that it is projected to experience – a change of 28.7 percentage points, above the EU average of 24.7 percentage points. Having said that, Ireland's old-age dependency ratio remains lower than the EU average for the duration of the projection period, although by 2070 there is greater convergence with other EU Member States.

Table 4.3: Old-age dependency ratio (65+ / 20-64)

	Country	Change 2019-2070	2019	2030	2050	2070
1	PL	38.8	29.0	38.9	57.0	67.8
2	SK	37.2	25.9	35.9	56.5	63.1
3	LU	33.6	22.6	29.6	45.5	56.1
4	LT	33.1	32.9	45.4	61.5	66.0
5	MT	32.7	29.7	34.4	43.5	62.4
6	RO	31.0	31.1	37.1	59.8	62.1
7	ES	30.5	32.1	40.9	64.7	62.5
8	PT	30.0	37.3	47.2	68.8	67.3
9	HR	29.8	34.8	44.5	57.2	64.6
10	LV	29.0	34.6	45.7	62.3	63.6
11	IE	28.7	24.2	30.3	46.5	53.0
12	EL	27.3	37.9	46.1	68.2	65.2
13	IT	26.7	38.9	48.0	66.5	65.6
14	EE	25.6	33.8	40.9	53.8	59.4
15	SI	25.5	33.2	43.5	59.9	58.8
16	AT	25.2	30.7	40.3	51.5	55.9

17	HU	25.1	32.2	36.6	52.0	57.4
18	BG	24.8	36.0	42.7	60.5	60.8
	EU	24.7	34.4	43.1	56.9	59.2
19	CY	24.6	26.2	33.0	38.8	50.7
20	FI	23.6	38.9	46.8	52.3	62.5
21	NL	22.4	32.9	42.4	49.3	55.2
22	BE	20.8	32.5	40.5	49.2	53.3
23	CZ	20.6	33.0	38.6	54.8	53.7
24	FR	20.4	36.5	44.9	54.8	56.9
25	DK	19.7	34.1	41.4	47.9	53.8
26	DE	18.5	36.1	46.4	52.8	54.6
27	SE	14.6	35.2	38.4	43.0	49.8

Source: European Commission (2021) Table III.1.62

It is evident that population ageing is taking place across EU Member States.

4.4. Expenditure Projections

The Commission considered State Pension expenditure projections, as set out in the Technical Sub-Committee's Working Paper 2 on Expenditure Projections. Expenditure related to State Pensions is projected to significantly increase over time as a proportion of national income – more than doubling from 3.8 per cent of GNI* in 2019 to 7.9 per cent in 2050, and increasing further to 9.2 per cent of GNI* by 2070 according to the Department of Finance.[12]

Table 4.4: State Pensions projected expenditure, as per cent of GNI*

	2019	2030	2050	2070
State Pension[13]	5.8%	7.2%	9.9%	11.3%
Total below State Pension Age	2.0%	2.1%	2.0%	2.0%
State Pension excluding expenditure below State Pension age	3.8%	5.0%	7.9%	9.2%

Source: DFIN submission (Table 2). Rounding may affect totals.

4.4.1. Economic Growth

It was suggested in the public consultation process that pursuing economic and employment growth could work to achieve sustainability. The rationale here would be that increasing the size of the economy will, as a consequence, reduce the proportion of GNI* spent on State Pensions. The Commission examined sensitivity analyses carried out by KPMG in the *Actuarial Review*, and by the Department of Finance and IFAC on the impacts of economic growth on State Pensions expenditure. The sensitivity analysis consistently found that economic growth generally translates to an increase in wages which results in an increase in State Pension payments (see Chapter 7 on benchmarking payment rates). In this regard, IFAC notes that, "while the actual level of spending would differ greatly across scenarios, the variation, expressed as a per cent of GNI*, is relatively modest." The Technical Sub-Committee's Working Paper 2 explores this issue in more detail.

[12] See Table 2 in DFIN's submission to the Pensions Commission.
[13] The CSO's Labour Force Survey (QLF18) shows that in Q1, 1998 the employment rate for young people aged 15 to 19 inclusive was 34.5 per cent, and it was 75 per cent for young people aged 20 to 24 inclusive. In Q1, 2019 the equivalent employment rates were 16.3 per cent for young people aged 15 to 19 inclusive, and 64.2 per cent for those aged 20 to 24. The 2021 employment rates are lower again, reflecting the impacts of the pandemic. In contrast, the employment rates for those aged 25 to 34 increased from 76.9 per cent in Q1, 1998 to 80.9 per cent in Q1, 2019.

4.4.2. Update of the *Actuarial Review* of the Social Insurance Fund (SIF)

The Commission has been asked in its Terms of Reference to examine the sustainability of the State Pension system and the SIF. In this regard, KPMG was asked to update relevant tables from the 2015 *Actuarial Review* of the SIF for the Commission to provide an indication of the sustainability challenges facing the SIF. This update took account of the range of significant changes to the State Pension system since 31 December 2015. This included the introduction of the Interim Total Contributions Approach (discussed in Chapter 8), the repeal of increases in the State Pension age, the introduction of the Benefit Payment for 65 Year Olds, the impact of the COVID-19 pandemic on the SIF, rate increases and changes to economic assumptions.

Of central importance to the work of the Commission, KPMG projected the shortfalls in the SIF incorporating the changes since the last published *Actuarial Review*. As seen in Table 4.6 below, in 2030, it is estimated that there will be an annual shortfall in the SIF of €2.36 billion. These annual shortfalls increase steadily to €13 billion in 2050 and an annual shortfall of €21.1 billion in 2070. KPMG (2021) finds that by 2045, expenditure on the State Pension Contributory alone exceeds projected SIF income. By about 2040, expenditure on State Pension schemes exceed total SIF income.

Table 4.6: Projected Annual SIF income and expenditure, selected years

	2030	2050	2070
Income	€14.64 billion	€20.74 billion	€28.57 billion
Expenditure	€17.00 billion	€34.09 billion	€49.66 billion
State Pension Contributory	€9.60 billion	€23.12 billion	€33.94 billion
Deficit	€2.36 billion	€13.35 billion	€21.10 billion

Source: KPMG (2021), adjusted to 2019 prices

4.4.3. Sensitivity analysis

Table 4.7 below sets out analysis by the Department of Finance which considers the impacts of changing various underlying assumptions on State Pension expenditure. These are ranked in order of the impact that they have on savings in 2030 compared to the baseline. It can be seen that increasing the State Pension age has the highest impact in terms of reducing expenditure on State Pensions as a percentage of GNI* (this is discussed in more detail in Chapter 11 on the State Pension age), followed by higher employment levels of older workers and higher levels of net inward migration. It can be seen that higher and lower levels of total factor productivity (which reflects the growth potential of the economy) do not impact materially on expenditure projections. Increasing life expectancy, lower levels of migration, and lower fertility levels would work to increase expenditure on State Pensions as a percentage of GNI*.

Table 4.7: Department of Finance Projections – Sensitivity Analysis

	2020	2030	2050	2070
Expenditure % GNI*	**% GNI**	**% GNI**	**% GNI**	**% GNI**
Baseline	6.4%	7.2%	9.9%	11.3%
Increasing State Pension Age The original baseline. State Pension Age assumed to increase to 67 in 2021 and 68 in 2028.	No Difference to Baseline	-0.5%	-0.8%	-0.9%
Higher employment of older workers (+10 percentage points) Employment rate of older workers (55-74) 10 percentage points higher than baseline	No Difference to Baseline	-0.2%	-0.5%	-0.5%
Linking State Pension Age to life expectancy For every year increase in life expectancy, ¾ of a year increase in State Pension age	No Difference to Baseline	-0.1%	-0.9%	-1.6%
Higher migration (+33 per cent) 33% higher net inward migration compared to baseline	No Difference to Baseline	-0.1%	-0.3%	-0.2%
Higher Total Factor Productivity growth (convergence to 1.2 per cent) (baseline = 1.0%)	No Difference to Baseline	Difference Less than 0.1%	Difference Less than 0.1%	No Difference to Baseline
Total Factor Productivity risk scenario (convergence to 0.8 per cent) (baseline = 1.0%)	No Difference to Baseline	Difference Less than 0.1%	Difference Less than 0.1%	-0.1%
Higher life expectancy at birth (+2 years) increase in life expectancy of 2 years by 2070 compared to baseline	No Difference to Baseline	No Difference to Baseline	+0.2%	+0.6%
Lower migration (-33 per cent) 33% lower net inward migration compared to baseline	No Difference to Baseline	+0.1%	+0.3%	+0.1%
Lower fertility (-20 per cent) 20% lower fertility compared to baseline	No Difference to Baseline	No Difference to Baseline	+0.3%	+1.4%

Source: Department of Finance

This analysis indicates that increases in the employment rate of older workers could have a significant impact on improving the sustainability of the State Pensions expenditure. While a 10 percentage point increase in the baseline employment rate would be significant for this age cohort, there is scope for an increase, particularly in relation to workers aged 65 and over. The Department of Finance projections are based on the employment rate of those aged 55 to 64 increasing from 61.8 per cent in 2019 to 64.3 per cent in 2070 and decreasing from 20.4 per cent in 2019 to 19.4 per cent in 2070 for those aged 65 to 71 (see Technical Sub-Committee's Working Paper 1).

4.5. Limitation of Projections

A number of submissions to the public consultation process noted that projections can be inaccurate, and in this context, policy reforms should not take place based on projections that may not be correct. In this regard, the NESC (2020: 60-61) states, in the context of the inevitable uncertainty related to actuarial and population projections that, "although the precise amount of government expenditure required for older people cannot be projected, nor how it will be financed, it is clear that the underlying trend of more older people being supported by fewer younger people is a persistent pattern in all the projections, and this should be planned for."

Demographic and expenditure projections are based on assumptions that may change over time, but the results from a range of scenarios, based on different sets of assumptions, show marginal impacts on overall trends. The overall trend is that Irish people are living well beyond the current pension age of 66. The speed of demographic change will also drive a relatively rapid rise in age-related costs. The Commission considers that policy recommendations based on demographic and economic projections is an appropriate approach.

4.6. Conclusions

- **The Commission supports measures that encourage economic growth and competitiveness and increase labour market participation, including for older workers.**
- Ireland has a relatively young population compared to EU Member States – population ageing is taking place across the EU.
- The Irish population is ageing – people are living for longer, and there will be relatively fewer working age people to older people.
- Changes in the old-age dependency ratio will mean fewer workers will be supporting more pensioners, in the context of a PAYG social insurance system. In 2021, according to CSO figures, there are 4.4 working age people (15 to 64) for every pensioner. By 2051, this is projected to fall to 2.3 working age people for every pensioner.
- It does not appear to be feasible to prevent this population ageing from taking place through increased levels of migration or fertility due to the scale of increase required to maintain current dependency ratios in 2051 (an additional 3.3 million people of working age by 2051).
- Expenditure related to State Pensions is projected to significantly increase over time – more than doubling from 3.8 per cent of GNI* in 2019 to 7.9 per cent in 2050, and increasing further to 9.2 per cent of GNI* by 2070, according to the Department of Finance.
- The updated *Actuarial Review of the Social Insurance Fund* carried out for the Commission projects shortfalls in the SIF incorporating significant changes since the last published Review. This includes the introduction of the Interim Total Contributions Approach (discussed in Chapter 8), the repeal of increases in the State Pension age, the introduction of the Benefit Payment for 65 year olds, the impact of the COVID-19 pandemic on the SIF, rate increases and changes to the underlying economic assumptions.
- This update found that by 2030, it is estimated that there will be an annual shortfall in the SIF of €2.3 billion. These annual shortfalls increase steadily to over €13 billion by 2050.
- Economic growth is unlikely to improve the sustainability of State Pension expenditure in and of itself, as pension expenditure projections assume that pension rates increase in line with wage growth.

Chapter 5: The Commission's Approach to its Work

This chapter sets out the Commission's approach to its work. This includes the methodology of how the Commission considered the policy reform options arising from the policy levers that it was asked to examine – payment rates, the State Pension age and other eligibility criteria, calculation methods and contribution rates – in terms of their fiscal impacts and their gender, equality and poverty impacts. The implementation principles that the Commission agreed over the course of its work are then outlined, followed by conclusions and recommendations. It should be noted that this chapter does not address all of the policy options that the Commission was asked to consider – the focus here is on the approach to fiscal and social sustainability.

5.1. Sustainability

The Commission was asked in its Terms of Reference to "Develop a range of options for the government to consider in order to address the sustainability of the State Pension and the Social Insurance Fund (SIF) in terms of pension age, eligibility criteria, contribution rates, pension calculation methods and pension payment rates." In this regard, the Commission considered the concept of sustainability as central to its work. This section provides a brief summary of the Commission's understanding of this concept.

While there is no single definition of fiscal sustainability, the European Commission's definition captures the key components. It defines fiscal sustainability as, "the State's ability to continue current policies into the future, with no changes to public services and taxation, and without causing public debt to rise continuously as a share of GDP over the long term." (European Commission, 2014:5). As evident in the previous chapter, by this definition State Pensions expenditure is unsustainable as the increased costs associated with maintaining the current system will require revenue raising measures (such as taxation) or it will impact on other areas of Government expenditure (public services) or it will increase debt.

From its first meeting, the Commission emphasised the importance of balancing both fiscal and social sustainability in its deliberations. The Commission's public consultation document defined its approach to social sustainability as, "looking at how the increasing financial costs can be shared fairly and equitably within and between generations." It noted that "if current arrangements are maintained in the future these will place an unreasonable burden on a proportionally smaller group of current workers to pay for a proportionally larger group of current pensioners". Under this definition, maintaining the current State Pension system into the future can be considered both fiscally and socially unsustainable.

In developing sustainable policy options for Government to consider, the Commission equally considered the fiscal and social sustainability impacts of any policy reforms.

As noted in Chapter 1, the Commission concluded that the most appropriate and useful contribution it could make to the development and sustainability of the State Pension system was to consider and make proposals for amendments within the existing overall structure and system.

5.2. Fiscal Sustainability

Within the State Pension system and the structure of the SIF, there are two broad approaches that can be taken to address fiscal sustainability challenges. Expenditure can be moderated through changes to payment rates or to eligibility conditions. SIF income can be increased by amending elements of its current tripartite funding arrangements.

- **Moderate expenditure:**
  - Reductions in weekly payment rates;
  - Design of the rate of payment calculation method (Total Contributions Approach);
  - Changes to eligibility conditions, such as increasing the State Pension age;

- **Increase SIF income:**
  - Increases in employer, employee and self-employed PRSI contribution rates;
  - Introduce PRSI base broadening measures;
  - Extend the role of Exchequer contributions beyond its current function of financing residual deficits.

Among the options that the Commission had been asked to consider, payment rates and the design of the Total Contributions Approach were not seen as policy levers appropriate to generate savings, given the State Pension's primary policy objective of preventing pensioner poverty (discussed further in Chapters 6 and 8).

While there are projected savings with the full implementation of the Total Contributions Approach to calculating State Pension Contributory rate entitlement, this is primarily as a result of no longer facilitating the current system of being able to choose between two calculation methods – this has been driving increases in the average payment rates awarded in State Pension Contributory since it was introduced in 2019. Accordingly, this is a structural change (see Chapter 8).

In order to determine whether the Commission had succeeding in developing sustainable options for Government to consider, the Commission considered it essential to quantify, over the coming decades:

- The scale of the fiscal sustainability challenge; and
- The fiscal impact of making adjustments to any of the policy levers.

In this regard, the Commission sought an update of the 2015 *Actuarial Review of the Social Insurance Fund*. This provided up-to-date projections of shortfalls, taking into account the changes that have taken place to the State Pension system since end-2015 (such as repealing the legislation providing for pension age increases in 2021 and 2028, the introduction of the Interim Total Contributions Approach to calculating State Pension Contributory rate entitlement, rate increases, and SIF income and expenditure), as well as updating the underlying economic assumptions in line with the European Commission's 2021 *Ageing Report*. This provided the Commission with a baseline of the shortfalls that will need to be met in order to put the State Pensions system and the SIF on a sustainable footing.

Table 5.1 Projected Annual Shortfalls in the Social Insurance Fund

	2030	2040	2050	2070
Shortfalls	€2.36 billion	€8.56 billion	€13.35 billion	€21.1 billion

Source: Based on KPMG (2021)

In terms of projections for the fiscal impacts of making adjustments to the various policy levers, a number of different sources were used:

- **Calculation methods**: KPMG, as part of the analysis it carried out for the Commission, calculated the fiscal impact of the Commission's recommendation in relation to the Total Contributions Approach (see Chapter 8).
- **State Pension age**: The fiscal impact of increases to the State Pension age had been analysed by the Department of Finance and by IFAC in its Long-term Sustainability Report. These analyses were examined by the Technical Sub-Committee in its Working Paper 2, *Expenditure Projections* and the main findings are set out in Chapter 11.
- **Increasing PRSI income:** Projected income yields from increasing PRSI contribution rates was carried out by the actuary in the Department of Social Protection's Investment Analysis Unit.

- **PRSI Base Broadening:** Projected income yields were estimated by the Department of Social Protection's Investment Analysis Unit – however, due to data limitations, these estimates are tentative. Accordingly, these figures were not included in the Commission's modelling. Further analysis will be required in order to accurately estimate the yields.
- **Exchequer contributions:** For modelling purposes, the Commission considered Exchequer contributions set at 10 per cent of State Pension Contributory (SPC) expenditure. The KPMG update to the *Actuarial Review* included SPC expenditure projections.

While recognising that projections of this nature can never be precise and the fiscal impacts will be dependent on the final design, the Commission ensured that, insofar as it was possible, all policy options were costed (including its other policy options considered later in the Report). Table 5.2 sets out the base data that was used to inform the Commission's deliberations.

Table 5.2: Projected fiscal impacts of policy levers (€ billions)

	2030	2040	2050	2070
Class S - yield from a 1 percentage point increase[a]	0.20	0.20	0.30	0.40
Class A - yield from a 1 percentage point increase[a]	2.00	2.40	2.80	3.80
Pension age increase savings[b]	1.49	2.51	3.81	8.33
10% of projected SPC expenditure[c]	0.79	1.29	1.98	2.97

Sources: [a]DSP, [b]Based on DFIN projections, [c]KPMG

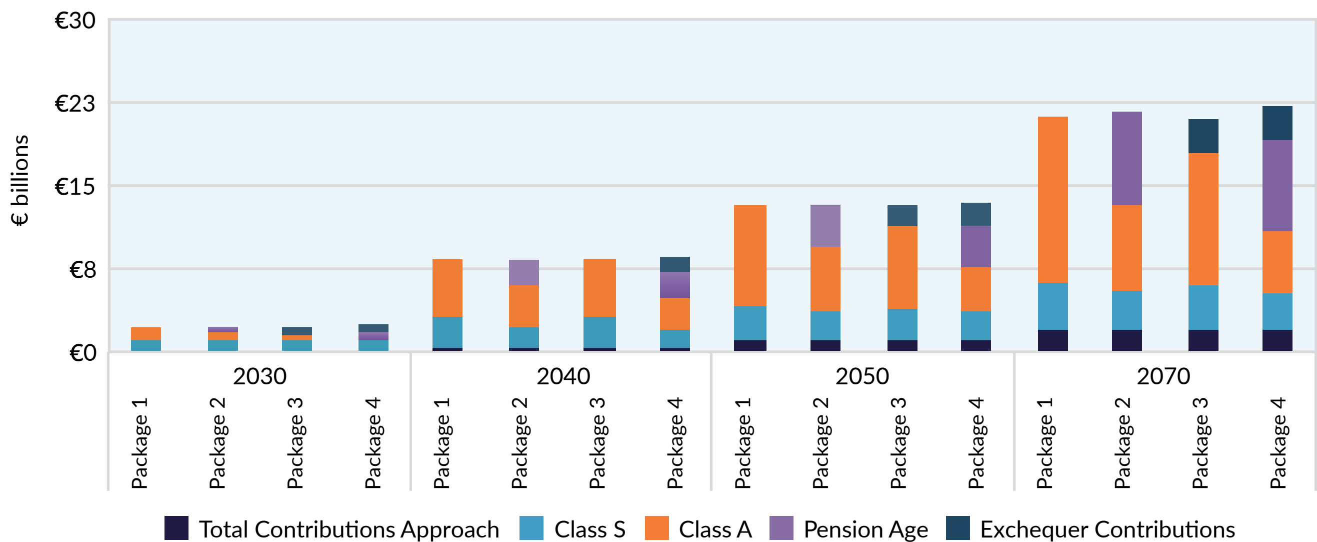
These policy options were considered in a range of combinations in order to meet the projected shortfalls, and four packages were examined in particular, set out in Table 5.3 below (see Appendix 5C for detailed tables out to 2070). In each case, the policy levers are adjusted in order to meet the projected shortfalls in 2030, 2040, and 2050. This table outlines how the Commission developed sustainable options for Government to consider, as requested in the Commission's Terms of Reference. Deliberations in relation to the policy options and the Commission's recommendations are discussed in subsequent chapters.

Table 5.3: Reform packages to address fiscal sustainability

Policy levers in each package	Adjustment
Package 1: PRSI rate increases	
Self-employed (Class S)	Increase from 4% to 10% initially by 2030, then to higher Class A Employer rate: 3.25 percentage point increase by 2040 1.1 percentage point increase by 2050
Employers and employees each (Class A)	0.6 percentage point increase by 2030 1.6 percentage point by 2040 1.1 percentage point increase by 2050
Package 2: PRSI rates and State Pension age increase	
Self-employed (Class S)	Increase from 4% to 10% initially by 2030, then to higher Class A Employer rate: 2.95 percentage point increase by 2040 0.15 percentage point increase by 2050
Employers and employees each (Class A)	0.3 percentage point increase by 2030 1.6 percentage point by 2040 0.15 percentage point increase by 2050
Pension age increase	Pension age to increase from 2028 by 3 months each year, reaching 67 in 2031 Further increases of 3 months every 2 years from 2033, reaching 68 in 2039.
Package 3: PRSI rates and Exchequer contributions	
Self-employed (Class S)	Increase from 4% to 10% initially by 2030, then to higher Class A Employer rate: 2.8 percentage point increase by 2040 0.9 percentage point increase by 2050
Employers and employees each (Class A)	0.2 percentage point increase by 2030 1.55 percentage point by 2040 0.9 percentage point increase by 2050
Exchequer contributions	10% of SPC expenditure
Package 4: PRSI rates, State pension age increase and Exchequer contributions	
Self-employed (Class S)	Increase from 4% to 10% initially by 2030, then to higher Class A Employer rate: 2.4 percentage point increase by 2040 0.1 percentage point increase by 2050
Employers and employees each (Class A)	No increase required by 2030 1.35 percentage point increase by 2040 0.1 percentage point increase by 2050
Pension age increase	Pension age to increase from 2028 by three months each year, reaching 67 in 2031 Further increases of 3 months every 2 years from 2033, reaching 68 in 2039.
Exchequer contributions	10% of SPC expenditure

Figure 5.1 below sets out the savings/yields associated with each measure in each of the packages, and how they contribute to meeting projected shortfalls out to 2070.

Figure 5.1: Contributions of policy reforms to projected shortfalls, Packages 1 – 4 (€ billions)



The Commission notes that implementation of any of these packages of policy reforms would result in meeting the shortfalls identified in KPMG's update to the 2015 *Actuarial Review*. The Commission's recommended options for each of the policy levers are discussed in the relevant chapters.

The Commission's approach to its work was to determine the extent to which these levers could be adjusted to help address identified fiscal sustainability challenges, while ensuring that the impact of any such reform was equitable i.e. avoiding disproportionate gender, equality or poverty impacts.

5.3. Social Sustainability

In order to ensure that increasing financial costs can be shared fairly and equitably within and between generations, the Commission examined how to gender, equality and poverty proof its work. A number of bodies have provided guidance on gender and equality proofing, including Irish Human Rights and Equality Commission (IHREC), DPER, the National Women's Council of Ireland, the Equality Authority (forerunner to IHREC), and the Gender Equality Unit in the Department of Justice and Equality.

The various approaches to gender and equality proofing, while different, share a number of common elements:

1. Gather data and information in order to understand the differential impact of policy proposals;
2. Analyse the data and information to assess the gender and equality impacts of the proposed policy;
3. Consult with individuals and groups who may be impacted by the policy proposals;
4. Where appropriate, policy proposals can be amended or restructured to mitigate negative impacts or promote equality;
5. After a policy has been implemented (e.g. through legislation) it should be monitored/reviewed to ensure that, in practice, the gender and/or equality proofing goals have been achieved.

These elements were undertaken by the Commission over the course of its work as far as was practicable. Where available, data was considered by gender (using official statistics and administrative data sources) and specific analysis undertaken of gender impacts (see for instance, Chapter 12 on Flexible Access). While specific data by equality grounds can be less readily available, broader research commissioned by IHREC was considered in order to anticipate likely impacts. Poverty impacts were considered, and where possible, the distributional impact of policies was analysed by the Department of Social Protection's Social Inclusion Unit using the ESRI's tax and welfare microsimulation model, SWITCH.

The Commission consulted with a range of stakeholders and experts (see Chapter 1) and prioritised undertaking a public consultation process within the timeframe available, which explicitly asked about the impacts of State Pension system on different groups, and the likely impacts of any policy reforms suggested by respondents. Appendix 5A sets out a summary of the Commission's approach to gender, equality and poverty proofing its work.

Where significant inequitable impacts were identified by the Commission, and it was not possible to mitigate them, the Commission did not recommend implementing the policy option. A summary table of how these considerations impacted the deliberations of the Commission in its examination of a range of policy options is set out in Appendix 5B.

The Commission notes the commitment in the *National Strategy for Women and Girls* that, "future pension policy reforms will be gender proofed to assess their impact on women as well as men" and notes the importance of further gender, equality and poverty proofing of any policy measure that will be implemented by Government.

5.4. Implementation Principles

Over the course of its work, taking into account previous pensions policy reform efforts and considering fairness and equity between and within generations, the Commission agreed upon a number of principles for the implementation of future State Pension reforms:

- **Sufficient notice:** Members agreed that pension reforms must be announced in a timely manner in order to give sufficient notice to those who will be impacted by the reforms, particularly upcoming pensioners who have limited time to adapt to changes.
- **Transitional arrangements:** Apart from notice, it is also important to provide for transitional arrangements to avoid a 'cliff edge' effect on the first cohort. These arrangements would soften the impact on the first cohort. The full reform should be introduced on a phased basis.
- **Communication:** Members noted the importance of ensuring that pension reforms are adequately communicated. This communication has three key strands:
    1. To ensure that those affected by the reforms are aware of upcoming changes and how they will be affected,
    2. To provide a rationale for why these reforms are being introduced, and
    3. To highlight what safety nets are available for those who may be adversely impacted by the changes.

5.5. The Commission's Conclusions and Recommendations

- The Commission considered fiscal and social sustainability as equally important in its deliberations.
- Within the State Pension system and SIF, the Commission considered fiscally sustainable policy options, as specified in its Terms of Reference. The Commission's approach to determining whether its options for Government were fiscally sustainable was evidence based, with all options costed, as far as possible. The Commission sourced updated projected annual shortfalls in the SIF, as well as projections of the fiscal impacts of various policy options within the State Pension system and the SIF.

- The Commission's approach to social sustainability was also evidence based. The Commission gender, equality and poverty proofed the policy options it considered insofar as possible by examining relevant data, identifying affected groups, and consulting with relevant stakeholders. Where significant inequitable impacts were identified by the Commission, and it was not possible to mitigate them, the Commission did not recommend implementing the policy option. Appendix 5B sets out a summary of how these considerations impacted the deliberations of the Commission in its examination of a range of policy options.
- The Commission agreed on a number of implementation principles that apply to all of its policy considerations. There must be sufficient notice of any pension reform; transitional arrangements where a cliff edge may apply; gender, equality and poverty proofing of the implementation approach; and a strong focus on communication.
- **The Commission recommends that any of the proposals that are progressed by Government are again subject to further gender and equality proofing.**
- **The Commission emphasises the need for enhanced transparency, and recommends ongoing communication relating to State Pension reform to secure public understanding of the importance of sustainability, certainty and poverty prevention.**

Chapter 6: Funding State Pensions – Structural

The State Pension system is financed on a Pay-As-You-Go (PAYG) basis, in common with most developed economies. This chapter first sets out the current PAYG arrangements and the Commission's support for continuing with this approach to financing the State Pension system.

The Commission's Terms of Reference ask it to develop a range of options in order to address the sustainability of the State Pension system and the Social Insurance Fund (SIF). This indicates that the Commission's remit is to recommend reforms to the existing structure, rather than replace the system as a whole. In this regard, this chapter considers reform options in the context of the existing tripartite funding arrangements of the SIF. This includes:

1. Developing a separate account within the SIF for State Pension contributions (including consideration of creating a separate State Pension PRSI contribution);
2. Annual Exchequer contributions to the SIF.

This chapter also sets out a number of alternative approaches considered by the Commission in relation to the pre-funding of future State Pension costs. It also considers the introduction of a universal pension, as suggested by some of the submissions to the public consultation process. The Commission's recommendations in relation to funding State Pensions are then outlined.

6.1. PAYG financing of State Pensions

PAYG is the method of financing pension promises out of the current income of the State, with no advance funding of the pension liabilities. When the current working population retires in the future, their State Pension benefits will be financed by the social insurance and tax paid by the next generation's working population. The SIF is financed primarily by PRSI contributions from employees, employers, and the self-employed. When there is a deficit in the SIF then the State makes up the shortfall through an Exchequer subvention paid from general taxation and, when necessary, Government borrowing.

The *Roadmap for Pensions Reform 2018-2023* noted that (p.6), "This PAYG model works for so long as there are roughly four or more workers contributing into the Social Insurance Fund for every pensioner drawing from it (depending on the level of other benefits such as unemployment benefit and invalidity pensions paid from the fund). However, like many other developed countries, Ireland is facing demographic challenges which will see the number of pensioners more than double and the ratio of people of working age to pensioners fall to about 2.3:1 over the next 40 years. This presents significant funding challenges with the Social Insurance Fund forecast to accumulate a potential deficit of up to €400 billion over the next 50 years."

As outlined in Chapter 4, the demographic structure of the Irish population is ageing. The resultant impact on the old-age dependency ratio has the potential to undermine the financial sustainability of the existing PAYG model. In a pure PAYG pension system an increasing old-age dependency ratio must mean either higher contribution rates or reducing the cost of State Pension benefits (e.g. by increasing the State Pension age).

The Commission considered the existing PAYG system and the advantages and disadvantages of maintaining the *status quo*. There are a number of advantages to a PAYG system over a funded system. Under a PAYG system:

- Income redistribution is straightforward – beneficiaries can, in theory, receive similar benefits regardless of how much tax or social insurance they paid. The system ensures that low-income workers, people with periods of unemployment, or absences from the labour market for reasons of sickness, invalidity, maternity (among others) can still receive a weekly rate of payment that is effective at preventing pensioner poverty. This redistribution benefits groups with lower levels of labour market attachment and low paid groups such as women, migrant workers, and people with disabilities.[14]

[14] Recipients of Invalidity Pension automatically qualify for the maximum weekly rate of SPC.

- A funded system takes many years to build up a reasonable fund to finance pension benefits. In contrast, in a PAYG system, a full pension can be paid to eligible beneficiaries as soon as the system is established.
- A funded system requires the safe and effective investment of funds – a PAYG system is easier to administer. The SIF is essentially an account into which contributions are paid and from which social insurance benefits are paid out.
- The use of an Exchequer subvention to eliminate any SIF deficit, as provided for in legislation, can be implemented quickly and agilely, without the time it would take to gain the consensus and implement changes to contribution rates.

On balance the Commission concluded that, despite its limitations, the PAYG model of financing of the State Pension system is the most appropriate means of ensuring that the social welfare system continues to provide an adequate income to prevent pensioner poverty. The existing PAYG system ensures that the principles of income redistribution and social solidarity (between and within different groups in society) are maintained. Therefore the Commission recommends that:

- **The Social Insurance Fund (including the State Pension system) should continue to be financed on a Pay-As-You-Go basis**.

6.2. Separate account within the SIF for State Pension contributions

While the Commission determined that the PAYG system is the most appropriate basis on which to finance the State Pension system (see above), the Commission also considered whether reforms to the existing SIF could help the future sustainability of the State Pension system and the SIF. In this regard, the Commission examined whether the introduction of a separate account in the SIF for State Pension contributions would be beneficial. One of the findings evident from Chapter 3 on the Social Insurance Fund is the steady and relatively predictable increase in State Pension expenditure over the last 15 years compared to the volatility and unpredictability of working age social welfare payments.

Currently all PRSI contributions go into the SIF – there is no channelling of SIF income into different accounts tied to any of the specific benefits paid out of the SIF (benefits for over 20 different schemes are paid from the SIF).[15] While the cost of State Pension payments can be predicted with reasonable accuracy over the short to medium term, this is not the case for working age payments from the SIF, such as Jobseeker's Benefit. An unexpected economic shock such as the recent COVID-19 pandemic can lead to a sudden and very substantial increase in working-age SIF expenditure. The volatility of working age payments makes it difficult to calculate the level of contributions needed to keep the SIF in balance and obscures the visibility of State Pension expenditure.

The Commission's deliberations in relation to the establishment of a separate State Pension SIF account identified a number of advantages to this approach:

- A separate State Pension account in the SIF would separate State Pension income and expenditure from other SIF benefits. The relevant portion of PRSI contributions would be allocated to the State Pension account.
- This separate identification, accounting, and reporting of State Pension contributions would provide transparency in relation to how State Pensions are financed, and the Fund's ability to meet its commitments.
- The Commission considers that the separate accounting of State Pension PRSI contributions could, in periods of high employment, enable some buffer funding to be built up.

[15] There is a precedent to operating a separate fund with a separate rate of contribution. The Occupational Injuries Fund was a fund that operated separately from the SIF in order to fund Occupational Injuries Benefit (OIB). The OIB Fund was merged with the SIF in 1990. There was also a separate Redundancy and Insolvency Fund.

- One of the benefits of the proposed account for State Pensions would be that it would prevent cross funding between working age payments and pensions payments. In other words, if there was a deficit in the SIF arising from volatility in working age payments, or from the introduction or enhancement of a new working age payment, then any surplus in the State Pensions account of the SIF would not be transferred to pay for non-pension benefits. In a scenario where there is a deficit in the SIF and/or the account for State Pensions, then the Exchequer would continue to fund any deficits via a subvention as is the current practice.

The Commission's deliberations on this option were informed by submissions to the public consultation which dealt with State Pension funding issues. Some submissions proposed separating social insurance contributions for pensions from social insurance contributions used for other purposes. For instance, one submission recommended that the Commission explore the possibility of funding the State Pension on a standalone basis, separate to the Social Insurance Fund. Another suggested creating a standalone State Pension Fund (SPF) and separating SIF contributions from SPF contributions for the purposes of payroll and accounting. A reason given for recommending this approach was that it would help improve transparency for workers to see where their PRSI contributions were going.

The Commission notes that, if implemented:

- A SIF State Pension account should be used solely for State Pensions schemes, namely, the State Pension Contributory, Widow/er's or Surviving Civil Partner's Contributory Pension, and the Occupational Injuries Benefit Death Benefit Scheme. The State Pension Non Contributory would not be financed by the SIF State Pension account but would continue to be funded by the Exchequer.
- The administrative costs (including changes to legislation) of establishing a new State Pension account within the SIF would need to be examined but such costs are not anticipated to be significant.
- The existing system for paying PRSI contributions into the SIF would continue with Revenue collecting contributions on behalf of the Department of Social Protection. The process for employees, employers, the self-employed, and the purchase of additional contributions would remain largely unchanged.

Based on its examination of the issues:

- **The Commission recommends the creation of a separate account in the Social Insurance Fund (SIF) for State Pensions. The separate identification, accounting, and reporting of State Pension contributions will provide transparency in relation to how State Pensions are financed, and the Fund's ability to meet its commitments on an ongoing basis.**
  - The volatility of working age payments makes it difficult to calculate the level of contributions needed to keep the SIF in balance. Due to the predictable nature of State Pension spending, a separate State Pension SIF account would enable a calculation of the level of contributions required to balance State Pension expenditure.
  - A separate SIF account for the State Pension would enable any funds in the account to be ring-fenced for State Pension expenditure and not used for other payments. For instance, the financial impact of introducing enhanced working age benefits would not affect State Pension funding (or vice versa).
  - A separate State Pension SIF would increase transparency as there would be a clear visibility of State Pension income and expenditure, and funding adequacy.

6.2.1. Create a separate contributory State Pension PRSI contribution

Following on from the above recommendation to create a separate SIF account for State Pension contributions, the Commission discussed if consideration should be given to the creation of a separate State Pension contribution.

This proposal is on the basis that:

- The creation of a separate SIF account for SPC contributions would create a structure which would enable different rates of PRSI to be charged for SPC contributions and other SIF benefits. The Commission believes that the flexibility to allocate separate amounts of PRSI between working age and old age benefits could be used to make the financing of State Pension costs more transparent.
- It could also allow, if necessary, PRSI rates for pensions to be changed separately from PRSI rates for other social welfare benefits.

The Commission notes that the creation of a separate State Pension SIF account would enable consideration to be given for a creation of separate State Pension contribution rate, by sub-dividing PRSI.

6.3. Annual Exchequer contribution to the SIF

As outlined in Chapter 3, in years where there is a shortfall between SIF income (i.e. PRSI receipts) and SIF expenditure (i.e. the cost of social insurance benefits paid out of the SIF) the Exchequer pays a subvention to cover the deficit.

Since the SIF's establishment in 1952, annual Exchequer subventions were required every year from 1953 until 1996 inclusive until the first SIF surplus of income over expenditure in 1997. The SIF has recorded a surplus in only 15 years since its establishment. See Appendix 3E for a full table of the SIF's income and expenditure, and subventions as applicable, since 1952.

6.3.1. Tripartite funding of the SIF

SIF income is made up of a combination of PRSI contributions from employers, employees/self-employed, and, when there is a deficit in the SIF, an Exchequer subvention. Since the establishment of the SIF it has been envisaged that Exchequer funding is an integral element of financing the social insurance system with the cost of benefits being paid for equally on a tripartite basis by social insurance contributions from workers, employers and the Exchequer. At the second stage of the Social Welfare (Insurance) Act 1951 (prior to the formal establishment of the SIF in 1952), the then Minister for Social Welfare Dr. James Ryan noted that "No heavy burden is imposed on industry or the worker.... we have succeeded in placing the insurance schemes, as a whole, on the basis of equal contributions of one-third from the State, the employers and the workers respectively." This tripartite funding of the SIF ensures a broad base for financing SIF income and ensures that social insurance benefits are available to the majority of workers in Ireland.

One of the fundamental principles that underpins the SIF is the solidarity principle (along with the contributory principle) whereby contributions paid by insured persons do not determine the benefits received but are redistributed to support contributors who are more vulnerable. This redistributive mechanism is an expression of solidarity between both earning groups (lower earners, higher earners, and people outside the labour force) and generations (children, working age people, and pensioners). Credited contributions and HomeCaring periods are examples of how people can improve their access to social insurance benefits without making social insurance contributions.

The Exchequer subvention can be seen as the State funding the social insurance system, when necessary, in order to uphold the solidarity principle. As any Exchequer subvention is financed by taxpayers (and, if necessary, Government borrowing) the subvention therefore redistributes tax income to ensure that the solidarity principle of SIF financing is not undermined by a deficit in PRSI contributions in a given year.

The Exchequer subvention also ensures that trust in the social insurance system is maintained as current recipients of benefits (such as pensioners) can be sure that their benefits will continue to be paid at their expected rate regardless of PRSI receipts. Similarly, working age people can be confident that their current PRSI contributions will entitle them to an adequate range and level of social insurance benefits when required, such as access to an adequate level of State Pension.

6.3.2. Labour market impacts of relying solely on PRSI contributions to the SIF

As explained in Chapter 4, demographic projections show that there will be a relatively smaller proportion of working age people in the coming decades financing State Pension payments for an increasing number of pensioners.

Relying solely on PRSI to fund the increasing costs of the State Pension system in the context of an ageing population could have negative labour market impacts. Potential negative impacts of increasing PRSI rates beyond a certain level include:

- Disincentive to labour market participation for workers (Acheson et al, 2018).
- Employers may hire fewer staff, reduce hours or lay off staff, if the cost of labour becomes increasingly expensive. Rising labour costs could lead to technological or automated options being favoured over hiring employees.
- The social solidarity principle of the social insurance system could be undermined if the gap between the level of PRSI paid by working age people and working age people who benefit from the social insurance system and who do not pay PRSI (e.g. people who are under the PRSI income threshold, have caring responsibilities, or are unemployed) is perceived to be unreasonably large.

Building on the existing tripartite funding arrangements of the SIF by employers, employees/self-employed, and the State, the Commission considers that regular State contributions to a SIF State Pension account would help to finance the State Pension system on a sustainable basis. The Commission recognises that Exchequer contributions are not ‘free money’ – they are financed by general taxation and/or borrowing. However, instituting regular contributions by the Exchequer would enable the State to plan for non-labour revenue sources to help fund some of the solidarity aspects of the State Pension system (such as the provision of credited contributions, HomeCaring periods and improved access to the State Pension for long-term carers).

Regular Exchequer contributions would reduce the level of increase required in social insurance contributions rates to fund the State Pension system while the population ages. This annual contribution could help to build up a buffer to pay for increasing State Pension costs, while demographics are relatively favourable, and could also be used to maintain the value of pension payments required under benchmarking in future years when finances are constrained.

The Commission notes that these Exchequer contributions to the SIF State Pension account would have no impact in terms of the State meeting its requirement under domestic and EU fiscal rules, as the contributions are internal transfers within the general government sector and do not impact on the general government balance.[16] They are a transfer from one general government entity to another.

[16] As a Member State of the European Union, Ireland is subject to the fiscal rules of the Stability and Growth Path, which is made of the Preventive and the Corrective arms. The EU fiscal rules were also put into national law with the Fiscal Responsibility Acts 2012 and 2013. The Structural Balance and the Expenditure Benchmark are the two key pillars of these rules. Further information on these rules can be found at www.fiscalcouncil.ie.

6.3.3. Scale of contribution

The Commission carried out its analysis on the basis of an illustrative regular Exchequer contribution of 10 per cent of SPC expenditure. This compares modestly to the level of Exchequer subventions to the SIF as a whole since its establishment. Using the update of the *Actuarial Review* for projected SPC expenditure, a 10 per cent Exchequer contribution would equate to €0.79 billion in 2030, €1.29 billion in 2040, €1.98 billion in 2050, increasing to €2.97 billion in 2070.

In this regard:

- **The Commission supports the principle of annual Exchequer contributions to the 'State Pension' account of the SIF. Rather than rely on Exchequer subventions only when the SIF is in deficit, the State should identify and allocate a separate Exchequer contribution to the SIF State Pension account.**
  - This could be based on a minimum percentage of the previous year's expenditure on the SPC being paid into the SIF State Pension account on an annual basis by the Exchequer. For the purposes of its work and in order to carry out costings, the Commission used an indicative Exchequer contribution of 10 per cent of State Pension Contributory expenditure per annum.
  - This approach would formalise the tripartite basis of SIF funding by employees/self-employed, employers, and the State, envisaged at its foundation by providing an annual Exchequer contribution to the State Pension element of the SIF.
  - In so doing, it would be in line with the tripartite approach being considered for automatic enrolment savings system which would have a legislative basis for the provision of a dedicated direct Exchequer contribution and/or tax expenditure.
  - The formalised basis for this funding would enable the State to plan for non-labour revenue sources to help fund the State Pension system. Relying solely on PRSI increases to fund the State Pension system in the context of an ageing population would likely have negative labour market impacts.
  - This Exchequer funding would also help fund some of the solidarity aspects of the State Pension system.
  - Sufficient Exchequer contributions, while demographics are relatively favourable, could enable a buffer to be built-up in the SIF for State Pensions. A buffer would operate to address unexpected falls in income, and could be used to maintain the value of pension payments required under benchmarking.
  - The Commission notes that should a deficit arise that an Exchequer subvention would also be required to meet any shortfall.

6.4. Alternatives considered

In addition to the options discussed above, the Commission also considered whether some of the rising State Pension costs could be met by setting aside income now in order to fund the costs that will arise in the future. In this regard, the Commission considered whether State Pension costs could be partially pre-funded through the creation of a pension reserve fund. Unlike in a PAYG system, pre-funding allocates an amount now to pay for some or all of the future pension costs promised by a pension scheme. The Commission also discussed if the system as a whole should be fully funded or if an individualised Notional Defined Contribution (NDC) system would improve the financial sustainability of the State Pension system while maintaining its core principle of social solidarity.

6.4.1. Partially pre-fund State Pension costs through a pension reserve fund

A known approach to pre-funding is the establishment of a reserve fund. In this regard, Ireland previously created such a reserve fund, the National Pensions Reserve Fund (NPRF).

The NPRF was set up in 2001 and its goal was to support the cost of Ireland's social welfare and public service pensions from 2025 until at least 2055. The NPRF was funded by annual Exchequer payments equivalent to 1 per cent of GNP (and it could be supplemented by additional payments approved by the Dáil). The NPRF invested with the aim of achieving a commercial financial return in order to underpin the long-term sustainability of existing pension arrangements by stabilising Exchequer spending on pensions as a percentage of GNP (National Pensions Reserve Fund Commission, 2003).

By 2008 there was approximately €43 billion in the fund. However, in 2009, €20.7 billion of this was used to bail out Irish banks. The OECD (2014:71) noted that, "The possibilities of the Fund to buffer the financial consequences of population ageing are very limited today given its diminished size and the outflow of funds for the recapitalisation of Irish banks."

The NPRF's investment mandate ended on 22 December 2014 and its remaining assets of approximately €22.1 billion were used to establish the Ireland Strategic Investment Fund (ISIF) on foot of a commitment in the Programme for Government 2011 - 2016 (Parliamentary Budget Office, 2019).

A number of responses to the public consultation suggested partially pre-funding future State Pension costs using a pensions reserve fund in order to improve the fiscal sustainability of the State Pension system given the demographic challenges faced by Irish society.

In this regard, it was suggested in submissions that Ireland should restart pre-funding the State Pension into the future. It was noted that without pre-funding or reducing the amount of pension payable, the only real choices will be to either increase PRSI contributions and/or divert funds from other parts of Government spending.

In principle the Commission recognises the rationale of establishing a new pension reserve fund to pre-fund a portion of future State Pension costs. Such a fund would help meet the need for increased expenditure due to the increasing number of pensioners (topping up the PAYG element). It could also help meet the costs associated with benchmarking the State Pension in years when there are limited finances available. However, in practice it is likely that the money in a new pensions reserve fund would be used by the State for reasons other than its intended purpose (for instance, during a major economic downturn).

Ireland's previous major attempt to partially fund State Pension obligations via the NPRF encountered issues less than a decade after it was established. The Commission was of the view that it would not be possible to guarantee that such a fund would be used solely for its intended purpose. A number of responses to the public consultation suggested that constitutional protections could be put in place to ring-fence funds. However, it would not seem appropriate to place such a specific piece of legislation into the Constitution. Therefore, on balance, the Commission felt that its approach to create a separate State Pension SIF account with regular Exchequer contributions was more appropriate.

6.4.2. Fully fund State Pension costs

In fully funded pension schemes there is a direct relationship between the assets of the pension fund and the benefits payable to members – effectively the assets and liabilities will balance. This method of funding pension benefits is common in Defined Contribution (DC) private sector arrangements such as DC occupational pension schemes, PRSAs, and personal pension plans. The Commission considered if a fully funded approach would be an appropriate alternative to financing the State Pension system.

Perhaps the main advantage of adopting a fully funded approach to first pillar pension financing is a change in the old-age dependency ratio does not affect the fiscal sustainability of the State Pension system. This is because contributions from today's workers and their employers will pre-fund their future State Pension payments. Therefore, in a fully funded State Pension system, retirees would not be dependent on a decreasing proportion of workers to ensure the continued fiscal sustainability of the system.

With very limited exceptions (e.g. Kuwait where, unlike Ireland, access to the State Pension system is limited to a minority of workers) there is little evidence of a fully funded approach being adopted for first pillar pension provision. A fully funded approach has several drawbacks including:

- A fully funded State Pension system would limit the capacity of the pension system to redistribute income among workers. Accordingly, the ability of the State Pension system to reduce poverty would be greatly lessened. People who are less attached to the labour market as a result of unemployment, illness, maternity, caring, or other reasons would not benefit from credited contributions, nor could HomeCaring periods apply – the pension payment would be dependent solely on the person's own contributions to the fund. Therefore, it would be more likely that women and people with disabilities would be disadvantaged under a fully funded system compared to the PAYG system.
- Establishing a fully funded State Pension system would require that current workers would not only pay PRSI contributions to finance current pension payments but also to prefund their future pensions. This means that the current generation of workers would pay twice – both for current pensioners and themselves, which has intergenerational fairness implications.
- It would take many years to build up a fund large enough to fund current and future liabilities.
- There is a risk that if a fully funded State Pension fund was set up that, in times of economic crisis, the State might use the fund for purposes other than providing pensions (for example, see 6.4.1 above and the closure of the NPRF).
- A fully funded approach to first pillar pension provision would require the State to invest a proportion of PRSI income in order to secure State Pensions for future pensioners. The taking of investment risk to finance State Pension promises would not be a suitable mechanism for ensuring the stability of the bedrock of the Irish pension system. If investment returns proved to be inadequate then the State may have to meet any shortfall, contribution rates may have to increase, and/or pension payment rates may be lower than expected.

For all of the reasons outlined above, the Commission did not consider a fully funded approach as a suitable method for financing State Pension obligations.

6.4.3. Individualise State Pension contributions to the SIF

A Notional Defined Contribution (NDC) system operates in a similar way to a standard PAYG model: current contributors pay for the retirement benefits of current retirees. However, a NDC model mimics the principles of funded pensions, such as defined contribution pension plans, with individualised pension pots. At retirement age a NDC pension pot is converted to a life-long pension payment the rate of which is determined by the value of a person's pot.

Sweden operates a first pillar NDC system. Sweden's earnings-related old-age pension system consists of a notionally defined contribution PAYG component and a fully funded, DC pension component. Both are based on lifetime earnings and individual accounts (Regeringskansliet, 2018).

The NDC system has a number of disadvantages:

- In theory, in a NDC system it is possible for a person to receive a very small pension, below the level required to keep a person out of poverty, depending on the level of contributions and how retirement benefits are calculated. Individual NDC accounts would undermine the redistributive principle of the existing system as lower earners (who are more likely to be women, people with disabilities, and migrants) would save less than higher earners. In order to prevent this Sweden has an income-tested top up, the "guarantee pension", which is financed by general taxes from the central budget.

- In Ireland, the social solidarity principle underpins our flat rate State Pension payment system. There is a risk that, unless carefully designed, a NDC system creates a form of quasi private pension system within the first pillar system which could undermine the social solidarity principles of the Irish system. It has been noted that, "Social Security is not a large private sector pension. It is instead, a macroeconomic means of wealth transfer, where workers transfer wealth to the elderly through their social security contributions. This is true whether the plan is pre-funded or pay-as-you-go." (Brown, 2007).
- Individualised methods of State Pension funding would undermine the redistributive function of the State Pension as benefits would be directly linked to contributions. Groups with a lower attachment to the labour market, such as women and people with disabilities, would be worse off under an individualised method of State Pension financing than the existing system.

A NDC system would improve the fiscal sustainability of the State Pension system but undermine the social solidarity and redistributive principles of Ireland's social welfare system. Therefore, the Commission is not in favour of introducing an individualised component (such as a NDC element) to first pillar pension provision.

6.4.4. Automatic enrolment retirement savings system

PAYG and funded (partially or fully funded) pension schemes are subject to different risks. Therefore, it may be optimal to provide both forms of retirement income as a means of diversification. The World Bank (1994) has recommended that a multiple pillar approach could be adopted so as to separate the pension saving function from the redistributive function and placing them under different financing and managerial arrangements in two different mandatory pillars.

In this regard, a funded element to State-sponsored pension provision could be facilitated through a multi pillar approach by retaining the first pillar PAYG system in its current form and introducing the automatic enrolment retirement savings system in order to increase supplementary pension coverage and provide a level of funded pension for people who require additional income in retirement.

The Commission favours a multiple pillar approach to pension saving where the first pillar would continue to be funded on a PAYG basis and operate separately from the other pension pillars. Therefore:

- **The Commission endorses the early introduction of automatic enrolment, which will introduce a funded component to the pension system and improve retirement income adequacy for future pensioners.**

6.5. Universal Pension

The option of a "Universal Pension" was proposed to the Commission by some who responded to the invitation to make submissions, with varying degrees of definition and detail. Proponents of a universal pension see it as more equitable and less complex than the current system, and with improved gender outcomes. The Citizens' Assembly on Gender Equality also recommended that that the Government, "Introduce a Universal State Pension so that every resident of Ireland receives a pension upon reaching pension age." In its Report (2021), it stated that this recommendation aims, "...to ensure women have an adequate pension income in retirement, even where they may have limited or no time in the workplace due to having undertaken a caring role." In this regard, the Commission takes a different approach to improving access to the State Pension Contributory for long-term carers, which is set out in Chapter 9.

Arguably, a move to a Universal Pension is outside the scope of the Pension Commission's Terms of Reference, in that it runs counter to the contributory principle, which is settled Government policy in the form of the *Programme for Government* commitment to introduce the Total Contributions Approach for calculating the rate of State Pension payable to a person.

Nonetheless, the Commission examined the submissions which suggested establishing a Universal State Pension system in Ireland. There is no single definition of what constitutes a universal pension. In Ireland, universal payments are ones where there are no social insurance contributions requirements and to which no means-test applies, such as Child Benefit or the Household Benefits Package for those aged 70 and over.

In effect a universal pension would propose to abolish the Contributory and Non-Contributory State Pensions (and the Increase for a Qualified Adult) and replace them with one Universal State Pension system (Whelan, 2005). The proposition appears to be that a universal pension would be a system whereby the only eligibility condition would be to reach pension age. The Commission research could not identify such a system internationally. In countries considered to have a form of universal pension provision, a residency requirement applies, with the residency requirement met by being resident for a certain number of years before State Pension age (e.g. ages 15-65).

6.5.1. New Zealand

The Commission noted that the nearest example internationally to a universal pension is New Zealand which has a residence requirement alone – other countries which have a residence requirement generally have an income test as well (such as Denmark - see below). The public pension system in New Zealand is universal and does not have a means test. People aged 65 and above with 10 years' residence after age 20 are eligible. State Pension entitlements from other countries are taken into account in calculating the total public pension that is payable. A person can continue to receive their New Zealand State Pension if they move abroad.

In New Zealand as of April 2021 the pension payment rate was NZD 437 (€257) a week for a single person living alone, NZD 403 (€237) for a single person sharing accommodation, and NZD 672 (€396) for a couple if both qualify for the pension – this works out as 77 per cent of the single person rate for each member of a qualifying couple. This is equivalent to around 40 percent of gross average earnings. The pension is adjusted annually depending on the rate of inflation and must also maintain a relationship with the average net-of-tax weekly wage. The total cost is financed by the government.

6.5.2. The Netherlands

The Netherlands has a universal State Pension called the AOW. Eligibility for the AOW is determined by residency – a maximum pension is paid for 50 years residency from age 15 to State Pension age. The AOW rate of payment is reduced by 2 percent for each year a person spends outside of the Netherlands (although it is possible to purchase missing years). However, if a person does not have any other pension besides their AOW, and they are not entitled to a full AOW pension, they may be able to get a supplement on top of their AOW pension.

The State Pension retirement age is 66 years and 4 months. In 2022, it will be raised by 3 months and will reach 67 years in 2024.

The AOW is paid monthly and the amount is adjusted twice a year in line with wage inflation. The full AOW amount is €1,218 for a single person – although other income (including a supplementary pension) may have tax implications that reduce the payment to €970. A supplementary allowance may increase the monthly amount to €1,572. The full AOW amount is €833 for a married/cohabiting person – although other income (including a supplementary pension) may have tax implications that reduce the payment to €664. The figures above are net of a mandatory health insurance payment which is deducted from the pension of €75 for a single person and €50 for a person in couple.

The AOW can be claimed and paid outside the Netherlands.

6.5.3. Denmark

Denmark has a form of universal basic State Pension system based on residency. The residency rules mean that currently a person has the right to a full State Pension after 40 years of residence in Denmark (from age 15 to State Pension age). From June 2025 the residency rules will change so that a person will have the right to the full old age pension rate provided that they have resided in Denmark for at least 9/10ths of the time (from age 15 to State Pension age). The pension is reduced if a person has lived for periods outside Denmark.

The Danish State Pension consists of a basic amount and a pension supplement. The basic monthly amount is DKK 6,419 (€863). There is also a pension supplement of up to DKK 7,122 (€958) for a single person and DKK 3,576 (€481) for a married/cohabiting person.

Denmark is often considered to have a universal pension. While its State Pension is based on a residency requirement rather than contributions, an income limit and means test apply, and accordingly, it is not a universal pension as defined earlier.

For the basic pension, income from interest, individual pension or occupational pensions do not affect the basic amount, but it may be reduced if a person has an income from work of more than DKK 336,900 (€45,300) per year. A person cannot receive the basic amount if they earn an annual income from work of more than DKK 587,300 (€78,800). If a person's work income is high, they can defer their pension. This gives a person an entitlement to receive a supplement known as "percentage for deferment" when deferment is terminated (up to a maximum of 10 years).

The level of pension supplement depends on a person's (and their spouse's/cohabiting partner's) income. The first DKK 122,004 (€16,400) a person earns from personal work is disregarded in calculating the pension supplement.

For single people the pension supplement is reduced for income above DKK 89,700 (€12,100) and is not paid at all if income is above DKK 374,600 (€50,400). If cohabiting with another pensioner then the pension supplement is reduced for income above DKK 179,700 (€24,200) and is not paid at all if income is above DKK 457,700 (€61,500). If cohabiting with a non-pensioner then the pension supplement is reduced for income above DKK 179,700 (€24,200) and is not paid at all if income is above DKK 318,700 (€42,900).

A person can apply to receive the State Pension even if they live outside Denmark – if a person lives abroad after retirement this does not affect their Danish State Pension.

The Danish social security system, including State Pensions, is funded primarily from general taxation. Average income tax rates and effective corporate tax rates are higher in Denmark than Ireland. Denmark is also increasing its State Pension age. Denmark's higher tax rates and indexing of the State Pension age are methods of ensuring the sustainability of its State Pension system.

6.5.4. Ireland

In many ways it can be said the Ireland already has close to universal basic State Pension provision because of the combination of the State Pension Contributory and the State Pension Non-Contributory. The OECD stated that (2014: 87), "…contrary to public impression, the link between contributions and benefits in the current State Pension scheme is very weak and there are already numerous elements of redistribution in the system which have a more universal character." The OECD report does not give costings in relation to adopting a universal pension system in Ireland but does suggest using means-tested supplements if a universal pension was introduced (p.107), "In Ireland, a basic [universal] pension could be set at a modest level and complemented by a means-tested supplement for pensioners who have no other income sources such as occupational or private pensions or other assets." The OECD envisages that, as in New Zealand, higher individual rates could be paid to single people living alone than to couples.

The costs of moving from the current system to a fully universal basic pension without a means test would be significant - potentially €2 to €3 billion (depending on the design) - and would be dependent on very fundamental changes right across the tax and social protection systems as currently conceived and constructed, including potentially discarding the system of social insurance for pensions, relying instead on general taxation to meet the costs of pension provision.

The Green Paper on Pensions noted that the introduction of a universal pension system in Ireland would (p.70), "...be a radical departure from the present system, particularly if the suggestion for a standard payment for all were adopted. It would change the basis of payments from a system based on social insurance or need to one based on citizenship and/or residency. The introduction of such a scheme could have far reaching implications, not only for the State Pensions system, but also for the Social Insurance Fund in general."

The introduction of a Universal State Pension paid at full rate to everyone of State Pension age and over, regardless of their PRSI contributions or their means, would require fundamental reform of the State Pension system, and perhaps to the entire model of social insurance. It would give rise to a range of considerable policy and operational issues.

Examples of such policy / operational issues include:

- The impact on people's behaviour with respect to work, work patterns, employment status, personal savings, contributions into the system in tax/PRSI, etc.;
- The interplay between the State Pension system and occupational and private pensions and the scope of the State to support such arrangements;
- The applicability of such a pension to those in public service employments;
- The potential legal issues involved in different treatments of those with occupational pensions in the private and public sector and those with a mix;
- How such a system would work with existing EU pension and social security law and with international bilateral arrangements; and
- The treatment of retirees who are not resident in the State, but who have built up a contributory pension entitlement over the years that they worked here and paid PRSI.

Introducing a universal pension system (either immediately or with a transition period) would require either considerable additional revenues, or, if introduced on a cost-neutral basis, very significant diversion of funds from elsewhere. Potential consequences of introduction of such a pension include a large reduction in the current payment rate of the State Pension, substantial increases in the rate of tax deductions (on the basis that PRSI contributions would cease for State Pension benefits), or measures such as reducing tax relief on occupational and private pensions, which would impact on the take-home pay of the workers affected.

6.5.5. Conclusion

A proposal for a universal pension, ending the contributory principle, is outside the scope of the Commission's Terms of Reference. It impacts on the tax system, the social insurance system, and occupational pensions. If it is to be advanced, it needs to be considered in all of those contexts. In this context it is noted that the National Economic and Social Council in its report on the Future of the Irish Social Welfare System argued for a stronger social insurance system (NESC, 2020:122-123).

The Commission makes recommendations in this chapter to support transparency and certainty in relation to the Social Insurance fFnd, so that the community can have confidence as to the funding and rates of State Pension. A universal payment funded on a Pay-As-You-Go basis which relies exclusively on general taxation may be considered to weaken that confidence.

The Commission notes the recent commencement of the Commission on Taxation and Welfare which will consider this Report as part of its terms of reference.

The Commission also notes the commitment in the *Programme for Government* to initiate (p.76), "…a universal basic income pilot in the lifetime of the Government". The principle of a universal basic income is closely related to the principle of a universal pension and therefore the Commission suggests that further consideration of a universal pension should await the outcome and evaluation of any pilot universal basic income scheme.

6.6. The Commission's Recommendations

- **The Social Insurance Fund (including the State Pension system) will continue to be financed on a Pay-As-You-Go basis.**
- **The Commission recommends the creation of a separate account in the Social Insurance Fund (SIF) for State Pensions. The separate identification, accounting, and reporting of State Pension contributions will provide transparency in relation to how State Pensions are financed and the Fund's ability to meet its commitments on an ongoing basis.**
  - The volatility of working age payments makes it difficult to calculate the level of contributions needed to keep the SIF in balance. Due to the largely predictable nature of State Pension spending, a separate State Pension SIF account would enable a calculation of the level of contributions required to balance State Pension expenditure.
  - A separate SIF account for the State Pension would enable any funds in the account to be ring-fenced for State Pension expenditure and not used for other payments. For instance, the financial impact of introducing enhanced working age benefits would not affect State Pension funding (or vice versa).
  - A separate State Pension SIF account would increase transparency as there would be a clear visibility of State Pension income and expenditure, and funding adequacy.
  - This would enable consideration to be given for a creation of separate State Pension contribution rate, by sub-dividing PRSI.
- **The Commission supports the principle of annual Exchequer contributions to the 'State Pension' account of the SIF. Rather than rely on Exchequer subventions only when the SIF is in deficit, the State should identify and allocate a separate Exchequer contribution to the SIF State Pension account.**
  - This could be based on a minimum percentage of the previous year's expenditure on the State Pension Contributory being paid into the SIF State Pension account on an annual basis by the Exchequer. For the purposes of its work and in order to carry out costings, the Commission used an indicative Exchequer contribution of 10 per cent of SPC expenditure per annum.
  - This approach would formalise the tripartite basis of SIF funding by employees/self-employed, employers, and the State, envisaged at its foundation by providing an annual Exchequer contribution to the State Pension element of the SIF.
  - In so doing, it would be in line with the tripartite approach being considered for automatic enrolment retirement savings system which would have a legislative basis for the provision of a dedicated direct Exchequer contribution and/or tax expenditure.
  - The formalised basis for this funding would enable the State to plan for non-labour revenue sources to help fund the State Pension system. Relying solely on PRSI increases to fund the State Pension system in the context of an ageing population would likely have negative labour market impacts.
  - This Exchequer funding would also help fund some of the solidarity aspects of the State Pension system.

  - Sufficient Exchequer contributions, while demographics are relatively favourable, could enable a buffer to be built-up in the SIF for State Pensions. A buffer would operate to address unexpected falls in income and could be used to maintain the value of pension payments required under benchmarking.
  - The Commission notes that should a deficit arise that an Exchequer subvention would also be required to meet any shortfall.
- **The Commission endorses the early introduction of an automatic enrolment retirement savings system, which will introduce a funded component to the pension system and improve retirement income adequacy for future pensioners.**

Chapter 7: Payment Rates

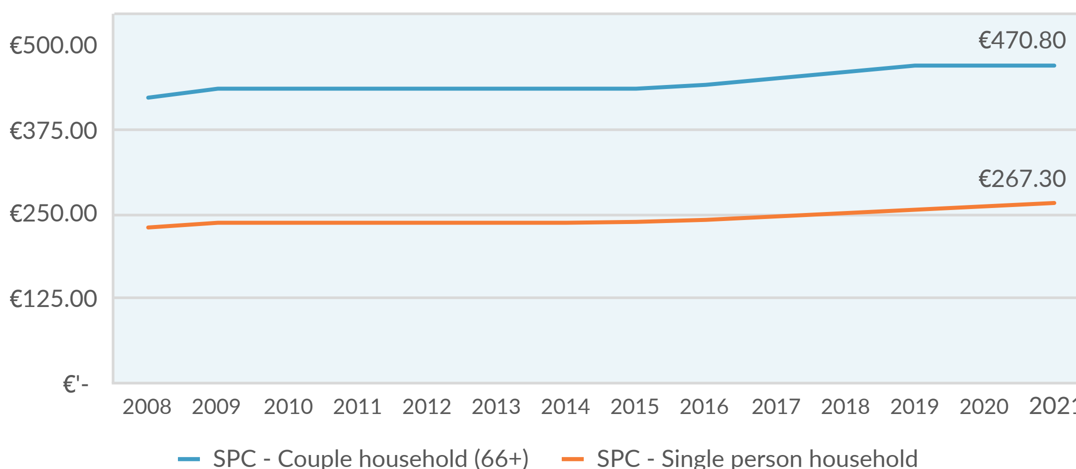
This chapter examines the role of State Pension weekly payment rates in the sustainability of the State Pensions system and the Social Insurance Fund (SIF). The reduction of State Pension weekly payment rates as a means of achieving fiscal sustainability was not considered by the Commission, as this would be contrary to State Pensions' policy objective to prevent pensioner poverty. However, the basis on which future State Pension weekly payment rate increases are decided upon has important consequences for the retirement income adequacy of pensioners, for the sustainability of the State's finances, and for the effectiveness of the State Pensions system in continuing to meet its poverty prevention policy objective. This chapter sets out the key findings from the Technical Sub-Committee's Working Paper 4 on *Benchmarking and Indexation* and the Commission's deliberations and recommendations in this area.

7.1. Background

This section presents the maximum weekly rates of payment for the State Pension Contributory (SPC) since 2008, for single and couple pensioner households. In addition to the SPC weekly rate of payment, single pensioner households can receive the Living Alone Allowance as an increase. Where a pensioner has a dependent spouse or partner with limited means, an Increase for a Qualified Adult (IQA) may be paid. A higher rate applies for qualified adults who are State Pension age or older. Pensioners aged 80 and over are automatically paid an extra allowance of €10 per week.

Figure 7.1 below sets out the maximum weekly rates of payment for a single person household (the personal rate plus the Living Alone Allowance) and for a couple household (the personal rate plus an increase for qualified adult aged 66 or over) over the period 2008 to 2021. The maximum weekly rate of SPC is currently €248.30 per week. The maximum weekly rate of the Increase for a Qualified Adult rate aged 66 and over is set at approximately 90 per cent of the personal weekly rate of payment and is currently paid at €222.50 per week. While there have not been increases in the core weekly rates of pension payment since 2019, the Living Alone Allowance has increased in recent Budgets and is currently paid at €19 per week.

Figure 7.1: Maximum weekly rates of payment, 2008 to 2021



Source: DSP (2021), DSP (2020)

It should be noted that not all people qualify for the maximum weekly rate of payment. Calculation methods are discussed in Chapter 8.

7.1.1. Current Policy Context

The Roadmap for Pensions Reform 2018 – 2023 states that, “In setting the rate of State Pension, Ireland is currently atypical compared to other EU countries in its approach to applying discretionary increases through political decisions in the annual budgetary process. Internationally, a more formal system of automatic or semiautomatic increases has greater prevalence. Typically increases are indexed to an economic indicator, such as inflation or earnings growth. The Government believes a regime of automatic indexation would introduce greater long term certainty for our retirees. Maintaining a constant real value to the State Pension would also benefit individuals by allowing for greater transparency in financial planning and improved confidence about the level of any private retirement savings required to supplement the State Pension.” (p.8)

In this regard, the *Roadmap* commits to examine and develop proposals to, “Set a formal benchmark of 34% of average earnings for State Pension contributory payments by the end of 2018 (DEASP)” and, “Institute a process whereby future changes in pension rates of payment are explicitly linked to changes in the consumer price index and average wages by the end of 2018. (DEASP/DPER).”

Building on this, the *Roadmap for Social Inclusion 2020 - 2025* notes (p.40) that,

“People of working age cannot plan their own personal pension arrangements with confidence as to the future value of the State Pension. The rate can be set as part of a political bargaining process leading to poorly justified changes and inequitable outcomes. As changes to welfare rates are both easy to implement and can yield immediate savings, welfare recipients can feel vulnerable to rate cuts during periods of recession.

Not surprisingly given these difficulties, most countries have now instituted a formal process of rate indexation and/or benchmarking as a means of assuring the value of welfare payments. Ireland is one of just two OECD countries that do not use a formal system of benchmarking. Given that welfare payment rates are now at or close to recommended benchmark levels it is appropriate that a process of linking welfare payment rates to market earnings and price movements be formally considered.”

The *Roadmap for Social Inclusion* outlined a potential approach to benchmarking and indexation that could be used (Smoothed Earnings – set out in section 6.4). The *Roadmap* also includes the commitments to, “Finalise an approach for benchmarking pension payments for Government decision” and, “Subject to Government decision, develop and prepare any necessary changes to legislation to give effect to a benchmarking approach.” (p.42)

The *Programme for Government*, *Our Shared Future*, commits to a, “…rigorous implementation of the new social inclusion strategy, *A Roadmap for Social Inclusion 2020-2025*.”

In this regard, Government policy commits to introducing a formal benchmark for State Pensions (at 34 per cent of average earnings), and to legislate for the benchmarking and indexation of future State Pensions rate changes.

7.1.2. International Comparisons

As noted in the section above, Ireland is atypical compared to our European counterparts in setting pension rates by means of discretionary increases in the annual budgetary process. The Commission examined the approach taken internationally, primarily using the comparative tables collated by the European Commission’s Mutual Information System on Social Protection (MISSOC). This confirmed that the majority of EU and EFTA countries index pension rate increases in line with price inflation and/or earnings growth. A small number of countries connect State Pension rate increases with the performance of the national economy. An extract of the comparative tables is included in the Technical Sub-Committee’s Working Paper 4.

7.2. Consultation Findings

In the public consultation process, several themes emerged in relation to State Pension rates of payment.

- Firstly, in submissions from individuals, there was a call for certainty in the future payment of State Pensions. State Pensions are clearly valued across society, and submitters were keen that the State Pension retained its value for upcoming, future and current pensioners. While benchmarking or indexation were generally not explicitly mentioned by submitters, in effect this was the outcome that was being sought.
- Secondly, submissions from a range of organisations noted the effectiveness of the State Pensions system in protecting pensioners from poverty and urged the Commission to ensure that this feature of the system be retained into the future.
- Thirdly, it was generally recognised that the role of the State Pensions system is to prevent pensioner poverty – it will not adequately replace a person's income while in employment, that is the role of supplementary pensions. In this regard, there was a call from a number of organisations that the Government introduce an automatic enrolment retirement savings system as quickly as possible, which would provide a supplementary income on top of the State Pension, and improve retirement income adequacy.

7.3. Adequacy and Sustainability

At the inaugural meeting of the Pensions Commission on the 25th of November 2020, the Minister for Social Protection, Heather Humphreys TD, emphasised that the State Pension is the bedrock of the pension system in Ireland. While the State Pension system could be made fiscally sustainable through reducing weekly rates of payment, this would be contrary to the first pillar State Pension's objective of protecting against pensioner poverty and also in contrast with the *Programme for Government* commitment to protect core weekly rates of payment.

The underlying tension between striving for adequacy and sustainability in the State Pension system has been recognised in pensions policy for decades. In this regard, while the remit of the Commission is to focus on sustainability, the Commission held adequacy (in terms of the State Pension system's poverty prevention objective) central to its deliberations.

7.3.1. General rate increases versus targeted supports

The poverty prevention role of State Pensions is outlined in Chapter 2 and considered in detail in the Technical Sub-Committee's Working Paper 3 on *Poverty Prevention and State Pensions*. That paper also set out the findings of the Vincentian Partnership for Social Justice's (VPSJ) research on the Minimum Essential Standard of Living that the current rates of State Pension payments (both contributory and non-contributory) are adequate in meeting the minimum essential standard of living in urban areas.[17] The VPSJ's research found that State Pensions do not meet the minimum essential standard of living in rural areas as a result of transport costs arising from not being able to avail of the Free Travel scheme to the same extent as urban areas. In this regard, the Commission considered that it is not necessary from an adequacy perspective to provide general increases in the weekly rate of State Pension payments to meet specific deficits that could be more sustainably addressed through targeted income supports or improved service provision.[18]

7.4. Smoothed earnings

This section sets out a potential specific approach to benchmarking and indexation, as outlined in the *Roadmap for Social Inclusion 2020 – 2025*, and the Commission's consideration of this approach.

[17] The minimum essential standard of living is derived from a negotiated consensus on what people believe is a minimum.
[18] This rationale also applies when thinking about other demands on retirement income that may arise in the future from, for instance, housing costs given declining home ownership trends. The Commission is aware that the Pensions Council is undertaking a joint research programme with the ESRI on the issue of home ownership trends and retirement income adequacy that is expected to be completed in 2022.

7.4.1. Potential Approach in the *Roadmap for Social Inclusion*

The *Roadmap for Social Inclusion 2020 – 2025* sets out a potential approach to benchmarking and indexation that could be used for calculating future rate increases. An extract from the *Roadmap* is provided below.

"The smoothed earnings system addresses the two key challenges faced in benchmarking/ indexation system. The first is that a benchmark linked to just one measure (e.g. prices) can result in a widening of the gap between the incomes of people dependent on State Pensions and other people in society.

On the other hand, systems which use multiple benchmarks, for example the so-called twin-lock systems, generate a 'ratchet effect' whereby increases in pensions outstrip both prices and wages ultimately converging on, and potentially overtaking, wage levels.

A smoothed earnings system overcomes these difficulties as follows:

- Pension payments would, as a default, be benchmarked against the average earnings measure using the 34% target benchmark commitment of the *Roadmap for Pensions Reform*.
- This earnings based indexation would continue until the first period(s) in which price inflation exceeded earnings growth. During these periods pension payments would, in order to retain their real value, be changed in line with changes in the price measure (HICP/CPI).
- In subsequent periods, where earnings growth again exceeded inflation, pension rates would remain pegged to price inflation until such time as the earnings benchmark is restored.
- Indexation would then revert to the earnings benchmark until such time as earnings growth might again lag behind inflation when the cycle of changes just described would be repeated.

Such an approach would ensure that over the long-term the relative value of welfare payments compared to market earnings would be maintained and that over any short-medium term period the real value, or purchasing power, of these payments would be protected." (pages 41-42)

7.4.2. Commission's Considerations

The Technical Sub-Committee examined the proposed benchmark of 34 per cent of average earnings, and the 'smoothed earnings' approach to benchmarking and indexation. Additional information was provided by officials in the Departments of Social Protection, and Public Expenditure and Reform. The Commission notes that a proposal on the approach to benchmarking and indexation has not been brought to Government for consideration.

Based on the analysis set out in the Technical Sub-Committee's Working Paper 4 on *Benchmarking and Indexation*, the Commission notes that:

- Over the last three and half decades there has been on-going consideration on how best to determine a benchmark target and approach through which to anchor a minimum/adequate level of social welfare payments.
  - The target for State Pension rates that has carried through to the present day is 34 per cent of gross average earnings.
  - The former measure of Gross Average Industrial Earnings has been superseded by a broader measure of earnings in the economy through the Earnings, Hours and Employment Costs Survey (EHECS). This can be used to obtain average earnings in all NACE economic sectors B to S (this includes professional and services sectors as well as 'industrial' sectors). This includes both part-time and full-time employees.

  - A proposed earnings benchmark is the EHECS measure of average earnings, excluding irregular earnings and overtime, which the Sub-Committee was advised by officials comes the closest to the former measure of Gross Average Industrial Earnings. It should be noted that this measure of earnings (EHECS measure of average earnings, excluding irregular earnings and overtime) is not currently published by the CSO. A time series of this data is available from 2008 (included in the Technical Sub-Committee's Working Paper 4).

- The Commission notes that there are a number of issues with using an earnings benchmark, given the poverty prevention rationale of the State Pension:
  - Measures of income poverty are related to the income distribution rather than the earnings distribution;
  - Average earnings are strongly affected by the composition of the workforce. For example, during the pandemic, there was a significant loss of employment in lower paid sectors, such as food and accommodation, and retail, which had the effect of increasing average earnings.
  - While earnings are related to the income distribution, a target earnings benchmark will not necessarily prevent a person falling below the at-risk-of-poverty threshold.
- In comparing the SPC rates and the 34 per cent of earnings benchmark to the 60 per cent at-risk-of-poverty thresholds, the Sub-Committee findings include:
  - The SPC maximum personal weekly rate of payment has been close to, but above, the 34 per cent earnings benchmark for the duration of the time period that the earnings data is available (from 2008).
  - While the SPC rates for a pensioner couple over the age of 66 have been above the relevant at-risk-of-poverty threshold for most of the time period since 2008, the gap is smaller for single pensioner households.
  - While the 34 per cent earnings benchmark has fallen below the 60 per cent at-risk-of poverty threshold in recent years, when secondary benefits and allowances are included, this lifts the combined value of the personal rate and secondary benefits above the 60 per cent at-risk-of-poverty threshold over the majority of the time period that data is available (bar in 2019, by 73 cents).[19]
- Benchmarking provides the floor from which indexation, or future rate increases, are calculated.
  - The proposed 'smoothed earnings' approach to indexation provides for increases to the weekly rate of the State Pension in line with price inflation in years where there is no earnings growth, subject to a cap. The Commission considers this approach to be appropriate.
  - This can result in the rate of State Pension payment increasing above the 34 per cent earnings benchmark in years where there is price inflation above earnings growth.

[19] It should be noted that the Commission is not suggesting that the 34 per cent earnings benchmark should include the value of secondary benefits and allowances – this is simply noting that when assessing the effectiveness of the State Pension system in poverty prevention, State Pension schemes are not the only payments being made to pensioners.

7.5. Alternative approaches to benchmarking and indexation

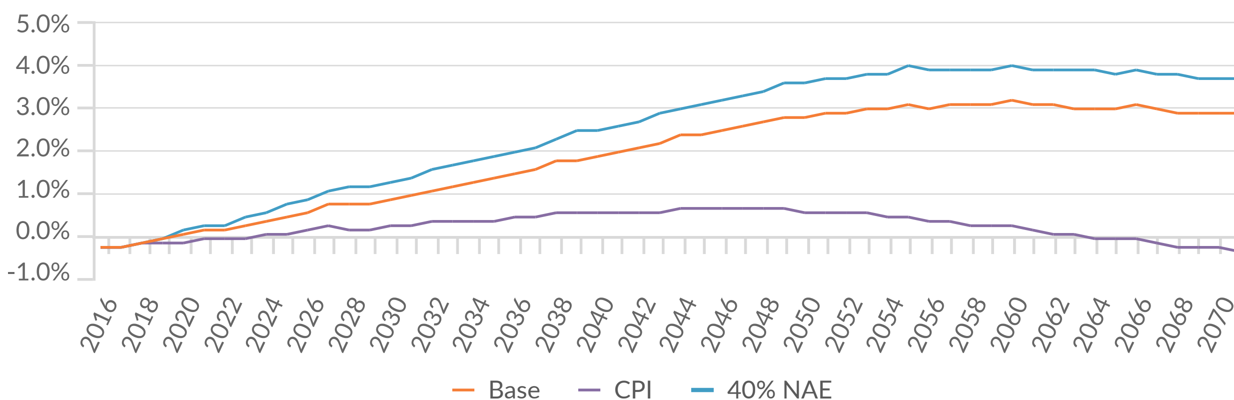
The Commission considered some alternatives to the smoothed earnings approach, based on analysis carried out by the Technical Sub-Committee. This included indexing future rate increases to inflation (with no link to earnings), the triple lock approach in use in the UK (which indexes pension rate increases to the highest of price inflation, earnings growth or 2.5 per cent), and benchmarking at 40 per cent of earnings instead of 34 per cent. Some of these alternatives were raised as options for the Commission to consider in the consultation process.

7.5.1. Indexing to price inflation

It was raised in the Meeting 3 presentation by KPMG on the *Actuarial Review of the Social Insurance Fund* (2017) that indexing future increases in the weekly rates of State Pension payment to price inflation instead of earnings growth would result in significant savings over time. This is also considered in IFAC's *Long-Term Sustainability Report*.

Figure 7.2 below displays the graph from the KPMG presentation from Meeting 3. It shows the difference in the shortfall of the SIF, depending on whether the base case is maintained (set at 33 per cent of earnings in the *Actuarial Review*), a higher benchmark of 40 per cent of earnings, and linking future increases to projected price inflation. By linking to price inflation, over time, the presentation states that as a result of compounding, the projected shortfall could be eradicated. This compares to significant continued shortfalls over time arising from benchmarking against earnings at 33 per cent or 40 per cent. The potential impact on retirement income adequacy and pensioner poverty by indexing to inflation rather than earnings was noted by KPMG.

Figure 7.2: Projected shortfalls in the SIF as a percentage of GDP using different indexation approaches



Source: KPMG (2017)

IFAC's *Long-Term Sustainability Report* also sets out that indexing to inflation rather than earnings would reduce projected future debt (p. 78, Figure 4.6) and make the State Pension system more fiscally sustainable in the long-term. Similar to the KPMG presentation, the Chair of the Fiscal Council, when speaking to the Commission at Meeting 2, clarified that IFAC was not recommending such an approach as, over time, the adequacy of the State Pension would be eroded resulting in pensioner poverty.

In this regard, the Commission supports the use of benchmarking and indexation as a means of providing certainty to pensioners, maintaining the relative value of State Pensions payments compared to earnings growth and price inflation, and ensuring that the poverty prevention role of the State Pension system is maintained. The Commission also recognises that benchmarking and indexation can help with fiscal sustainability by framing the potential level of increases in State Pension payment rates. However, the Commission does not support the use of benchmarking and indexation as a means of reducing the relative value of State Pension payments over time, such as through indexing future rate increases to inflation rather than earnings and inflation.

7.5.2. Triple lock

It was suggested in the public consultation process that a ‘triple lock’ approach should apply to State Pensions indexation. With this approach to indexation, currently in operation in the UK, the pension rate of payment increases each year by the greater of earnings growth, price inflation or 2.5 per cent. These three components constitute the ‘triple lock’. This ensures that the value of the State Pension will increase every year by a minimum of 2.5 per cent each year. The Commission notes that the operation of the triple lock is proving controversial in the UK, with significant debate as to its effects on intergenerational equity.

At the current pension rate of payment in Ireland, 2.5 per cent equates to a €6.20 per week increase. This is estimated to cost €184 million in 2022 and in a full year. The effect is compounded over time – the following year, building on the previous year’s rate increase, the minimum increase would be €6.40 per week and so on. It should be noted that earnings growth has exceeded 2.5 per cent in some recent years.

The Commission considers that a ‘triple lock’ is not required in order to maintain the value of State Pensions or to ensure that it is effective in protecting against pensioner poverty. The ‘triple lock’ approach has the potential to provide for significant State Pension increases in years where there is no price inflation or earnings growth, leading to a ‘ratchet effect’. This means that the relative value of State Pensions compared to earnings and to purchasing power would increase over time.

7.5.3. Benchmark at 40 per cent of earnings

A benchmark of 40 per cent of earnings was suggested in the public consultation process in order to provide adequate State Pensions (proposed in the context of introducing a Universal Pension).

Benchmarking the maximum personal weekly rate of payment to 40 per cent of average earnings would require an increase of €38.20 in the maximum weekly rates of payment (based on the 34 per cent of average earnings benchmark in 2020), which the Department of Social Protection estimates would cost €1.1 billion in 2022 and in a full year.

The Technical Sub-Committee’s Working Paper 4 noted that the inclusion of cash secondary benefits and allowances – specifically the Living Alone Allowance, Fuel Allowance, the Household Benefits package’s Electricity/Gas Allowance and the Telephone Support Allowance - situates the value of payments to a single pensioner between 38 per cent and 40 per cent of average earnings over the period 2008 to 2020.

7.6. Independent body

The *Roadmap for Social Inclusion 2020 – 2025* suggested that, “In order to assure transparency and independence in the application of this ‘twin-lock’ smoothed earnings approach, and in order to enable some consideration be taken of the wider economic and fiscal circumstances prevailing in any year, the application of this benchmarking process could be considered on an annual basis by an expert group to be appointed by the Minister. The outcome would then be subject to ratification by the Government in the same manner as increases in minimum wages recommended by the Low Pay Commission.”

Building on this, officials from the Department of Social Protection further suggested that that, “In order to address concerns regarding both the transparency of the calculation process and the potential impact on State and Social Insurance Fund finances of an automatically applied increase in pension rates, it is likely that the process would be overseen by a statutory State Pension Rates Commission. This Commission would calculate the rate in line with the approach above, calculate its total cost, calculate the social insurance changes required to implement the change on a cost-neutral basis, give consideration to the wider social, economic and budgetary context prevailing, and make a recommendation with rationale to Government in Q3 each year.

Government would then take this recommendation into account in framing the annual budget estimates (in similar fashion to the recommendations of the Low Pay Commission). Changes would be implemented from the first payment of the following January."

The Commission supports the establishment of an independent standing body that would advise Government on pension rates of payment as calculated initially by the smoothed earnings benchmarking and indexation mechanism, as proposed in the *Roadmap for Social Inclusion 2020-2025*.

The Commission further considers that a key role of this body would be to assess State Pension rates at a household level (for single and couple pensioner households, and pensioners who live with others) in relation to their effectiveness at poverty prevention. The Commission is mindful that benchmarking State Pension rates against earnings will not necessarily protect against poverty. While recognising that a State Pension rate benchmarked at 34 per cent of average earnings would have been effective at preventing pensioner poverty in the past (see Technical Sub-Committee Working Paper 4 on *Benchmarking and Indexation* for details), the Commission cautions that this does not mean that it will continue to do so in the future. The Commission is particularly concerned for single pensioner households given their greater likelihood of being at risk of poverty.

The Commission notes that the critical data in this regard is the location of the State Pension rates within the income distribution. While this data is available on a less timely basis than earnings data, it would be important for the independent body to consider all relevant data when making recommendations to Government. The body should also periodically review the effectiveness of the benchmarking and indexation approach in terms of its poverty prevention impacts. The body could then propose amendments to the benchmark if the review found that it was not effective at preventing pensioner poverty, and/or the body could take its findings and wider social and economic factors into consideration when making its recommendation on pension rates to Government.

While the focus of this chapter has been on the State Pension Contributory, any recommended increases in the weekly rates of payment should apply to all State Pensions schemes (that is, the State Pension Non-Contributory, Widow/er's or Surviving Civil Partner's Contributory Pension (State Pension age and over) and the Occupational Injuries Benefit Death Benefit Scheme (State Pension age and over).

7.7. The Commission's Recommendations

- **The Commission recognises and supports the State Pensions system as the bedrock of the pensions system, and its first pillar function of preventing pensioner poverty.**
- **The Commission endorses the general principle of benchmarking and indexation of State Pension payments.**
  - The Commission supports the use of benchmarking and indexation as a means of providing certainty to pensioners, maintaining the relative value of State Pension payments compared to earnings growth and price inflation, and ensuring that the poverty prevention role of the StatePension system is maintained.
  - Benchmarking and indexation can help with fiscal sustainability by framing the potential levelof increases in State Pension payment rates; however, it can adversely affect fiscal sustainability if the design does not prevent 'ratchet' effects.

- **To ensure that the State Pension system continues to provide a level of income that effectively prevents pensioner poverty, and to address public calls for certainty of the value of State Pension payments for current, upcoming and future pensioners, the Government should immediately implement the smoothed earnings approach to benchmarking and indexation as outlined in the *Roadmap for Social Inclusion 2020 – 2025*.**
  - The Commission is mindful that benchmarking State Pension rates against earnings will not necessarily protect against poverty. While recognising that a State Pension rate benchmarked at 34 per cent of average earnings would have been effective at preventing pensioner poverty in the past (see Technical Sub-Committee Working Paper 4 on *Benchmarking and Indexation* for details), the Commission cautions that this does not mean that it will continue to do so in the future.
- **The Commission supports the establishment of an independent standing body that would advise Government on pension rates of payment as calculated initially by the smoothed earnings benchmarking and indexation mechanism recommended above, in a manner analogous to the Low Pay Commission as proposed in the *Roadmap for Social Inclusion 2020-2025*.**
- **The Commission recommends that this independent standing body should periodically review the effectiveness of the benchmarking and indexation approach in preventing pensioner poverty, including a consideration of poverty by household type (single and couple pensioners households and pensioners living with others).**
  - The body could propose amendments to the benchmark if the review found that the benchmark was not effective at preventing pensioner poverty, or the body could take its findings and wider social and economic factors into consideration when making its recommendation on rates to Government.
  - Recommended increases in the weekly rates of payment should apply to all State Pension schemes.
- **The Commission recommends that this body and its functions be established on a legislative basis.**
- **The Commission commends the recent policy approach to Budget increases in the Living Alone Allowance and recommends that this pattern of enhanced increases in the weekly rate of the Living Alone Allowance continues to provide targeted support to single pensioner households who are at greater risk of poverty.**

Chapter 8: Total Contributions Approach

Under its Terms of Reference, the Commission has been asked to, "Develop a range of options for the government to consider in order to address the sustainability of the State Pension and the Social Insurance Fund (SIF) in terms of pension age, eligibility criteria, contribution rates, pension calculation methods and pension payment rates."

The Total Contributions Approach is a pensions calculation method relating to the State Pension Contributory (SPC). This chapter first provides the policy background. Methodologies for calculating State Pension payment rates, findings from the consultation process and the international context are then assessed. The chapter then sets out the Commission's recommendation. The potential fiscal impact, the gender, equality and poverty impacts and the implementation considerations are then reviewed, as well as alternative approaches that were considered by the Commission.

8.1. Policy Context

Under a Total Contributions Approach the level of pension paid is directly proportionate to the number of social insurance contributions made by a person over their working life. In addition, the 'total contributions' counted can include credited contributions and periods spent caring.

A Total Contributions Approach arrangement results in a fairer and a more transparent system, as the person's lifetime contribution is reflected in the SPC benefit received. Moving fully to a Total Contributions Approach arrangement would remove anomalies as, under the current system, a person with fewer contributions can qualify for a higher State Pension than a person with more contributions.

8.1.1. Policy background

The *National Pensions Framework* set out a number of policies regarding pensions reform including, notably, to introduce the Total Contributions Approach for the SPC.

The *National Pensions Framework* noted that, "The average contributions test has been in existence since 1961 when contributory pensions were first introduced. The system was designed with a view to ensuring that people could qualify for contributory pensions immediate in that year rather than waiting for contributions to build up, and to suit a system where social insurance coverage was limited and people could move in and out of coverage as a result of the nature of their employment and/or earnings. In a scenario where social insurance is long established and is now very comprehensive in terms of the workforce covered, it is considered that the averaging system is no longer suitable" (p.21).

In place of the average contributions test (or 'Yearly Average' approach), the National Pensions Framework proposed a Total Contributions Approach model based on:

- 30 years PRSI Contributions were required for a full pension;
- A minimum of 10 years paid contributions required to qualify (which would provide for 10/30ths of a full pension);
- Up to 10 years credited contributions could apply;
- Up to 10 years of homemaker's credits, which could be backdated to 1994.

The *Roadmap for Pensions Reform 2018 - 2023* again set out the Government's position that a Total Contributions Approach would be implemented, with a target date of Q3 in 2020, following finalisation of the model proposed. As part of the process to finalise the design, a public consultation on the Total Contributions Approach was launched on the 28th of May 2018. The consultation was

open for over three months and the Department received almost 300 responses from individuals and organisations.

In 2019, an 'Interim' Total Contributions Approach was introduced. This did not replace the existing 'Yearly Average' approach – instead, both calculation methods are in operation and a person can choose the calculation method that provides the most beneficial rate. The current system in operation is discussed in more detail in the next section.

The 2020 *Programme for Government* retains the commitment to, "Introduce a Total Contributions approach, aligning a person's contributory pension more closely with the contributions they make. This will include a provision for credited contributions, ensuring that people who take time off work to care for loved ones are not disadvantaged." (p. 75)

The Commission's deliberations took these policy commitments into account.

8.2. Current Methodologies for Calculating SPC Rate

This section outlines the current methodologies for calculating SPC payment rates. While there are numerous detailed ways to calculate the rate of State Pension Contributory payment, in essence, these can be boiled down to three approaches:

1. Yearly Average
2. Interim Total Contributions Approach (Interim TCA)
3. A separate calculation method for Invalidity Pension recipients (who automatically qualify for the maximum SPC rate of payment). This method is not discussed in this chapter.

8.2.1. Yearly Average

Under the Yearly Average approach, the total number of contributions paid/credited at pension age is divided by the number of years between entering insurable employment and the last full year prior to pension age being reached. Entitlement is then banded. The current rate bands used for calculating SPC payment rate are set out in the Table 8.1 below.

Table 8.1: Current rate bands for pensioners qualifying from 1st September 2012

Yearly Average	Percentage of maximum rate	Payment Rate
48 and over	100%	€248.30
40-47	98%	€243.40
30-39	90%	€223.20
20-29	85%	€211.40
15-19	65%	€161.80
10-14	40%	€99.20

Source: Social Welfare Rates of Payment Booklet SW19 (apart from percentages)

At the time the SPC was introduced, no-one had more than 8 years of contributions paid, and so an averaging rather than a total contributions approach was considered more appropriate. Had 30 years of contributions been required to qualify for a full rate pension, for instance, it would not have been possible for people in the following two decades to qualify for a full rate Contributory Pension.

The rate bands for the SPC have been altered a number of times over the years. Currently a yearly average of 48 or over is required for a full rate pension payment. The current bands were put in place in September 2012 (Table 8.2 below), and more closely connected the rate of payment to the level of contributions. These replaced the previous bands which were put in place in the year 2000.

Table 8.2: SPC Rate bands changes from September 2012

Rate bands pre-Sept 2012 Yearly Average	Percentage of maximum rate	Rate bands from Sept 2012 onwards Yearly Average	Percentage of maximum rate
48-52	100%	48-52	100%
20-47	98%	40-47	98%
		30-39	90%
		20-29	85%
15-19	75%	15-19	65%
10-14	50%	10-14	40%

Under the Yearly Average approach, anomalies can arise because of the date of entry into insurable employment. A late date of entry into insurable employment can result in an unusually low divisor, and consequently a higher yearly average than would be representative of the number of contributions.

For example, a person who enters insurable employment in this country for the first time on their 56th birthday could make a maximum of 520 weekly contributions before reaching State Pension age. However, as this is divided by the number of years in the insurance system (in this case 10), the person will have a yearly average of 52, thereby qualifying them for a maximum rate pension. Therefore, one of the discrepancies of the Yearly Average system is that it is possible for a person to receive a full pension after only 10 years of contributions, while a person who paid contributions for 40 years over a 50-year period would not do so. That is because the yearly averaging system measures the frequency of contributions rather than the number of contributions.

Apart from the minimum 520 paid contributions required to qualify for SPC, contributions can be paid or credited (as outlined in Chapter 3). In addition, under the Yearly Average approach, the Homemaker's Scheme[20] allows periods caring for children or people with a caring need to be disregarded (from 1994), which can have the effect of increasing the yearly average. There is a cap of 20 years for this scheme. While it is significantly more generous than many similar schemes in most EU countries, it only took effect from its introduction in 1994. Subject to conditions, a homemaker, under the Scheme, is defined as a man or woman who provides full-time care for either a child under 12, or an ill or disabled person aged 12 or over.

Appendix 8A sets out high level illustrative scenarios to give a sense of the how the elements of Yearly Average calculation method impact on the calculation of the payment rate.

8.2.2. Interim TCA

In January 2018, the Government announced the introduction of an interim TCA option for those who had been affected by the change in rate bands in September 2012. Interim TCA (also known as the Aggregated Contribution Method or T12) was introduced specifically for those who reached State Pension age after 1st September 2012. It resolves many of the anomalies arising from the Yearly Average calculation model, as the year a person commenced paying social insurance contributions is no longer a key determining factor for pension entitlement rate calculation. Interim TCA ensures that the totality of a person's social insurance contributions, as opposed to the timing of them, determines their final pension outcome. This facilitates a more equitable approach as pension outcomes are more in line with the total number of contributions paid and credited, with significant provision for years of caring in the home. Arising from this initiative, the Department of Social Protection reviewed over 94,000 cases resulting in over 38,000 people receiving an increased pension payment.

[20] This scheme applies to the Yearly Average method of calculating the rate of pension entitlement and is distinct from the HomeCaring Periods Scheme which applies to the Interim TCA.

Under this Interim TCA approach, those who have a 40-year record of paid and credited social insurance contributions, subject to a maximum of 20 years of credits and HomeCaring periods, qualify for a maximum contributory pension where they satisfy the other qualifying conditions for the scheme. There is also a cap of 10 years on credited contributions.

The HomeCaring Periods Scheme fundamentally changed the entitlement of many who spent time out of the workforce caring for others. It acknowledged, for the first time, within the State Pension system, home caring periods prior to 1994. HomeCaring periods, subject to conditions, cover gaps in a person's contribution history when a person was providing full time care for:

- A child or children under 12 years (parents or foster parents only),
- A child or children over 12 years who needed an increased level of care, or
- An adult who needed an increased level of care.

8.2.3. Current 'Better of' Approach

Since April 2019 all new SPC applications can be assessed under both rate calculation methods, including Yearly Average and Interim TCA, with the 'better of' the two rates i.e. the most beneficial rate, paid to the person. The elements which make up each method are set out in legislation. The Homemaker's Scheme and HomeCaring periods cannot be used together to calculate SPC entitlement. Appendix 8A outlines illustrative scenarios to demonstrate how different components of the current approach can impact on a SPC payment rate.

Introducing the Interim TCA as an additional method of calculating the pension rate entitlement was a structural reform to the State Pension Contributory, which had a significant impact on costs. As evident in Table 8.3 below, prior to the introduction of the 'better of' approach, approximately 51 per cent of SPC recipients qualified for the maximum weekly rate of SPC, with the remainder qualifying for a reduced rate of payment. Payments under the Interim TCA, while announced in 2018, commenced in 2019. The proportion of SPC recipients qualifying for the maximum weekly rate of payment increased to 56.5 per cent in 2019, and to 57.1 per cent in 2020.

Table 8.3: Maximum and Reduced Rates of SPC in payment, 2014 – 2020 (end-December)

Year	2014	2015	2016	2017	2018	2019	2020
Recipients	346,420	361,725	377,062	394,378	411,660	431,224	449,442
Max Rate	177,671	185,791	194,174	202,618	211,438	243,806	256,645
Reduced Rate	168,749	175,934	182,888	191,760	200,222	187,418	192,797
% receiving max	51.3%	51.4%	51.5%	51.4%	51.4%	56.5%	57.1%

Source: DSP Administrative Data

8.3. Consultation

The Commission took into account views submitted during the public consultation process in its deliberations. Some of the views expressed in submissions from organisations are outlined below.

- Among the submissions that mentioned calculation methods, the majority supported moving to Total Contributions Approach.
- A number of submissions sought a Total Contributions Approach system based on 30 years of contributions to qualify for a full pension.
- Some submissions called for transitional arrangements when phasing out the use of the Yearly Average approach. This was in the context that those approaching the State Pension age require adequate time to prepare for their retirement. The self-employed were specifically mentioned in this regard, as they entered the social insurance system in 1988, and it will not be possible for them to have 40 years of contributions until 2028.
- A small number of submissions, from those in favour of the introduction of a Universal Pension, were against the full move to Total Contributions Approach. Universal Pensions are discussed in Chapter 6.

Comments in relation to the Total Contributions Approach were also included in individual submissions and via the online survey:

- Some individuals mentioned that moving away from the Yearly Average approach will adversely affect those who do not have a full PRSI contribution history for their working life.
- A number of people felt that a 40 year contribution requirement for a maximum SPC payment rate is too high. It should be a 30 year requirement (as per National Pensions Framework).
- Some commented that the Total Contributions Approach is a more balanced approach.
- The importance of a transition period was highlighted, particularly for those close to State Pension age.
- Several people raised the issue of clarity around the rules for the Total Contributions Approach so individuals can plan for their retirement – they felt that the State Pension system is too complex.
- Some individuals stated that the Total Contributions Approach should acknowledge people who started work early (e.g. 17 years of age) and provide for arduous work.
- Potential impacts on women, carers, artists, farmers, people paying PRSI Class S and those with "mixed insurance" were also highlighted.

8.4. International Context

As noted previously, pension systems are not strictly comparable. In Ireland, the SPC is a flat rate pension not directly related to a person's earnings from employment. In many other EU Member States, the first pillar pension is related to earnings. Ireland is the only OECD country without a mandatory or automatic enrolment earnings related component to retirement saving. Notwithstanding this, this section sets out the number of years required to qualify for a full State Pension in various European Economic Area (EEA) Member States.

Table 8.4 provides information on the conditions in other countries to access a 'full pension'. It should be noted that not all countries have the concept of a 'full pension'.

Table 8.4: European Countries – Conditions for Drawing a 'Full Pension'

Country	Descriptions - Conditions for drawing full pension
Belgium	Career duration equal to 14,040 actual days of work (or assimilated) full time equivalents for men and women.
Denmark	Old age Pension (Folkepension): Full pension after 40 years of residence between the age of 15 and pensionable age, for people who reach the pensionable age before 1st July 2025. Full pension when 9 out of 10 years of residence between the age of 15 and pensionable age, for people who reach the pensionable age on 1st July 2025 or later.
Iceland	National pension (lífeyrir almannatrygginga): 40 years of residence between the ages of 16 and 67. Employment pension (lögbundnir lífeyrissjóðir): 40 years of contribution.
Italy	• 42 years and 10 months of insurance and contributions; no age limit; • 41 years and 10 months of insurance and contributions for female workers; no age limit. The pension is no longer subject to a permanent reduction in amount even if it is claimed before the age of 62. More favourable qualifying conditions apply to young insured employees (i.e. those having completed 12 months of contributions before turning 19): namely 41 years for both men and women instead of the statutory 42+10 months currently applying.
Liechtenstein	1st pillar: Full period of membership (no gaps in insurance between age 20 and age 65).
Lithuania	The number of years of contributions to draw a full pension has been gradually increasing since 2018 by 6 months every year until it will reach 35 years of contributions in 2027. In 2021, the period of contribution is 32 years.
Luxembourg	40 years of insurance (each additional year results in an increase in the income-related pension part (majorations proportionnelles)).
Portugal	Contributions paid for 40 years.
Romania	Old-Age Pension with Full Contribution Period (pensie pentru limita de varsta cu stagiu complet de cotizare): Full Contribution Period: Men: 35 years. Women: 31 years and 6 months, gradually increasing to 35 years by 1st January 2030.
Sweden	Guaranteed pension (garantipension): 40 years of residence in Sweden for full pension.
The Netherlands	Being continuously insured during the 50 years before the legal retirement age.

Source: Extracts from MISSOC Table, Old Age (Conditions for Drawing Full pension)

The UK pension system is the most comparable with the Irish system in that it is a flat rate payment rate with no link to previous earnings. The maximum weekly personal payment rate for the Basic State Pension is currently £137.60 (equivalent to €158.88). To get the full basic State Pension a person needs a total of 30 qualifying years of National Insurance contributions or credits. There is also a "new State Pension" for men born on or after 6th April 1951 and women born on or after 6th April 1953. The full new State Pension is £179.60 per week (equivalent to €208.15). 35 qualifying years are required to get the new full State Pension if a person has a National Insurance record before 6th April 2016.

8.5. Fully moving to a Total Contributions Approach

There is a Total Contributions Approach in operation at present, albeit it was introduced on an 'Interim' basis prior to the planned introduction of a Total Contributions Approach from 2020 (which did not happen). The Commission had to consider two separate issues in order to fully move to a Total Contributions Approach. Firstly, the Yearly Average approach remains in operation as a parallel pension rate calculation method, and a structural driver of pension costs into the future. Secondly, a specific design of the definitive Total Contributions Approach pensions calculation method is needed.

In this regard, **the Commission recommends that the full transition to a Total Contributions Approach and the abolition of the Yearly Average approach to calculating entitlement to the State Pension Contributory rate of payment should be implemented as soon as possible, pending the passage of necessary legislation and IT system changes.** Since 2019, both calculation methods are in operation, with the better rate from the two calculation methods awarded. This has created further anomalies and unfairness in the system, whereby people with fewer contributions are still able to qualify for higher levels of payment. This also works to increase the cost of the State Pension Contributory at a structural level.

The Commission further notes that the Total Contributions Approach also provides a framework for developing further State Pension reforms, as it can:

- Simplify the pension system by reducing complexity. There would be greater transparency with one main system of calculating payment rates.
- Facilitate flexible retirement pathways that allow for early and deferred retirement (see Chapter 12); and
- Deliver enhanced pension provision for long-term carers (see Chapter 9).

Secondly, in considering the specific design of the Total Contributions Approach model, the Commission considered several key and competing elements, notably:

- **The number of contributions required for a full pension.** The higher this is, the more fiscally sustainable the system is – the lower it is, the easier it is for someone to qualify for a maximum rate contributory pension.
- **The degree of provision for HomeCaring periods**. The higher this is, the better the gender equality outcomes – the lower this is, the more fiscally sustainable the system is.
- **The ceiling on credited contributions.** The higher this is, the easier it is for someone who was unemployed for long periods and not paying PRSI to qualify for a maximum rate contributory pension – the lower it is, the more fiscally sustainable the system is.
- **Decisions on the use, and nature of, any transitional arrangements** such as phasing in of proposed changes. The use of transitional arrangements can prolong the costs of the existing system.

In terms of the specific design of the Total Contributions Approach (TCA), the Commission recommends that the current 'Interim' Total Contributions Approach should become the definitive TCA i.e. 40 years - 2,080 contributions – required at State Pension age to qualify for a maximum rate pension. This can include 10 years of credited contributions and 20 years of HomeCaring periods, but with a cap of 20 years combined credited and HomeCaring periods.

8.6. Transitional Arrangements

The Commission is conscious that some people would qualify for a better rate under the Yearly Average approach than under this Total Contributions Approach design – specifically, those with shorter contribution histories, and those with more than 10 years of credited contributions.

In order to protect upcoming pensioners from a sudden and significant change in calculation method, **the Commission recommends that for those who are better off having their pension entitlement calculated under the Yearly Average approach, a phased transition to the Total Contributions Approach should apply gradually over a 10 year period.**

- The Commission recommends that for the transition period, where a person does not qualify for the maximum weekly rate of payment under the Total Contributions Approach and would have been better off under the Yearly Average Approach, a proportion of the rate will be calculated under the Yearly Average Approach and the remainder under the Total Contributions Approach.[21]
- These proportions will gradually change over time – pensioners who would be better off under the Yearly Average approach who qualify for the State Pension Contributory in the first year of the transition will receive 90 per cent of the rate calculated under Yearly Average approach, and 10 per cent under the Total Contributions Approach for the duration of their pension payment. Pensioners qualifying in the second year of the transition, will have receive 80 per cent of the rate calculated under Yearly Average, and 20 per cent under the Total Contributions Approach for the duration of their pension payment, and so on, with the full transition completing over 10 years. This is similar to the approach taken in Norway when they introduced a change in the calculation method.

The Commission notes that one of the key benefits of fully moving to a Total Contributions Approach is that it should be easier for a person to anticipate the rate of State Pension Contributory that they will be entitled to when they reach State Pension age, and importantly to see where there are gaps that could be filled with credits or HomeCaring periods. In order to realise this benefit, **the Commission recommends the issuing of regular PRSI contribution statements in an easy to understand format so that PRSI contributors are aware of their level of contributions and how this relates to the level of State Pension that they can expect to receive. These could be made available in real-time on MyGovID or could be issued to a person's digital post-box.**

8.7. Fiscal Impact

Analysis was carried out on the projected fiscal impact of a full move to the Total Contributions Approach. This is set out in Table 8.5 below. The potential savings for 2030 were not calculated, as they are dependent on when implementation commences and the transitional arrangements, if any, that apply.

Table 8.5: Projected Savings from full move to TCA

	2040	2050	2070
Savings from full move to TCA	€0.44 bn	€1.11 bn	€2.0 bn

Source: Based on KPMG analysis

[21] Unemployment is specified here as the other reasons for long-term absences are catered for in other ways – e.g. invalidity pension recipients automatically qualify for a full rate SPC. Long-term carers are discussed in Chapter 9.

It should be noted that the Commission was not considering the design of TCA in terms of the savings that it would deliver. While there was a recognition that moving to a Total Contributions Approach could result in savings, the Commission's intention was to limit the ongoing structural increase in average payment rates arising from the current 'better of' approach.

8.8. Gender, Equality and Poverty Proofing

8.8.1. Gender Impacts

The Commission notes that the introduction of TCA methodology to calculate the rate of the SPC payment has had a significant impact on increasing the rate of payment for women. In particular, the introduction of HomeCaring periods recognises the impact that time out of labour force for caring purposes can have on the rate of pension payable. Unlike the Homemaker's Scheme, HomeCaring periods can apply to periods before 1994. This approach has resulted in a significant increase in the pension payment rates for women, as women predominantly take on caring responsibilities. TCA targets the benefit at those who had periods caring for children (or for others with a care need), without fundamentally undermining the contributory nature of the pensions scheme.

As noted earlier, the Department's 2020 figures indicate that 57 per cent of SPC payments awarded were at the maximum weekly personal rate. Table 8.6 below indicates that the percentage of maximum payment rates to women has increased significantly as a consequence of introducing the Interim TCA (which is the definitive TCA design proposed by the Commission). It can be seen in 2018, before the introduction on the Interim TCA approach, 37.5 per cent of women were awarded the maximum rate of payment. In 2019, when it was introduced, this increased by almost 10 percentage points to 47.2 per cent. By end 2020, this had increased to 48.3 per cent.

Table 8.6: Maximum and Reduced Rates of SPC in payment, 2014 – 2020 (end-December)

Year	2014	2015	2016	2017	2018	2019	2020
All Recipients	346,420	361,725	377,062	394,378	411,660	431,224	449,442
All Max Rate	177,671	185,791	194,174	202,618	211,438	243,806	256,645
All Reduced Rate	168,749	175,934	182,888	191,760	200,222	187,418	192,797
Max Rate Female	47,557	49,978	52,498	55,172	58,041	78,113	84,766
Reduced Rate Female	76,056	80,717	85,311	91,000	96,799	87,358	90,676
Max Rate Male	130,114	135,813	141,676	147,446	153,397	165,693	171,879
Reduced Rate Male	92,693	95,217	97,577	100,760	103,423	100,060	102,121
% of all receiving Max	51.3%	51.4%	51.5%	51.4%	51.4%	56.5%	57.1%
% Female receiving Max	38.5%	38.2%	38.1%	37.7%	37.5%	47.2%	48.3%
% Male receiving Max	58.4%	58.8%	59.2%	59.4%	59.7%	62.3%	62.7%

Source: DSP Administrative Data

Previous analysis carried out by the Department of Social Protection found that the gender gap in the rate of SPC payments under this Total Contributions Approach design works in women's favour as a result of the HomeCaring periods provision.

8.8.2. Equality and Poverty Impacts

The Commission recognises that there will be particular cohorts that will qualify for a lower rate under the Total Contributions Approach than they would have under the Yearly Average method. Specifically, these are:

- Migrants, including returning emigrants, who worked in non-EU countries that Ireland does not have a bilateral social security agreement with;
- People with more than 10 years of credited contributions – this would include long-term jobseekers. It should be noted that a person who suffered from long-term illness would likely be in receipt of Invalidity Pension, which qualifies for the maximum weekly rate of SPC. A person who was in long-term receipt of the means-tested Disability Allowance could qualify for the State Pension Non-Contributory.
- People with sporadic working histories – research by IHREC and the ESRI indicates that groups such as people with disabilities and Travellers, are more likely to experience inequality in access to employment and job security (McGinnity et al, 2020).
- Self-employed contributors, if they had only worked as self-employed, as the self-employed only entered the social insurance system in 1988.

The Commission notes that PRSI Class A applies to people who are employed under a contract of service with reckonable pay of €38 or more per week. Therefore, most part-time workers are paying full PRSI contributions which are taken into account to determine eligibility for SPC. In cases of part-time paid employment, it is likely that there will be no gap in PRSI history. Accordingly, the Commission believes that the Department of Social Protection's employment activation programmes should continue to cater for people who are long-term unemployed or otherwise not attached to the labour market to assist them to secure and sustain full-time paid employment or self-employment.

One of the purposes of the full move to TCA and the abolition of the Yearly Average approach is to address the anomalies that arise with the Yearly Average approach, whereby people with fewer contributions can access a higher rate of SPC payment. In this regard, a consequence of implementing TCA will be that some people with fewer contributions will no longer benefit from this anomaly in the design. In terms of features within the State Pensions system to protect these cohorts from adverse impacts, the State Pension (Non-Contributory) and the Increase for Qualified Adult (IQA) payment will continue to provide a safety net to pensioners with limited means. In addition, as outlined in the section on implementation considerations (section 8.7), a gradual transition is proposed which will cushion the impact of the transition for upcoming pensioners.

In order to accommodate the self-employed until it is possible for them to reach 40 years of contributions (2028), there are several options that are possible to implement as transitional arrangements – for instance, a temporary voluntary contributions system could be put in place, a special disregard could apply for the self-employed (so for instance, if introduced in 2023, 35 years are required for those with a self-employed contribution history from 1988). These options, and others, can be considered by officials in advance of implementation.

8.9. Alternatives Considered

8.9.1. Retain current 'better of' system

As noted previously, since April 2019 all new SPC applications are assessed under all possible rate calculation methods, including the Yearly Average and Interim TCA, with the most beneficial rate paid to the person.

The increases in the rates of payment being awarded as a consequence of the 'better of' approach to calculating State Pensions (whereby SPC rate entitlement is calculated under both approaches and the 'better of' the Yearly Average and Interim TCA approaches is used to determine the rate payable) is a cost driver in the long-run. In the short-term, the number of pensioners benefitting from this interim approach is a small proportion of total pensioners. However, over time, and with increasing number of pensioners each year, the higher average payment values are a systemic driver of increasing costs of the State Pensions system.

While the introduction of Total Contributions Approach will only affect future recipients of the SPC, people close to State Pension age may have an expectation that their payment rates will be calculated on the basis of current rules. Therefore, it is appropriate that transitional arrangements are put in place.

8.9.2. Other Model for Total Contributions Approach

Alternatives to the 40-year requirement for Interim TCA were considered by the Commission. In particular, a 35-year requirement for a maximum payment rate was examined, which would increase over time to 38 years. However, the Commission considered that such a system could be needlessly complex, given the range of pension reforms that may be introduced over the coming years. In this regard, the existing Interim TCA with a 40-year requirement was considered to be a reasonable period over a potential 50 year working life, and it is a system that is already in place and understood.

The *National Pensions Framework* proposal was also considered. The Commission noted that 30 years of contributions to qualify for a full pension would be extremely low by international standards, where 40 years is more typical. In this regard, a model based on 30 years of contributions would be a cost measure, in the context of a workforce with improving social insurance records.

In addition, analysis undertaken by the Department of Social Protection of outcomes under this model has shown that the particular design (between years required, credits allowed and homemaking provisions) made it significantly more beneficial for men than women. This is because the *National Pensions Framework* proposal limited homemaker's credits to 10 years with effect from 1994. The Commission's proposal is similar to the design of TCA proposed in the *National Pensions Framework* in the sense that a full pension can be accessed with 20 years of paid contributions with the remainder made up of caring periods or credited contributions.

In light of these considerations, the Commission believed that its proposal, which does not add to costs and has a positive gender impact, was more appropriate for society today.

8.10. The Commission's Recommendations

- **The Commission recommends that the full transition to a Total Contributions Approach and the abolition of the Yearly Average approach to calculating entitlement to the State Pension Contributory rate of payment should be implemented as soon as possible, pending the passage of necessary legislation and IT system changes.**
  - Since 2019, both calculation methods are in operation, with the better rate from the two calculation methods awarded. This has created further anomalies and unfairness in the system, whereby people with fewer contributions are still able to qualify for higher levels of payment. This also works to increase the cost of the State Pension Contributory at a structural level.

- **The Commission recommends that for those who are better off having their pension entitlement calculated under the Yearly Average approach, a phased transition to the Total Contributions Approach should apply gradually over a 10 year period.**
  - The Commission recommends for the transition period, where a person does not qualify for the maximum weekly rate of payment under the Total Contributions Approach and would have been better off under the Yearly Average Approach, a proportion of the rate will be calculated under the Yearly Average Approach and the remainder under the Total Contributions Approach.
  - These proportions will gradually change over time – pensioners who would be better off under the Yearly Average approach who qualify for the State Pension Contributory in the first year of the transition will receive 90 per cent of the rate calculated under Yearly Average approach, and 10 per cent under the Total Contributions Approach for the duration of their pension payment. Pensioners qualifying in the second year of the transition, will have receive 80 per cent of the rate calculated under Yearly Average, and 20 per cent under the Total Contributions Approach for the duration of their pension payment, and so on, with the full transition completing over 10 years. This is similar to the approach taken in Norway when they introduced a change in the calculation method.
- **In terms of the specific design of the Total Contributions Approach (TCA), the Commission recommends that the current 'Interim' TCA should become the definitive TCA i.e. 40 years – or 2,080 contributions – required at State Pension age to qualify for a maximum rate pension. This includes 10 years of credited contributions and 20 years of HomeCaring periods, but with a cap of 20 years combined credited and HomeCaring periods.**
- **The Commission recommends the issuing of regular PRSI contribution statements in an easy to understand format so that PRSI contributors are aware of their level of contributions and how this relates to the level of State Pension that they can expect to receive. These could be made available in real-time on MyGovID or could be issued to a person's digital post-box.**

Chapter 9: Long-Term Carers

9.1. Introduction

In the Commission's Terms of Reference, the Commission has been asked to, "Consider how people who have provided long-term care for incapacitated dependants can be accommodated within the State Pension system."

This reflects the 2020 *Programme for Government* commitment to, "Examine options for a pension solution for carers, the majority of whom are women, particularly those of incapacitated children, in recognition of the enormous value of the work carried out by them." (p.75) The *Programme* states that, "Family carers are the backbone of care provision in Ireland. They deserve support and recognition from Government." The *Programme* also commits to reviewing and updating the *National Carers' Strategy*, which sets out government policy for those who care for older people, children and adults with an illness or a disability (p.76).

The Citizens Assembly on Gender Equality recommended that, "The State should develop an individualised pension solution for carers to ensure they have an adequate income once they reach retirement age."

The Commission recognises the important role that carers play in Irish society. In accordance with its Terms of Reference, the Commission has reviewed how long-term carers could be supported in accessing a State Pension payment. The approach recommended by the Commission recognises that undertaking unpaid caring duties can be at the expense of the carer's financial position as a result of being unable to take up full-time paid employment or self-employment, which has consequential impacts on carers' ability to access the State Pension Contributory (SPC) and the rate of SPC for which they may qualify.

9.2. Barriers to accessing State Pensions

Currently, carers with up to 20 years of caring can have their caring periods recognised in the calculation of their pension rate of payment through HomeCaring periods in the Interim Total Contributions Approach (see Chapter 8). The reform options considered by the Commission are targeted at individuals who have provided long-time care, defined as more than 20 years of caring.

The following barriers for long-term carers in accessing State Pensions were considered by the Commission:

- Long-term carers may not satisfy the 10 years paid PRSI contributions requirement to qualify for the SPC payment.
- There is a 20-year cap on caring periods in the calculation of SPC payments under the interim TCA. Therefore, those who qualify for SPC but with longer caring histories may qualify for a reduced payment rate i.e. less than the maximum rate.
- A long-term carer may not satisfy the means test for the State Pension Non-Contributory (SPNC) or the Increase for a Qualified Adult (IQA) payment. If the carer is still caring at State Pension age, it could be that the carer is not satisfying the means test for the Carer's Allowance scheme.
- Pre-1995 civil and public servants who are not eligible for the SPC are also not eligible for an IQA payment with respect to their spouse, so this safety net within the State Pension system is not available to those with spouses who do not qualify for SPC in the first instance.

9.3. Identification of Long-Term Carers

A key issue considered by the Commission is how to identify long-term carers. Identifying this cohort is the principal hurdle to overcome. A key part of the implementation of any reform is to ensure that it is targeted at the appropriate group. If long-term carers are not identified in a careful manner, this could lead to substantial costs and have a significant negative impact on sustainability. Equally, if long-term carers are not identified in a meaningful way for it to be of benefit to the target population, then the reform would not achieve its objective.

As set out in the Commission's Terms of Reference, caring in this context refers to those providing long-term care for incapacitated dependants – it does not include caring for children in terms of child rearing in general, but does include caring for incapacitated children.[22]

The Department of Social Protection's administrative records could be used to identify the target population (long-term carers, with more than 20 years of caring). General information on DSP's carers' payments – Carer's Allowance, Carer's Benefit, Domiciliary Care Allowance and the Carer's Support Grant – is set out in Appendix 9A (scheme descriptions and statistics). Each of these schemes individually may have limitations – for instance, the Carer's Allowance is means-tested, and accordingly, some carers may not be eligible for this payment. In this regard, the Carer's Support Grant is particularly useful as it is not a means-tested payment and can be paid on a standalone basis. This means that a person who does not qualify for Carer's Allowance as a result of the means test can still receive a social welfare payment and be identified as a carer.

The advantage of using DSP records is that the caring requirements for each scheme are set out in social welfare legislation. The application process is stringent and requires medical reports, involvement of GPs and medical assessor reviews.

The Commission notes that there are limitations to the records held by DSP, for example:

- Domiciliary Care Allowance was administered by the HSE prior to 2009 - data from prior to 2009 is not currently available.
- Carer's Allowance data prior to 2011 was obtained from a legacy IT system, and not all claims may necessarily have been captured.

In this regard, the Commission considered whether Revenue Commissioners' data on tax credits could also be used for the purposes of identifying long-term carers. Tax credits such as the Incapacitated Child Tax Credit, Home Carer Tax Credit, Dependent Relative Tax Credit and Credit for Employing a Carer could potentially be used to identify long-term carers.

However, upon examination, in the case of the:

- Home Carer Tax Credit, this can be claimed in cases of child rearing (if the person has a child, verified by receipt of Child Benefit);
- Dependent Relative Tax Credit: there is no requirement to provide care (e.g. being a widowed parent is sufficient to claim this credit); and
- Credit for Employing a Carer is clearly for circumstances where the claimant is not providing care, but rather employing a carer.

While the Incapacitated Child Tax Credit could potentially be an effective means of identifying carers of incapacitated dependants/children, there are a number of issues with its use. Firstly, the claimant of the tax credit is not necessarily the carer (it could be their spouse/civil partner). Secondly, in order to claim this tax credit, there is no requirement to demonstrate that care is being provided by the claimant or their spouse/civil partner. In this regard, the child could be cared for in a care setting other than the home and the person would qualify for the tax credit, as the basis for claiming the credit is 'maintaining' the child, rather than providing care. Accordingly, it does not appear feasible to use this tax credit, or other tax credits available through Revenue Commissioners, to identify the target group.

[22] The terminology used by the Commission reflects the language in its Terms of Reference and the *Programme for Government*.

In addition, there could be concerns that the use of a tax credit for identifying this cohort could be seen to inequitably favour carers with income in employment or whose spouse/civil partner is in employment, over carers who do not have sufficient income for the purposes of taxation (and accordingly cannot benefit from tax credits).

The Commission believes that long-term carers must be identified in a meaningful way for it to be of benefit to society. Some submissions to the Commission highlighted how a 'Family Carer Register' could facilitate the identification of long-term carers. Carer registers are in operation in the UK and Northern Ireland. In this regard, **the Commission recommends relevant Government Department(s) should examine, in conjunction with relevant stakeholders, options for the creation of a statutory 'Family Carer Register' which could, in time, facilitate the identification of long-term family carers for State Pension purposes as well as assisting in the planning and delivery of services for family carers. This could be considered as part of the *Programme for Government* commitment to update the *National Carers' Strategy 2020-2025*.**

9.4. Current Recognition of Carers in the State Pension System

The State Pension system currently gives significant recognition to those whose work history includes an extended period of time outside of paid employment, often to raise families or in a full-time caring role. This occurs through the award of PRSI credits, the Homemaker's Scheme (Yearly Average method for payment calculation) and HomeCaring periods (Interim TCA). In addition, it is possible for people who have left insurable employment to purchase voluntary contributions to maintain their social insurance record.

- Credits: PRSI Credits are awarded automatically to recipients of Carer's Benefit. Credits can also be awarded to recipients of Carer's Allowance and workers who take unpaid Carer's Leave from work where they have an underlying entitlement to credits, which requires attachment to the labour market in the previous two years.
- Homemaker's Scheme: This scheme, which was introduced with effect from 1994, can help homemakers and carers qualify for an improved payment rate of SPC. The scheme allows periods of caring (from 1994) for children or people with a caring need to be disregarded, which can have the effect of increasing the Yearly Average rate calculation.
- HomeCaring Periods Scheme: This scheme makes it easier for a carer to qualify for a higher rate of SPC. HomeCaring periods can only be used under the Interim TCA (also known as the Aggregated Contribution Method or T12) of pension calculation. HomeCaring periods may be awarded for each week not already covered by a paid or credited social insurance contribution. It covers full time care for:
  - a child or children under 12 years,
  - a child or children over 12 years who needed an increased level of care, or
  - an adult who needed an increased level of care.

The HomeCaring Periods Scheme and the Homemaker's Scheme cannot be used together to calculate State Pension Contributory (SPC) entitlement. The elements which make up each method (Yearly Average and Interim TCA) are set out in legislation.

The Voluntary Contribution Scheme is also a feature of the PRSI system and enables individuals, including carers, who are no longer compulsorily insured to pay voluntary contributions to protect their entitlement to certain social insurance benefits, including SPC, and to qualify for an improved rate of SPC. Since February 2017, the time limit for making voluntary contributions was extended from 1 year to 5 years. Contributors must apply within 60 months (5 years) of the contribution year in which they were last insured.

However, while these schemes can help improve the rate of SPC for which a person qualifies, they do not count towards the eligibility condition for entitlement to the SPC of 520 paid reckonable PRSI contributions.

9.5. State Pension System – Safety Net for Carers

The State Pension Non-Contributory (SPNC) and the Increase for Qualified Adult (IQA) payments currently provide a safety net to those who spent years caring with low income and means:

- SPNC is a means-tested pension payment funded from taxation. The maximum rate personal weekly rate is €237, which is over 95 per cent of the maximum rate of the SPC.
- When an individual's spouse is a recipient of a State Pension payment and they have significant household means, their most beneficial payment may be an IQA payment, based on the personal means of the individual, and amounting to up to 90 per cent of a full contributory pension. The maximum weekly rate for IQA (SPC) is currently €222.50 for a person aged 66 years and older and €165.40 for a person aged under 66.

However, as these payments are both means-tested, it is possible that long-term carers may not satisfy the means test and therefore not qualify for these payments. If the carer is still caring at State Pension age, it could be that the carer is not satisfying the means test for the Carer's Allowance scheme.

9.6. Consultation

In accordance with its Terms of Reference, the Commission sought the views of recognised experts and representative groups by inviting presentations and submissions. In this regard, Family Carers Ireland and the National Women's Council of Ireland made presentations to the Commission on this particular issue of improving access to State Pensions for long-term carers (see Chapter 1).

In addition, the Commission's public consultation process invited views via written submission and online survey. The public consultation paper, *Have your say on sustainable state pensions into the future*, asked a number of specific questions on long-term carers and State Pensions. A number of potential approaches to improve long-term carers' access to State Pensions were suggested during the consultation process, including:

- Abolition of the paid PRSI contribution rule (10 years) for long-term carers to qualify for SPC;
- Recipients of the Carer's Allowance should automatically receive a PRSI credit and not just when a person has an underlying entitlement;
- Many family carers are unaware of the impact of their caregiving on their pension entitlements. A clear and simple awareness campaign targeted at family carers (not restricted simply to those in receipt of Carer's Allowance) would be a starting point in advance of any direct changes to the pension system;
- Related to this, the periodic circulation of PRSI statements. This could allow people to recognise future State Pension shortfalls and begin to take corrective steps while they are still of working age.
- It was put forward that, as a matter of equity, carers who have cared for someone for all or part of their adult life should receive a full State Pension.
- Some of the submissions referred to the proposed Total Contributions Approach, in particular referencing a 40/30 years paid/credited PRSI contributions requirement for full rate SPC payment rate and the cap on HomeCaring periods (discussed in Chapter 8);
- Introduction of a Universal Pension, based on residency, to be funded by changes to tax reliefs for private pensions and modest increases to employer PRSI rates (discussed in Chapter 6).

In terms of identifying long-term carers, suggestions were made in the consultation process including:

- Legislation to provide for legal definition of a "Life-time Carer" and the introduction of a Life-time Carer Pension Scheme.
- The creation of a statutory "Family Carer Register" which could, in time, greatly facilitate the identification of lifetime family carers for the purposes of any lifetime carer pension scheme as well as assisting in the planning and delivery of services. In the UK, carer registers are held by GPs, NHS Trusts and Local Councils.

In designing the proposed approach for long-term carers, the Commission took into account the inputs from stakeholders and the submissions from the public consultation process.

9.7. International Examples

The Commission also reviewed international examples in their deliberations, to see the extent to which other countries recognise time spent caring in their first pillar pensions system.

Table 9.1 below provides examples of different approaches in other EU Member States – this includes taking the time spent caring into account both for entitlement and calculation of payment rates (Croatia, Italy), and the State paying social insurance contributions on behalf of the carers (Slovakia).

Other Member States limit the number of years that caring can be taken into account in this manner e.g. in France there is credit, subject to a maximum of 2 years, to take care of a severely disabled child, or to permanently take care of a disabled adult (disability of at least 80 per cent, conditional).

Table 9.1: International Examples

Country	Description
Bulgaria	Where a parent/spouse/grandparent of a disabled person with reduced capacity/degree of disability of at least 90% and in need of permanent assistance, the periods are recognised as insurance periods even though the claimant has not made any contribution
Croatia	Periods of looking after an adult in need for a person with status of care according to the Social Welfare Act counts as credited periods for entitlement and calculation of pensions
France	Credit of up to two years insurance to take care of a severely disabled child, or to take care of a disabled adult (disability of at least 80%)
Italy	Periods of absence from work looking after a child or adult in need of care are treated as contributory.
Lithuania	In the case of looking after an adult in need of care, the State pays social insurance contributions for caregivers – thus these periods are treated as insurance and not credited periods.
Slovakia	Periods of caring for a long-term severely disabled child up the age of 18 years or an adult person for at least 140 hours monthly are credited by the State

Source: MISSOC Comparative Tables, Old Age, Long-Term Care Benefits. July 2020.

9.8. Sub-Committee – Proposal for Long-Term Carers

The Commission agreed to form a Sub-Committee to consider the issue of long-term carers. The members were Ita Mangan and Anne Vaughan. The Sub-Committee put forward a proposal for dealing with the issue faced by long-term carers who, because of the length of their caring lives (more than 20 years), are unable to acquire the 520 paid PRSI contributions to qualify for the SPC, or who qualify for a reduced rate of SPC due to the HomeCaring periods cap of 20 years which can prevent recognition of the full length of time spent caring.

Under this proposal, long-term carers could access the State Pension Contributory by having retrospective PRSI paid contributions paid for them by the Exchequer (either from the proposed general annual Exchequer contribution or from a specific contribution for carers). These paid contributions would be exclusively for SPC purposes and would be recognised for the purposes of the Total Contributions Approach. As these would be paid contributions, the contributions would ensure that long-term carers can access SPC. In addition, the HomeCaring periods cap of 20 years does not apply to paid contributions. The Exchequer contributions would contribute to the sustainability of the Social Insurance Fund.

This attribution could be done when long-term carers are approaching pension age to fill any gaps in their social insurance contribution history arising from caring. This proposal addresses the challenges associated with some of the alternative approaches examined by the Commission (see section 9.9 for alternative options considered).

This policy proposal provides for a SPC entitlement not based on paid employment history or financial need, but on a recognition of long periods spent caring. While long-term carers will no longer be dependent on means-tested State Pension payments under this policy proposal, applying for the SPNC and IQA will remain as options. Means-tested social assistance schemes are the safety net of the social welfare system to ensure that those with limited resources can access payments to prevent poverty.

On the basis that this proposal addresses the barriers faced by long-term carers as identified in the consultation process, satisfies the conditions of the Commission's Terms of Reference, and overcomes the challenges associated with alternative options considered:

- **The Commission recommends that long-term carers (defined as caring for more than 20 years) should be given access to the State Pension Contributory by having retrospective contributions paid for them by the Exchequer when approaching pension age for any gaps in their contribution history arising from caring.**
- **The contributions would be exclusively for State Pension Contributory purposes, and would be recognised as paid contributions both for the purposes of qualifying for the State Pension Contributory and for the calculating of pension rate entitlement under the Total Contributions Approach.**
  - This would deal with the barrier for long-term carers who, because of the length of their caring lives, are unable to acquire 520 paid PRSI contributions or who qualify for a reduced rate of pension.

Table 9.2 below outlines three scenarios using the proposed Total Contributions Approach methodology to illustrate how the new policy option could impact on the calculation of SPC weekly rate of payment. They demonstrate how different components of a calculation method can impact on SPC payment rate. **It should be noted that the caring does not have to take place in consecutive years in order for it to count as long-term caring.**

Table 9.2: Three illustrative scenarios – Long-Term Carers

Current situation under Interim TCA	Total Contributions Approach adjusted for long-term carers	Comment
Scenario - Carmel Carmel has 5 years of paid reckonable PRSI contributions and a 25 year DSP record of full-time caring. Carmel is currently not entitled to a SPC payment. She is not entitled to SPNC or IQA payment due to her income and value of assets.	Carmel has spent over 20 years caring. Therefore, Carmel is entitled to retrospective contributions paid by the Exchequer. Calculation of SPC Payment Rate: 5 years paid employment plus 25 years of long-term caring: 5 + 25 = 30 years 30 ÷ 40 = 75% €248.30 X 75% = €186.22	Carmel is now entitled to a SPC payment of €186.20 per week (rounded to the nearest 10 cents).
Scenario - Angela Angela was in paid employment for 2 years (Class A) and has a 30 year record of full-time caring. Angela has less than 10 years of paid reckonable PRSI Contributions and so is currently not entitled to a SPC payment. Angela is entitled to the maximum payment of the means-tested SPNC, the maximum rate of which is over 95% that of the maximum rate of the SPC (€237).	Angela has spent over 20 years full-time caring. Therefore, Angela is entitled to retrospective contributions paid by the Exchequer. Calculation of SPC Payment Rate: 2 years paid employment plus 30 years of long-term caring: 2 + 30 = 32 32 ÷ 40 = 80% €248.30 X 80% = €198.64	Angela is financially better off remaining on the SPNC payment.
Scenario - Brian Brian has 8 years of paid reckonable PRSI Contributions and has spent 18 years as a full-time carer. Brian has less than 10 years of paid reckonable PRSI contributions, so he is not entitled to a SPC payment. He is not entitled to SPNC or IQA payment due to his income and value of assets.	Brian has spent less than 20 years as a full-time carer. Therefore, Brian is not entitled to retrospective contributions paid by the Exchequer.	Brian has spent 18 years undertaking full-time caring duties and spent 8 years in paid employment. Under the Total Contributions Approach, he had c. 24 years to make build up the 2 years PRSI paid contributions required for SPC payment. The full transition to a TCA system should bring greater transparency to SPC entitlement rules. A public information campaign may be useful to advise future pensioners, including carers like Brian, of the implications of gaps in PRSI history. Periodic statements with PRSI and credit record at intervals could help in this regard.

9.9. Alternatives Considered

The Commission considered a range of alternative policy options to improve access to State Pensions for long-term carers.

9.9.1. Paid PRSI Contributions from the first instance of caring

The Commission also considered:

1. Treating periods spent caring (as defined by receipt of Carer's Allowance, Carer's Benefit, the Domiciliary Care Allowance, and the Carer's Support Grant) as the equivalent of a PSRI paid contribution from the first instance; and
2. Increasing the weekly Carer's Allowance payment rates to facilitate an "employee" PRSI contribution payment from the weekly Carer's Allowance, and the State to pay the equivalent of an "employer" PRSI contribution.

However, some significant issues were identified with this approach including:

- If the treatment of caring periods as PRSI contributions became applicable to short-term payments, this may impact on the sustainability of the Social Insurance Fund.
- It was noted that infringement proceedings by the European Commission were commenced in 2012 in relation to the Carer's Allowance scheme, which closed in 2020. Potential issues with this policy option were identified in relation to EU Co-ordination and free movement rules. If the Carer's Allowance was deemed an exportable social welfare benefit, this would represent a serious risk to the scheme as it would significantly increase costs. This could necessitate significant reforms of the caring schemes to manage costs, such as stricter eligibility conditions, which would have a negative impact on carers in Ireland.

9.9.2. Standalone Pension for Long-Term Carers

Another approach considered was the introduction of a separate carer's pension with a flat rate, rather than based on a Total Contributions Approach. This was suggested in the public consultation process – that a long-term carer (20+ years) should qualify for a pension set at the maximum weekly rate of SPC.

The Commission notes that a significant minority of people qualify for a reduced rate of SPC (see Chapter 8). For instance, a person who was worked in paid employment for 30 years under TCA (with no credited contributions or HomeCaring periods) would qualify for pension rate of 75 per cent (30 out of 40 years). In this regard, it would not appear to be equitable for a carer to automatically qualify for a maximum weekly rate after 20+ years.

The Commission further notes that this approach would be out of kilter with reforms across the EU where there has been a trend towards the abolition of special pensions and preferential treatment (Eckefeldt and Pătărău, 2019).

9.9.3. Adjust SPNC Means Test for Long-Term Carers

Another option considered was the introduction of a specific disregard for long-term carers in the SPNC means test. This would provide a State Pension payment to some of those who currently do not satisfy the means test. The disregard would have to apply very specifically to the cohort that is defined as a 'long-term carer' i.e. more than 20 years of providing full-time care. The means test disregard would likely have to encompass an improved capital disregard (including for those who own a second property) and an income disregard in relation to their spouse/partner's occupational pension, which are the two most common reasons given as to why people do not satisfy the SPNC means test.

The Commission felt that its recommendation for long-term carers should recognise the enormous value of the work carried out by them. In this regard, the Commission considered that access to SPC was more appropriate than adjusting the means testing rules for the SPNC.

9.9.4. Taper Access to SPC

The Commission also considered a tapering approach which would recognise that as the proportion of working life spent caring increases, it becomes more difficult for a person to garner paid PRSI contributions. This can be a result of timing, whereby a person who ceases caring later in life may find it hard to find employment. With respect to calculation of the payment rate, all periods spent full-time caring would be taken into account for calculating a SPC payment rate – no cap would apply.

This option would provide an alternative route for a long-term carer to access SPC. A reduced contributions threshold could apply for those who meet the definition of 'long-term carer' (more than 20 years of caring as measured by Department of Social Protection records). This tapering approach would limit the impact of this measure to long-term carers only, thereby avoiding the potential sustainability challenges of removing/reducing the 10 years paid contributions requirement altogether. Table 9.3 below sets out how the paid PRSI contributions requirement would decrease as years of caring increase – while this is expressed in years for ease of understanding the underlying concept, it would be based on TCA (52 contributions per year).

Table 9.3: Option for Relaxation of 10 years paid reckonable contribution rule for State Pension (Contributory)

Years Caring	Eligibility – Paid PRSI Contributions requirement
20 years or less	10 years
21 years caring	8 years
22 years caring	6 years
23 years caring	4 years
24 years caring	2 years
25 years or more caring	No paid contributions required

The Commission felt that this approach could be difficult to communicate and understand, and it could make the State Pension system less transparent by making it more difficult for carers to understand their entitlement. The Commission felt its recommendation was more straight-forward, and did not interfere with the 520 paid contributions requirement.

9.9.5. Remove 10 Years Paid PRSI Contributory Rule For All

In April 2012, the number of paid PRSI contributions required to qualify for a SPC increased from 260 to 520. The Commission considered the option of removing or reducing the 10 years paid reckonable PRSI contributions rule for eligibility to SPC payment as a means of improving access to SPC for long-term carers.

Removing the 520 PRSI threshold for eligibility for the SPC could result in an individual receiving a pension payment on the basis of zero or few paid social insurance contributions. On the one hand, from the perspective of having only a Total Contributions Approach to calculate the rate of entitlement, it could be argued that having a threshold is unnecessary – the rate of payment is dependent on the number of paid contributions, and accordingly a person with 2 years paid contributions would simply receive a very low rate of payment (5 per cent based on 104 divided by 2,080 which would result in a weekly payment of €12.20). However, the interim Total Contributions Approach also allows for recognising up to 20 years of HomeCaring periods and credited contributions. Accordingly, a person could qualify for half-rate SPC subject to no means testing without paying a single PRSI contribution. Therefore, totally dispensing with the requirement to pay 520 PRSI contributions could be of serious concern from a sustainability perspective. It is also be very difficult to accurately estimate the cost.

Another option would be to reduce the number of paid reckonable contributions down from 520 to, for instance, back to the pre-2012 threshold of 260 or to another number. In this regard, preliminary analysis of those with insufficient contributions to apply for the SPC when reaching State Pension age (66) indicates that a significant proportion of this group are immigrants and emigrants – i.e. they are people who have worked in Ireland for a number of years but are no longer evident in the system. Accordingly, removing or reducing the number of paid reckonable contributions required to qualify for SPC would not be a targeted measure that would primarily benefit long-term carers. In this regard, the Commission did not support this measure. The Commission supports the retention of the 520 paid contributions requirement to access SPC.

9.10. Costs

Costs would arise from the Commission's recommendation in relation to those:

1. Gaining entitlement to the State Pension (reaching the 10 years paid contributions condition) and
2. Gaining entitlement to a higher rate of payment beyond the existing 20 year cap on HomeCaring periods and credited contributions.

No additional cost would arise from those carers already in employment (and accordingly have paid contributions while caring) or those who are already supported by the existing system with HomeCaring periods, voluntary contributions and credited contributions.

Carers and employment

As set out in Appendix 9A, a person in receipt of Carer's Allowance, Carer's Benefit and the Carer's Support Grant can currently work or study outside the home up to 18.5 hours a week. PRSI Class A applies to people employed under a contract of service with reckonable pay of €38 or more per week. Therefore, most part-time workers are paying full PRSI contributions which are taken into account in determining eligibility to SPC.

In Q3, 2009, the CSO's *Quarterly National Household Survey* (now replaced with the *Labour Force Survey*) carried out a special module on caring. While these results are over a decade old, and 2009 was an atypical year for labour market data, it is the only source of more detailed information on the labour market activity of carers. The survey found that just under a third of carers (32 per cent) worked full time, 16 per cent worked part time and 31 per cent were economically inactive but of working age.

Supports that enable carers to participate in employment outside of the home are to be encouraged both to benefit carers and for financial sustainability reasons. In this regard, the provision of access to training and the appropriate re-introduction to employment for carers are important, alongside access to State Pensions.

The Department of Social Protection carried out analyses on current recipients of carer social welfare payments to give an indication of the extent to which carers in receipt of a caring social welfare payment have some attachment to the labour market. Carer's Benefit is excluded from this analysis, as Carer's Benefit recipients are generally taking carer's leave from their employment and accordingly have a labour market attachment.

In terms of a gender breakdown,

- 93 per cent of Domiciliary Care Allowance payment recipients are women (though the proportion of men is slowly rising). Roughly 50 per cent of Domiciliary Care Allowance recipients are also in receipt of the means-tested Carer's Allowance.
- Just under 80 per cent of Carer's Allowance recipients are women.

For a given calendar year, the list of recipients in the caring schemes were cross-checked against the social insurance records for that same calendar year (paid and credited contributions). If at least one paid (or credited) PSRI contribution is recorded the person is included in the "Proportion with Paid Cons" figure. Modified rate (PRSI Class B, C, D) contributions are regarded as paid for this exercise, as it indicates an attachment to the labour market.   As the focus is on social insurance records prior to retirement, those over age 65 have been excluded from the figures. The main results are below.

The analysis finds that currently 75 per cent of Domiciliary Care Allowance (DCA) claimants have at least one paid contribution in the past year, compared to 20 per cent of Carer's Allowance (CA) recipients and 33 per cent of Carer's Support Grant (CSG) recipients. This aligns with the fact that there is no limitation on employment with receipt of DCA (see Appendix 9A for more details on carers schemes conditions).

The Department of Social Protection advises that from an administrative perspective, PRSI credits for Carer's Allowance are not applied until the Carer's Allowance claim is stopped/closed or on an ad hoc basis as requested by the customer or another scheme area. This means that the figures in the above table may underestimate credits for those on social welfare carer payments.

HomeCaring periods are not included in the "Paid or Credited" figures below. In Table 9.4 below, there are far lower proportions of those accruing paid contributions for Carer's Allowance relative to DCA. In reality, in terms of SPC rate entitlement, those on Carer's Allowance would benefit due to HomeCaring periods.

Table 9.4: Social Insurance Records of carers

Scheme	DCA Only	DCA + CA	CA Only	CSG
2020 customers (under age 66)	23,800	24,700	54,200	97,600
2019 customers (under age 66)	23,100	24,200	53,200	94,700
Proportion with Paid Cons each year	75%	20%	20%	33%
Proportion with Paid or Credit Cons each year	80%	30%	40%	50%

Source: DSP Investment Analysis Unit

Notes: DCA Only means "receives Domiciliary Care Allowance but not Carer's Allowance"
DCA + CA means received both Domiciliary Care Allowance and Carer's Allowance in a given calendar year
CA only means in receipt of Carer's Allowance but not Domiciliary Care Allowance
CSG covers all recipients of Carer's Support Grant (no exclusions)

DSP's Investment Analysis Unit also undertook an exploratory exercise to give an indication of the current numbers of long-term carers (20 years plus) who have less than 10 years paid social insurance contributions. The analysis found that there are approximately 100 people per year of a given age who have already been in receipt of payments from caring schemes for at least 20 years and have less than 10 years PRSI contributions. This figure is based purely on payments received to the end of March 2021 with no future caring periods included. These figures are intended to try and establish the scale of those in this particular set of circumstances right now, based on the available data. However, it should be stressed that these figures are approximate.

Both Carer's Allowance and DCA have seen extremely large increases in the number of recipients over the last decade. The numbers today are driven by incidence rates of carers 20 - 30 years ago when the numbers of those in receipt of caring payments were far lower. The increases in the last decade would suggest that the number will certainly be higher in future decades, very roughly in the region of 500 -1,000 per year of a given age.

Accordingly, any cost calculated for when the measure is introduced will need to reflect that the population of carers is increasing and accordingly, the associated costs will increase over time unless measures are taken to encourage employment and consequently improve the social insurance contribution records of carers. Costings for the introduction of the Commission's recommendation will also be impacted on the method used to identify long-term carers.

In terms of calculating an estimated cost, in the short-term, assuming 100 carers qualify each year, at the highest end, the Commission estimates at a very basic level that the cost would be €2.5 million in a full year if it is assumed that all 100 qualified for the maximum personal rate of SPC and were each also awarded the maximum rate IQA for their partner/spouse aged 66 and over. This costing also assumes that none of the carers would have been in receipt of another payment so there is nothing to offset the costs. The costs do not include any secondary benefits. The cost increases over time to €25 million when recipient numbers increase to 1,000 over the coming decades. Given that it is likely that many of these carers would be in receipt of an SPC IQA payment or an SPNC payment, it is likely that the cost is significantly less than this.

The other element of cost arises from long-term carers who would qualify for a higher rate of SPC as a result of not having their caring periods capped at 20 years under TCA. Determining the number of long-term carers that would benefit from this measure is difficult. It is anticipated that the additional costs would be limited. This is because the number of people with more than 20 years of caring is small in the first instance. Furthermore, the additional costs would be a maximum of 10 additional years (or 25 per cent of a the SPC rate) as the person would have 10 years paid contributions and can already have 20 years of caring recognised as HomeCaring periods under TCA. Accordingly, the scale of the additional costs involved is circumscribed.

However, the Commission notes that the costs will depend greatly on how long-term carers are defined – if the definition is loosened, the costs could escalate greatly. In addition, it is not possible to anticipate the extent to which behaviour will change as a result of the implementation of the Commission's recommendation. In this regard, the additional costs may not arise in the State Pension system but in social welfare carers' payments.

9.11. Gender, Equality and Poverty Proofing

9.11.1. Gender and equality

In developing policy options for pension provision for carers, the gender dynamics of caring need be considered. Years spent caring costs the individual in terms of paid employment income and consequently, pension income. Women tend to spend around 2.5 times more time on unpaid care and domestic work than men. The amount of time devoted to unpaid care work is negatively correlated with female labour force participation.

Addressing the gender and pension gap is a component of the EU's *Gender Equality Strategy 2020 - 2025*. It is noted in this strategy that accumulated lifetime gender employment gaps and pay gaps result in an even wider pension gap and consequently older women are more at risk of poverty than men. Women often align their decision to work, and how to work, with their caring responsibilities and with whether and how these duties are shared with a partner. Women also carry a disproportionate burden of unpaid work. An equal sharing of care responsibilities at home is crucial, as is the availability of childcare, social care and household services, in particular for single parents.

In Ireland, a woman's role as a caregiver is reflected in Article 41.2 of the Irish Constitution.[23] Irish women's role as a caregiver within the home was also reflected in economic and employment policies. For example, the Marriage Bar required single women to resign from their job upon getting married and disqualified married women from applying for vacancies.

[23] The Citizens' Assembly on Gender Equality recommended a change to Article 41.

In common with many other countries, women in Ireland carry out the majority of caring duties. The 2016 Census indicates that just over 6 in 10 carers were female. According to the Census, there were 195,263 family carers in Ireland, representing 4.1 per cent of the total population (an increase of 4.4 per cent increase in the 2011 census figure of 187,112).

Russell et al (2019) note that supports for caring are comparatively low; combining paid work and caring remains challenging, and policies to encourage men to take on caring responsibilities have been underdeveloped.

CSO and Eurostat projections demonstrate that future demographic change will result in significant ageing of the population in Ireland in the coming decades. This will likely mean that people, particularly women, will spend periods out of the Irish labour market caring for older relatives.

However, because of increased participation of women in the paid employment market, it is anticipated that women in the future will be more likely to have 10 years of paid PRSI contributions to access a SPC payment.

As women make up the majority of carers in the population and the majority of those in receipt of social welfare caring payments, according to DSP administrative data, this recommendation will (positively) impact more women than men. There is a gradual increase in the proportion of male carers, so the impact on men may increase over time should these trends continue.

9.11.2. Poverty Proofing

This recommendation will likely benefit carers with means, who otherwise would be unable to access means-tested State Pensions payments (SPC IQA or SPNC) when they reach State Pension age as a result of their personal or household means. The recommendation will also benefit carers who have limited means and who would rely on SPNC when they reached State Pension age.

9.12. Implementation Considerations

The Commission has identified some issues that will need to be considered in implementing its recommended approach.

- Date of Application: It is proposed that its recommendation will only be applicable to individuals who reach State Pension age at a future date. It is not proposed that this option will be retroactively applied to those already in receipt of a State Pension payment.
- Total Contributions Approach: The approach could only be applied with respect to the Total Contributions Approach. The implementation of this carer's policy option would not be possible if a Yearly Average approach was used to calculate SPC payment rate.
- Legislation: The implementation of this policy option will require primary legislation. In drafting the legislation, particular attention will need to be given EU Exportability, Social Welfare Coordination and Single Market rules.
- Administration and IT Systems: Implementation of the options will require changes and developments to administrative processes and IT systems.
- Public Information Campaign: There will also be a requirement for increased administrative effort in terms of responding to queries arising from prospective pensioners with regard to their SPC entitlements and options available. A public information campaign on this service may be useful to advise future pensioners, including carers, of the implications of gaps in PRSI history. The State Pension system is complex, and it can often be often difficult for people to understand their pension entitlement. The full transition to a Total Contributions Approach system may bring transparency to the system. Periodic statements with PRSI and credit record at intervals could be sent to people periodically, for instance, every five years. This statement would explain what the person's PRSI contribution record means in terms of eventual pension entitlement.

9.13. The Commission's Recommendations

- **The Commission recommends that long-term carers (defined as caring for more than 20 years) should be given access to the State Pension Contributory by having retrospective contributions paid for them by the Exchequer when approaching pension age for any gaps in their contribution history arising from caring.**
- **The contributions would be exclusively for State Pension Contributory purposes, and would be recognised as paid contributions both for the purposes of qualifying for the State Pension Contributory and for the calculating of pension rate entitlement under the Total Contributions Approach.**
  - This would deal with the barrier for long-term carers who, because of the length of their caring lives, are unable to acquire 520 paid PRSI contributions or who qualify for a reduced rate of pension.
- **The relevant Government Department(s) should examine, in conjunction with relevant stakeholders, options for the creation of a statutory 'Family Carer Register' which could, in time, facilitate the identification of long-term family carers for State Pension Contributory purposes as well as assisting in the planning and delivery of services for family carers.** This could be considered as part of the *Programme for Government* commitment to update the *National Carers' Strategy 2020-2025*.[24]

[24] The *National Carers' Strategy* sets out the strategic direction for future policies, supports and services provided by Government Departments and agencies for carers. The *Programme for Government* contains a commitment to review and update of the *National Carers' Strategy*.

Chapter 10: Retirement Age in Employment Contracts

The Commission was asked in its Terms of Reference to, "Examine how private sector employment contracts specifying retirement ages below the State Pension age may be impacting on the State's finances and pension system."

Since the abolition of the State Pension Transition payment in 2014, which was payable to eligible persons aged 65 who had ceased employment, State Pension payments are payable from age 66. While official statistics on this are not available, it appears common for people to have a retirement age in their employment contracts set at the age of 65. This creates a gap of one year between retirement age and eligibility for the State Pension at 66. Currently, individuals who retire at 65 can apply for the Benefit Payment for 65 Year Olds, which is a new payment introduced earlier this year.

The impact of mandatory retirement ages in employment contracts is not limited to this income gap. Many individuals wish to continue to work beyond the age that may be specified in their retirement contract. This is particularly the case given increases in life expectancy and improved health for many in older age. Contractual retirement ages can therefore act as a barrier to facilitating later working lives for those who wish to stay in employment in some capacity.

In the *Roadmap for Pensions Reform 2018 – 2023*, the Government recognised that concerns have been raised regarding the use of mandatory retirement ages in employment contracts and the gap with the current State Pension age. The Government also noted that the continuation of 65 as the prevailing mandatory retirement age would be inconsistent with policies to encourage fuller working lives. *The Roadmap* (p.38) states:

> "We are determined that the provisions detailed in this reform plan will combine to result in greater employee flexibility to work beyond what may be considered the traditional retirement age of 65. To ensure this is the case, employment practices in this area will be kept under close review in the near term. Should it appear that these provisions are not resulting in improved flexibility for workers, by the end of 2018 the Government will consider the merits of restricting the capacity to use mandatory retirement provisions relative to the prevailing State Pension age."

The Commission considered a number of options that could address this issue, including the abolition of mandatory retirement age in employment contracts, aligning retirement ages in employment contracts with the State Pension age and introducing legislation to provide for a compulsory retirement age for the private sector, similar to the Public Service Superannuation (Age of Retirement) Act 2018 which provided for an increase to age 70 as the compulsory retirement age across the public service.

The first part of this chapter sets out the current legislation and guidelines governing retirement age issues in Ireland, including the interaction of EU and Irish legislation, followed by relevant consultation findings. The fundamental policy issue is set out, and the policy objectives agreed by the Commission in how to address the issue raised in the Terms of Reference. Alternative options considered by the Commission are also presented. The chapter then discusses the importance of facilitating fuller working lives and the tools for achieving this, including the use of fixed-term contracts. The concluding section presents the Commission's recommendations in relation to employment contracts specifying retirement ages below the State Pension age.

10.1 Current Framework

10.1.1. Legislative Framework and Case Law

There is no statutory retirement age for employees in private sector employment in Irish legislation. A contract of employment will generally contain a retirement age, but this is a matter of contract between the parties. Under Irish legislation an employer is permitted to set a retirement age as long as it is objectively and reasonably justified by a legitimate aim, and the means of achieving that aim are appropriate and necessary.

The maximum retirement age for public servants recruited after 2004 is 70 years. The Public Service Superannuation (Age of Retirement) Amendment Act 2018 provided for an increase in the compulsory retirement age from 65 to 70 years for the majority of public servants recruited prior to 1st April 2004, and that additional service by a public servant up to the age of 70 can benefit from pension accrual subject to the maximum of 40 years' service. The "uniformed pension fast accrual" group, i.e. Gardaí, Firefighters, Prison Officers and the members of the Permanent Defence Forces, are unaffected by these changes.

EU Council Directive 2000/78/EC of 27th November 2000 establishes a general framework for equal treatment in employment and occupation and prohibits discrimination on a range of grounds including that of age. EU Member States may provide under Article 6 of the Directive that differences of treatment on grounds of age shall not constitute discrimination, if, within the context of national law, they are objectively and reasonably justified by a legitimate aim, including legitimate employment policy, labour market and vocational training objectives, and if the means of achieving that aim are appropriate and necessary. This is known as "objective justification".

The provisions of the Directive are given effect in Irish law through sections 6 and 34 of the Employment Equality Acts 1998 to 2015. Under the legislation, discrimination on the grounds of age for everyone aged over 16 is illegal. However, employers are still allowed to set minimum recruitment ages of 18 or under and also to set retirement ages in employment contracts.

Since the introduction of the Equality (Miscellaneous Provisions) Act 2015, Section 34(4) provides that:

> "Without prejudice to the generality of subsection 3, it shall not constitute discrimination on the age ground to fix different ages for the retirement (whether voluntarily or compulsorily) of employees or any class or description of employees if-
>
> (i) It is objectively and reasonably justified by a legitimate aim, and
>
> (ii) The means of achieving that aim are appropriate and necessary."

The Acts were further amended by the 2015 Act (in section 6) by applying these objective justification requirements to post-retirement fixed-term contracts:

> "Offering a fixed term contract to a person over the compulsory retirement age for that employment or to a particular class or description of employees in that employment shall not be taken as constituting discrimination on the age ground if-
>
> (i) It is objectively and reasonably justified by a legitimate aim, and
>
> (ii) The means of achieving that aim are appropriate and necessary."

Essentially, the 2015 Act codified the interpretation of Article 6 of the EU Directive.

Case law has identified a number of examples where an objective justification for the setting of retirement ages is accepted. These include:

- To create opportunities in the labour market for those looking for work;
- To encourage recruitment and promotion of young people and prevent possible disputes on the fitness of employees to work beyond a certain age;
- To ensure better distribution of work between the generations;
- To ensure quality of service provision and address an age imbalance within a workforce and;
- To ensure motivation and dynamism through the increased prospect of promotion due to senior staff being retired.

The current case law position in relation to retirement age and discrimination is evident from a number of cases such as: Valerie Cox v RTÉ (WRC, 2018), Anne Roper v RTÉ (WRC, 2019), Joseph McGrath v Focus Ireland (WRC, 2020a) and Operations Manager v Oil Company (WRC, 2020b)

10.1.2. Guidelines and Codes

In addition to the Irish and European legislation, the Workplace Relations Commission's (WRC) *Code of Practice on Longer Working* and the Irish Human Rights and Equality Commission's (IHREC) *Guidelines on Retirement and Fixed-Term Contracts* set out best practice for employers and employees regarding the issues that can arise as a result of retirement ages in employment contracts.

A. Workplace Relations Commission's Code of Practice on Longer Working

In response to a recommendation of the Interdepartmental Working Group on Longer Working (2016), the Workplace Relations Commission (WRC) developed a *Code of Practice on Longer Working*. The Code was given statutory effect under the Industrial Relations Act by the Minister of State at the then Department of Business, Enterprise and Innovation (S.I. No. 600 of 2017). The Code sets out principles and best practices for employers, employees and their representatives to follow in the run-up to retirement, including responding to requests to work beyond the retirement age in the employment concerned.

The Code was developed by the WRC in consultation with stakeholders including employer bodies and trade unions and focuses on the following areas:

- Utilising the skills and experience of older workers.
- Objective justification of retirement.
- Standard retirement arrangements.
- Requests to work longer.

B. IHREC Guidelines on Retirement and Fixed-Term Contracts

The Interdepartmental Working Group on Longer Working (2016) also recommended that the Irish Human Rights and Equality Commission (IHREC) should produce guidance on retirement age and the use of fixed-term contracts. IHREC accordingly published *Guidelines on Retirement and Fixed-Term Contracts* (2018), which provides advice to employers and employees on the potential for discrimination arising from the compulsory retirement of staff reaching a particular age, as well as the offering of fixed-term contracts to persons over that compulsory retirement age. The Guidelines also advise on how practical issues that arise from granting fixed-term contracts to employees who are over a compulsory retirement age may be addressed by both employers and employees. The Guidelines consider the setting of compulsory retirement ages, and the dismissal of employees who reach that age. Both actions are subject to the requirement of "objective justification". The Guidelines explore what "objective justification" means and what the relevant test involves.

Where an employee wishes to challenge the justifications advanced by an employer for the setting of a particular retirement age in a workplace, or to challenge the justifications for the offering of a fixed-term contract to an individual who is over the particular retirement age in a particular workplace, it would be a matter for an Adjudication Officer of the Workplace Relations Commission (WRC) to decide in the first instance whether the employer's policy breached the provisions relating to discrimination on the grounds of age under the Employment Equality Acts (and, on appeal, the Labour Court).

10.2. Consultation Findings

Many of the submissions to the Commission's public consultation process, from both individuals and organisations, raised concerns in relation to private sector employment contracts specifying retirement ages below the State Pension age. Most of the submissions advocated for legislative changes to address the gap between retirement age and State Pension age. For example, one submission drew attention to the barrier this gap presents to fuller working lives, noting that many workers would like to remain in employment until they are eligible for the State Pension due to their continued ability to do their job, and the fact that they will experience a drop in their income if they are forced to retire.

Several submissions noted that it is crucial that the issue of the gap between mandatory retirement age and State Pension age should be addressed before or in tandem with changes to the State Pension age. One submission highlighted that the issues are intrinsically linked and, as such, it is not acceptable for Government to increase the pension age while failing to make associated changes in employment law for workers.

In response to the public consultation survey, while not based on a representative sample, three out of four (75 per cent) of the 1,136 survey respondents agreed that employers should be required to keep people employed until at least State Pension age.

While this income gap is currently addressed by the Benefit Payment for 65 Year Olds, several submissions stated that this is not a sufficient solution and the rate should be increased to the same as the State Pension Contributory. It was noted that the rate is too low and leaves individuals who are forced to retire as a result of their employment contract without sufficient income. It was stated that the Benefit Payment for 65 Year Olds is set at the same rate as Jobseeker's Benefit and this leaves low income retirees who do not have a supplementary pension reliant on a subsistence benefit that is below the poverty line.

Employer groups also expressed concerns regarding the current legislation governing mandatory retirement ages. For example, one group raised the difficulties faced by employers where they wish to facilitate an employee's request to work longer - it was considered that such arrangements could potentially undermine the employer's ability to rely on the objective justification of their mandatory retirement age which can act as a disincentive to the retention of employees beyond this age.

10.3. Policy Issues

The Commission considers that the two main issues that arise for employees as a result of specified retirement ages in employment contracts are:

1. The income gap between the retirement age (normally 65 years) and the age at which an individual can access State Pensions (currently at 66 years), and
2. The barrier placed by the contractual retirement age to facilitating those who wish to remain at work.

Key issues for employers include concerns regarding potential liabilities under the Employment Equality Acts 1998 - 2015, a desire for more clarity, and to be able to carry out workforce planning. This can cause difficulties for employers where they wish to facilitate an employee's request to work longer.

While the introduction of the Benefit Payment for 65 Year Olds in February 2021 may be sufficient to bridge the income gap for some, several submissions noted that it still leaves low income retirees who do not have a supplementary pension dependent on a benefit that is below the poverty line. In this regard, removing the gap between the State Pension age and retirement age would eliminate the need for the Benefit Payment for 65 Year Olds for those who wished to continue to work, which would further support the sustainability of the Social Insurance Fund.

The Commission considered a range of options to address the issues presented by private sector employment contracts specifying retirement ages below the State Pension age. This included both legislative and non-legislative options. One non-legislative option considered by the Commission was an information campaign that would highlight employees' rights and clarify that the inclusion of a retirement age in an employment contract must be objectively justified. However, the Commission noted that there were significant challenges in not recommending a legislative approach. For instance, a non-legislative approach does not solve the State Pension age income gap. Employers would still be permitted to retain and set mandatory retirement age below the State Pension age which would lead to the persistence of the income gap between retirement and State Pension eligibility.

Pursuing a non-legislative approach would place the burden on individual employees to resolve issues with their employment contracts. This could lead to increased contention in the workplace between employees and their employer. In 2020, some 939 Employment Equality complaint referrals were received by the WRC, 206 on the grounds of age (WRC, 2021). While these age-related complaints were not necessarily about retirement, there have been several recent high-profile cases taken by employees against their employers in relation to contractual mandatory retirement age. Not changing the system could risk adding to increased disputes without tackling the underlying issue.

The Commission therefore agreed that a legislative solution is required. The next section outlines the Commission's agreed approach. Alternative legislative approaches considered and the reasons for not recommending them are discussed in later sections.

10.4. Policy Objectives

The Commission recommends the introduction of a piece of legislation that allows but does not compel an employee to stay in employment until State Pension age. Any such legislation must meet the standard required by Article 6 the EU Directive (objectively justified by a legitimate aim). The Commission recognises that legal drafting is a technical process which requires careful analysis to ensure consistency in the Statute Book as well as coherence within a statute. Any alteration must also be tested against the Constitution and EU law. In this regard, the Commission agreed a set of policy objectives, which can form the basis of drafting this legislation:

- **In general, an employer cannot set a compulsory retirement age below the State Pension age**. This is the overarching aim of the legislation in order to address the State Pension age income gap without removing an employer's ability to set a retirement age.
- **It would be important to ensure that a worker's property rights in terms of their ability to retire at a time of their choosing (regardless of the gap in relation to accessing the State Pension) and receive a pension under their existing occupational or personal pension scheme is not adversely affected**. In this regard, the legislation would apply only to retirement conditions within the employment contract, and not in relation to accessing occupational benefits.
- **Where possible, the same terms and conditions regarding the provision of insurance, financial services and related benefits should apply to all employees, subject to the availability of these benefits from providers and the cost not being disproportionate for employers**. Where an employer makes arrangements for the provision of benefits to employees, such as death in service or income continuance, it may prove difficult to extend these to employees over the age of 65 following increases in the retirement age, and employers should not be penalised if provision after the age of 65 ceases. It should be noted that this policy objective is intended to apply only within the context of a change to the legislation governing mandatory retirement ages in employment contracts.
- **This legislation would apply to existing and new employment contracts.** This means that, once the legislation is introduced, all employees will be able to continue to work until at least State Pension age even if their contract of employment had specified a retirement age below this age.

- **In strictly limited cases where a retirement age below the State Pension age continues to apply (as a result of legislation, collective agreement or at individual employment level), employers will have to give notice to workers in order to ensure that the worker is aware that a retirement age below the State Pension age applies, and to give evidence of compliance with the law in terms of objective justification by a legitimate aim and appropriate and necessary means.** There may be some sectors or employments where a compulsory retirement age below State Pension age is necessary. In these cases, sufficient notice should be given to workers by employers to make sure they are informed, with the objective justification by a legitimate aim and appropriate and necessary means clearly specified.
- **This legislation would not affect employment contracts where the retirement age is set above State Pension age and would only apply to contracts with a mandatory retirement age**. The aim of this legislation is to address the gap that occurs between retirement ages and State Pension age. However, this would not affect an employer's ability to set a contractual retirement age above the State Pension age, nor would it affect existing employment contracts which have no specified age, or which already specify a retirement age above State Pension age.
- **Social partners are encouraged to take this recommendation on board through agreement, collectively or locally, in advance of the legislation being enacted.** Recognising that the legislation to align mandatory retirement age in employment contracts with State Pension age may take some time before it is published and enacted, the Commission encourages the social partners and individual employers and employees to implement this recommendation in advance of the legislation's enactment.
- **While the State may introduce such legislation, an independent body would need to review the age on a periodic basic to ensure that it still meets the grounds of objective justification with a legitimate aim.** As circumstances, including demographic and economic factors change, the legislation would need to be kept under review to ensure that the age selected continues to meet the necessary test as set out in the Employment Equality Acts.

It should be noted that aligning retirement ages in employment contracts with the State Pension age was supported by a number of organisational submissions to the Commission's consultation. Employer and employee representative groups, members of the insurance industry, and political parties, among others, showed support for this option.

In addition, a proportion of employers may already be planning to align the contractual mandatory retirement age with State Pension age. In May 2020, an Industrial Relations News/Chartered Institute of Personnel Development survey of 250 private sector employers found that 32.5 per cent were planning to align their retirement age with the State Pension age, while 42.4 per cent said their policy was still for staff to retire at 65 (CIPD, 2020). Fixed term contracts on retirement were used by 16 per cent and 13 per cent either had open-ended retirement ages or had abolished retirement ages completely.

10.4.1. Insurance and financial services benefits

The Commission recognises that, for certain employers, there may be additional complexity and costs associated with changes in the retirement age. These additional issues may relate to the continued provision of insurance, financial services and related benefits for employees. This may be particularly relevant during the initial transition when, for example, it may be difficult to source providers of these benefits for employees or the costs may be disproportionate for employers.[25]

In the UK, albeit in the context of post-retirement provision of such benefits, an amendment to the Equality Act 2010 provides that it is not discrimination on the grounds of age for an employer to make arrangements for, or afford access to, the provision of insurance or a related financial service

[25] Section 5(2)(d) of the Equal Status Act 2000 provides that differential treatment by providers of certain financial products (including higher charges) on the basis of age does not constitute discrimination, if it is backed up by actuarial data or similar. Accordingly, depending on the data, it is possible that the costs could increase, although this is by no means necessarily the case.

for an employee for a period ending when the employee reaches the greater of the State Pension age or the age of 65. In this regard:

The Commission recommends that prior to the enactment of any new legislation, the relevant Government Department or statutory body review the application of the Employment Equality Acts 1998 - 2015 to the provision or non- provision of insurance or related financial services benefits to employees on age discrimination grounds.

10.5. Alternatives Considered

The Commission considered a number of alternative options that could address the issues posed by employment contracts specifying retirement ages below the State Pension age. The Commission reviewed the advantages and challenges of these alternatives and concluded that they did not effectively tackle the problem. This section gives an overview of two alternative options considered by the Commission.

10.5.1. Abolish Mandatory Retirement Age in Employment Contracts

This option would make it illegal for employers to set any retirement age in employment contracts.

Among the advantages of this option, the Commission noted that abolishing retirement age in employment contracts would allow those who wish to continue working past the current prevalent retirement age of 65 to do so. The Government supports a policy of facilitating employees who wish to remain at work past the prevalent contractual retirement age of 65. The *2016 Report of the Interdepartmental Working Group on Fuller Working Lives* (p. 17) notes that, "a framework that facilitates working to, and beyond, the State Pension age should be the 'norm' for both workers and employers." The *Roadmap for Pensions Reform 2018-2023* reaffirms the Government's commitment to enable longer working. It states (p. 37), "Ireland should be a society that supports older peoples' continued engagement in economic and social life. The Government is determined to alter perceptions around retirement age and support a positive ageing environment, where older people are, to the greatest extent possible, encouraged and facilitated in working, if they wish to, beyond the 'normal' retirement age."

There is public support for abolishing mandatory retirement ages in employment contracts. A 2012 special Eurobarometer survey on ageing issues found that across the EU, 61 per cent of respondents felt that people should be allowed to continue working past the official retirement age (European Commission). The average rises to 65 per cent in EU15 states and was higher again in Ireland at 73 per cent. In the same survey, 57 per cent of Irish respondents felt that there should be no retirement age. More recently, 86 per cent of members of the 2017 Citizens Assembly, which focused on the challenges presented by an ageing population, recommended abolishing mandatory retirement based on age.

This option was also advocated for by some industry representative bodies in their submission to the Commission's consultation process. One group notes that 70 per cent of their members surveyed stated that the condition in employment contracts that require workers to retire at a certain age – often set at 65 – should be abolished. They state that this would allow workers to continue to earn and save, thereby likely reducing their reliance on the State Pension at retirement age.

It is also increasingly difficult for employers to ascertain whether a customary retirement age within an organisation will survive a discrimination claim on grounds of age. Recent high-profile cases have demonstrated that the Workplace Relations Commission can impose significant financial awards in cases of age discrimination. Considering the growing number of cases taken, the compensation awarded by the WRC in recent cases and the difficulty in defending such a claim, it may be more cost effective for employers to allow employees to retire in their own time.

On an international level, other countries are opting to abolish mandatory retirement age in employment contracts. For example, in Denmark the mandatory retirement age of 70 for civil

servants was abolished in 2008. New provisions came into force in January 2016 making it illegal in the private sector for collective or individual agreements to require employees to retire by 70. There is therefore currently no mandatory retirement age in Denmark (OECD, 2018).

The UK had, until 2011, a Default Retirement Age of 65. While the Default Retirement Age was not a statutory retirement age (i.e. employers could continue to employ people after age 65), an employer could legally stipulate an enforceable retirement age of 65 in employment contracts.

The Default Retirement Age was abolished in April 2011 under the the Employment Equality (Repeal of Retirement Age Provisions) Regulations 2011. Following its removal, employers cannot use the Default Retirement Age to compulsorily retire employees. However, it is still possible for individual employers to include a mandatory retirement age in an employee's employment contract, provided that they can objectively justify it. This means that, while the UK is often cited as an example of a country that has abolished retirement ages, the legal situation in the UK is actually similar to the position in the Ireland[26] – neither Ireland nor the UK have a statutory retirement age.

Among the challenges of pursuing the option of abolishing contractual retirement ages, the Commission acknowledges that employer groups have expressed concerns regarding the impact of abolishing contractual retirement ages. In one submission to the Commission's public consultation process, an employer representative group noted that abolishing the retirement provisions of most existing employment contracts on a unilateral basis would have serious consequences not only for the private sector but also for public sector employment and for pensions policy.

It was also stated that pursuing this option will negatively affect the ability for business to succession plan for employment positions within the business, which will impact talent acquisition and the retention of employees. A survey of 300 group members showed that when asked what impact legislation abolishing an employer's right to fix a retirement age would have on their business, 201 indicated that it would have an extremely negative, negative or quite negative effect on their business. The submission concludes that the abolition of mandatory retirement age would remove the autonomy of employers for workforce planning as reiterated in the Workplace Relations *Code of Practice on Longer Working* which states "Good workforce planning is a critical element in any workplace. Central to this are appropriate employee numbers and skill sets, recruitment, and planning for departures including retirement."

The Commission also recognised that retirement ages in employment contracts have been successfully defended by employers in certain cases. In practice, what constitutes a legitimate aim will vary depending on the sector. For example, employers have been successful in using the objective justification of health and safety grounds where their employees are employed in safety critical roles. In the case of Saunders v CHC Limited, setting a mandatory retirement age for a winchman, which is a safety critical, physically demanding occupation, was considered a legitimate aim for imposing a retirement age of 55. However, Health and Safety is not likely to be considered a legitimate aim for retiring an office-based employee whose role is not safety critical.

On a European level, employers have succeeded in defending setting a retirement age on other grounds. For example, in Palacios de la Villa v Cortefiel Services, the ECJ rejected an employee's challenge to being forced out of his job at the age of 65 on the grounds that this was justified by the "legitimate aim" of creating opportunities for people seeking employment. Similarly, in Fuchs and Köhler v Land Hessen, the ECJ ruled that two German civil servants could be forced from their job at the age of 65 to, "encourage the recruitment and promotion of young people".

This demonstrates that there are circumstances, particularly within certain sectors, where the ability for an employer to set a mandatory retirement age may be beneficial and necessary.

[26] There is a difference in the Irish and UK approaches in how the rights of an employee to continue to work beyond any contractual retirement age are explained. In the UK the use of language around the employment equality act provisions on objective justification makes it much clearer that the default position is that there is no mandatory retirement age and it can only be present in a contract if it is objectively justified.

10.5.2. Introduce legislation which provides for a compulsory retirement age of 70

The second alternative option considered by the Commission was to recommend the introduction of legislation similar to the Public Service Superannuation (Age of Retirement) Act 2018 which would apply to all employment contracts. The 2018 Act provides for an increase to age 70 in the compulsory retirement age for the majority of public servants recruited before 1st April 2004, even where their existing employment contract provides for a compulsory retirement age of 65.

Among the positive aspects of this option was the employee support for the introduction of this legislation in the public service. The 2017 *Review of Barriers to Extended Participation in Public Service Workforce* indicated that public service employees generally favoured the introduction of the Act. The report notes (p.4) that in some cases "employees wanted to work longer because they felt they were fit and healthy and were still in a position to contribute."

There was also some support for the introduction of legislation similar to the Act that would apply to all employment contracts among the organisational submissions to the Commission's public consultation process. For example, in its submission, one representative group calls for an end to mandatory retirement for workers and advocated for private sector employees to have the same right to remain in the workforce until 70 years as those in the public service. The submission noted that the current legislation which prevents older workers from remaining in work if they wish to do so, is contributing to an ageist narrative around older workers.

In the context of the Government decision to increase the compulsory retirement age of pre-2004 public servants to 70, it was noted that, under equality legislation, providing for a compulsory retirement age is permissible but it must be objectively and reasonably justified by a legitimate aim and the means of achieving that aim must be appropriate and necessary. In selecting 70 as the compulsory retirement, it was considered that this age would conform to many of the accepted principles of objective justification. This age also would facilitate employees who wish to continue working.

Among the challenges of pursuing this option, the nature of certain roles means that introducing a blanket compulsory retirement age of 70 to sectors outside the public service could have a negative effect. As has been previously outlined, mandatory retirement ages of 65 and below have been successfully defended by employers on health and safety grounds where their employees are employed in safety critical roles. In some cases, employers have also been successful on the ground of intergenerational fairness. Even within the public service, a mandatory retirement age of 70 does not apply to certain groups who, due to the nature of their work, are required to retire early, for example, the Gardaí and the Defence Forces. Furthermore, the relevant legislation in the public sector has not been in place sufficient time for any employee to reach the age of 70 and potentially challenge the age on discrimination grounds. It could be said, therefore, that the legislation has not yet been thoroughly tested.

10.6. Fuller working lives

The Commission fully supports Government commitments to facilitate employees to remain at work past the prevalent contractual retirement age of 65 if they wish to. In 2013, the *National Positive Ageing Strategy*, published by the Department of Health, set out a vision for an Irish society that celebrates and prepares properly for individual and population ageing. National Goal 1 set out in the Report contained the following objective (p.20), "Develop a wide range of employment options (including options for gradual retirement) for people as they age and identify any barriers (legislative, attitudinal, custom and practice) to continued employment and training opportunities for people as they age."

The 2016 *Report of the Interdepartmental Working Group on Fuller Working Lives* built on this, stating that (p.17), "a framework that facilitates working to, and beyond, the State Pension age should be the 'norm' for both workers and employers." The Interdepartmental Group on Fuller Working Lives highlighted the issues presented by contractual retirement ages below the State Pension age and the Group's recommendations led to the WRC's *Code of Practice on Longer Working* and IHREC's *Guidelines on Retirement and Fixed-Term Contracts.*

The *Roadmap for Pensions Reform 2018 - 2023* reaffirmed the Government's commitment to enable longer working. It states (p.37), "Ireland should be a society that supports older peoples' continued engagement in economic and social life. The Government is determined to alter perceptions around retirement age and support a positive ageing environment, where older people are, to the greatest extent possible, encouraged and facilitated in working, if they wish to, beyond the 'normal' retirement age."

The Commission recognises that the barriers presented by having a mandatory retirement age in employment contracts below the State Pension age are not limited to the issue of income gaps. These contractual retirement ages can act as a barrier to facilitating later working for those who wish to stay in employment in some capacity. With life expectancy increasing and improved health for many in older age, many individuals wish to continue to work beyond the age that may be specified in their retirement contract.

In this context and in building on the work of previous groups, **the Commission recommends that the social partners, relevant Government bodies, and the Workplace Relations Commission consider and issue guidance on measures to facilitate those who wish to continue working past retirement age, with proposals to be considered at appropriate fora, including the Labour Employer Economic Forum.**

10.7. Fixed-term contracts

The Commission acknowledges that post-retirement fixed-term contracts are a tool that could be used to further facilitate longer working. In the 2015 Act, Section 6 of the Employment Equality Act was amended in order to apply objective justification requirements to post-retirement fixed-term contracts. This means that it is possible for an employer to offer a post-retirement fixed-term contract and for it not be constituted as discrimination on age grounds – however, it must be objectively justified by a legitimate aim and the means of achieving this aim must be appropriate and necessary. Section 6(3)(c) reads as follows:

"Offering a fixed term contract to a person over the compulsory retirement age for that employment or to a particular class or description of employees in that employment shall not be taken as constituting discrimination on the age ground if-

> (i) It is objectively and reasonably justified by a legitimate aim, and
>
> (ii) The means of achieving that aim are appropriate and necessary."

Essentially, the 2015 Act codified the interpretation of Article 6 of the EU Directive.

The Irish Human Rights and Equality Commission *Guidelines on Retirement and Fixed Term Contracts* offered some further guidance on this section. The Guidelines state (p.7):

> "The Employment Equality Acts provide that offering a fixed term contract to a person over the compulsory retirement age will not amount to discrimination on the grounds of age if it is objectively and reasonably justified by a legitimate aim, and the means of achieving that aim are appropriate and necessary.

> This provision represents a limited exemption from the general prohibition of discrimination on the grounds of age in employment and occupation. As such, it is to be strictly construed.
>
> This exemption is limited in its application to the offering of fixed term contracts, as opposed to the offering of contracts of indefinite duration. The 'defence' of objective justification does not on its face apply to the offering of contracts of indefinite duration to persons over the compulsory retirement age."

The Commission notes that Section 6(3)(c) of the Employment Equality Acts 1998 to 2015 refers to offering *a* fixed-term contract. Some representative groups are uncertain as to whether this language or other enactments prohibit employers from offering successive post retirement fixed-term contracts or whether there is scope for allowing employers to offer successive fixed-term contracts (provided the conditions are in line with Protection of Employees (Fixed-Term Work) Act 2003).

In seeking legal clarification on this issue, the Commission understands that the wording of this legislation, which refers to offering "a fixed-term contract", does not mean that further contracts cannot be validly agreed or that the arrangement is limited to only one contract of a specific duration. In order to enforce any such restriction, it would be necessary to include express wording in the legislation.

Under the Protection of Employees (Fixed Term Work) Act 2003, an employee cannot be employed on a series of fixed-term contracts indefinitely. If an employee whose employment started on or after 14th July 2003 has been employed on two or more continuous fixed-term contracts, the total duration of those contracts may not exceed four years. After this, if the employer wants the employee to continue in the job, they must be employed under a contract of indefinite duration. The only exception to this statutory provision is where there are objective grounds justifying the renewal of a fixed-term contract. The employer must be able to demonstrate that a further renewal is appropriate and necessary to achieve a legitimate objective.

In this regard, there remains a lack of clarity as to the extent to which fixed-term contracts can be used post-retirement, and how the provisions of these two pieces of legislation interact. Doubts as to the legality of the use of successive fixed-term contracts can act as a barrier to the continued employment of workers post-retirement age.

In light of this, **the Commission recommends a review by the relevant Government Department or statutory body to provide clarity on the use of successive post-retirement fixed-term contracts and to establish whether there is coherence in the application of the Protection of Employees (Fixed-Term Work) Act 2003 and the Employment Equality Acts 1998 - 2015.**

In this regard, the Commission notes that the Department of Children, Equality, Disability, Integration and Youth recently launched a public consultation process as part of a review of the Equality Acts (Equal Status Acts 2000-2018 and the Employment Equality Acts 1998-2015).

10.8. The Commission's Recommendations

- **The Commission recommends aligning retirement ages in employment contracts with the State Pension age, by introducing legislation that allows but does not compel an employee to stay in employment until State Pension age. Any such legislation must meet the standard required by the Equality Directive (objectively justified by a legitimate aim as set out in Article 6).**

The proposed policy objectives of this legislation would be that:

- In general, an employer cannot set a compulsory retirement age below the State Pension age;
- It would be important to ensure that a worker's property rights in terms of their ability to retire at a time of their choosing (regardless of the gap in relation to accessing the State Pension) and receive a pension under their existing occupational or personal pension scheme is not adversely affected;

- Where possible, the same terms and conditions regarding the provision of insurance, financial services and related benefits should apply to all employees, subject to the availability of these benefits from providers and the cost not being disproportionate for employers;
- This legislation would apply to existing and new employment contracts;
- In strictly limited cases where a retirement age below the State Pension age continues to apply (as a result of legislation, collective agreement or at individual employment level), employers will have to give notice to workers in order to ensure that the worker is aware that a retirement age below the State Pension age applies, and to evidence compliance with the law in terms of objective justification by a legitimate aim and appropriate and necessary means;
- This legislation would not affect employment contracts where the retirement age is set above State Pension age and would only apply to contracts with a compulsory retirement age;
- While the State may introduce such legislation, it would need to be independently reviewed on a periodic basic to ensure that it still meets the grounds of objective justification with a legitimate aim.
- Social partners are encouraged to take this recommendation on board through agreement, collectively or locally, in advance of the legislation being enacted.

- **The Commission supports measures that facilitate and encourage fuller working lives. Social partners, relevant Government bodies, and the Workplace Relations Commission should consider and issue guidance on measures to facilitate those who wish to continue working past retirement age, with proposals to be considered at appropriate fora, including the Labour Employer Economic Forum.**
- **The Commission recommends a review by the relevant Government Department or statutory body to:**
  - **Provide clarity on the use of successive post-retirement fixed-term contracts and to establish whether there is coherence in the application of the Protection of Employees (Fixed-Term Work) Act 2003 and the Employment Equality Acts 1998 - 2015.**
  - **Review the application of the Employment Equality Acts 1998 - 2015 to the provision and non-provision of insurance or related financial services benefits to employees on age discrimination grounds.**

Chapter 11: State Pension Age

11.1. Introduction

The Commission has been asked to, "develop a range of options for the government to consider in order to address the sustainability of the State Pension and the Social Insurance Fund in terms of pension age, eligibility criteria, contribution rates, pension calculation methods and pension payment rates." In this regard, the purpose of this chapter is to provide an outline of the Commission's considerations in relation to the State Pension age.

This Chapter presents an overview of previous policy reforms in order to give context to the current policy situation, as well as some international context. The findings from the submissions to the Commission's public consultation process are then set out. A detailed consideration of the savings associated with changes to the State Pension age is presented. Gender, equality and poverty impact considerations are discussed. The chapter concludes with the Commission's recommendation and implementation considerations.

11.2. Previous Policy Reforms

The Old Age Contributory Pension (now known at the State Pension Contributory) was first provided for by the Social Welfare Act of 1960. At the time, the qualifying age was 70. Reforms in the 1970s included the lowering of the qualifying age from 70 to 66 which took place over a number of years, and the introduction of a contributory Retirement Pension (the precursor of the State Pension Transition) from age 65.

The *Green Paper on Pensions* (2007) was the first policy document to propose raising the State Pension age. Following this, the *National Pensions Framework* published in 2010 set out a number of commitments to reform the State Pension, including abolishing the State Pension Transition, and to raise the pension age to 67 and then to 68 over the following years. The Government accepted the agenda of changes in the State Pension age as proposed by the *National Pensions Framework* which were passed in legislation in 2011. Consequently, in 2014, the State Pension age was standardised at 66 with the abolition of the State Pension Transition. The 2011 legislation provided for further increases in pension age, to 67 in 2021 and 68 in 2028. The *Roadmap for Pensions Reform 2018 - 2023* states that future changes in State Pension age after 2035 will be based on research into life expectancy.

Raising the pension age is in keeping with similar measures introduced by most EU countries, prompted in part by the EU ECOFIN Council's conclusions on foot of the *2015 Ageing Report* and reiterated in the 2018 *Pension Adequacy Report Volume 1*: "Member State" governments agreed that steps "need to be taken by Member States, though to varying degrees, to raise the effective retirement age, including by avoiding early exit from the labour market and by linking the retirement age or pension benefits to life expectancy". The current age at which pensions can be accessed in full varies by country. The OECD *Pensions at a Glance* 2019 publication notes that future normal and early retirement ages will continue to rise.

The 2020 *Programme for Government* provided that, pending the Commission's report and any subsequent Government decisions, the State Pension age would remain at 66 years and the increase to 67 years would be deferred. This was implemented in the Social Welfare Act 2020, which repealed the provisions increasing the State Pension age. The Department of Social Protection estimated that the deferral of the increase in the State Pension age will cost €221 million in 2021 and €453 million in a full year in terms of social welfare expenditure. These costs are expected to rise year on year (Response to Parliamentary Question 567, 24th November 2020).

11.3. International Context

In almost every EU Member State, current legislation means that State Pension qualifying ages will rise by 2070. This reflects either planned increases in the near future, including a merging of female with male State Pension ages, or steady increases due to links to life expectancy (see Table 11.1). The average pension age for men/women is set to rise from 65/64 years today to around 67 years in 2070.

Table 11.1: Pension Ages in the EU by Gender

	Male				Female			
	2019	2030	2050	2070	2019	2030	2050	2070
BE	65	67	67	67	65	67	67	67
BG	64.2	65	65	65	61.3	63.3	65	65
CZ	63.5	65	65	65	61.2	65	65	65
DK*	65.5	68	72	74	65.5	68	72	74
DE	65.7	67	67	67	65.7	67	67	67
EE*	63.6	65.5	67.7	69.8	63.6	65.5	67.7	69.8
IE	66	66	66	66	66	66	66	66
EL*	67	68.8	70.8	72.6	67	68.8	70.8	72.6
ES	65.7	67	67	67	65.7	67	67	67
FR	66.8	67	67	67	66.8	67	67	67
HR	65	65	65	65	63.5	65	65	65
IT*	67	67.7	69.3	71	67	67.7	69.3	71
CY*	65	66.5	68.3	69.9	65	66.5	68.3	69.9
LV	63.5	65	65	65	63.5	65	65	65
LT	63.8	65	65	65	62.7	65	65	65
LU	65	65	65	65	65	65	65	65
HU	64	65	65	65	64	65	65	65
MT	62.9	65	65	65	62.9	65	65	65
NL*	66.3	67.3	68.5	69.8	66.3	67.3	68.5	69.8
AT	65	65	65	65	60	63.5	65	65
PL	65	65	65	65	60	60	60	60
PT*	66.4	67	68.3	69.3	66.4	67	68.3	69.3
RO	65	65	65	65	61.2	63	63	63
SI	65	65	68.3	65	64.5	65	65	65
SK	62.5	64	65	64	62.5	64	64	64
FI*	63.5	65.1	66.5	67.7	63.5	65.1	66.5	67.7
SE	67	67	67	67	67	67	67	67
NO	67	67	67	67	67	67	67	67

Source: European Commission, The 2021 Ageing Report

BG – The latest pension reform included a provision to link retirement ages to life expectancy as from 2037. This provision has not been implemented, though.
CZ – Pension age depends on the number of children. Values for women with two children are reported.
DK – Increase in the pension age is subject to a Parliamentary decision.
SK – Pension ages are for childless women. For mothers, the pension age is decreased by 6 months for each child (maximum 18 months).
*Countries where the statutory retirement age is legislated to increase in line with life expectancy. Reported retirement ages are calculated on the basis of life expectancy expectation in the Eurostat population projections.

The standard pension age is legislated to increase more in some countries than others. Substantial increases are legislated for in Estonia, Greece, Finland, Italy, Cyprus and Portugal. These are due to rules linking pension age to life expectancy.

The manner in which pension age increases are implemented varies. The Finnish Centre for Pensions reports that in many countries, pension age increases take place gradually, on the basis of a number of months per year, rather than a full year. Table 11.2 below shows which countries have implemented pension age increases by increasing the pension age by 1 month, 2 months, 3 months or 6 months, rather than a full year increase.

Table 11.2: Implementation of pension age increases

Increase in Pension Age	Countries
1 Month	Germany, Romania
2 Months	Bulgaria, Czech Republic, Slovakia, United States
3 Months	Croatia, Estonia, Finland, Latvia, Lithuania, Netherlands
6 Months	Austria

Source: https://www.etk.fi/en/work-and-pensions-abroad/international-comparisons/retirement-ages/

11.4. Consultation Findings

The State Pension age featured strongly in the responses from organisations to the public consultation process. The majority of individual submissions also mentioned this issue and expressed a variety of views. Some personal submissions advocated for the State Pension age to remain at 66, while others supported increasing the pension age to address sustainability issues. Many personal submissions expressed support for further flexibility in accessing the State Pension.

Organisational submissions expressed a range of views, with most contributions voicing support for one of the following four options:

1. Maintain the State Pension age at 66
2. Increase the State Pension age
3. Increase the rate of the Benefit Payment for 65 Year Olds/re-introduce the State Pension Transition
4. Flexible access to the State Pension

11.4.1. Maintain the State Pension Age at 66

Organisations that sought to maintain the State Pension age at 66 provided four main reasons:

- **Ireland's favourable demographic profile in comparison to our European counterparts.** It was noted that Ireland's old-age dependency ratio is among the lowest in the EU and is predicted to continue to be among the lowest in 2060. Yet, Ireland's current pension age of 66 is already higher than the EU average.
- **The gap between retirement age and State Pension age.** A number of submissions made the point that increasing the State Pension age without also addressing contractual retirement ages will maintain the gap between retirement and accessing State Pensions. It was posited that Government must make adjustments in employment law for workers willing and able to continue working before pursuing a policy of increasing the pension age. The issue of private sector employment contracts specifying retirement ages below the State Pension age is a separate Term of Reference put to the Commission and is addressed in Chapter 10 of this Report.

- **Public support for maintaining the State Pension age.** In this regard, the RED C Poll in February 2021 was cited by a number of submissions. The poll found that 66 per cent of all adults polled think that the pension age should remain at 66 years of age. Surveys carried out by a number of organisations to inform their submissions also found support for not increasing the State Pension age. For example, a survey of 2,048 young people aged between 16 and 35 found that the age group generally disapproved of raising the qualifying age for the State Pension. Submissions also noted that this became a central issue during the 2020 General Election.
- **Pension age increase is not needed for sustainability.** One submission noted that they do not believe that the State Pension age should be increased again and believe that this is a sustainable position. While supporters of a pension age increase claim that maintaining the current pension age will be financially unsustainable for the State, other submissions argue that the increase as a percentage of GDP will be gradual and not excessive.

11.4.2. Increase the State Pension age

Other organisations called for an increase in the State Pension age. This was in recognition of the fiscal sustainability challenges associated with the increasing number of pensioners, increasing longevity, the increasing proportion of life spent in retirement rather than at work, and a rapidly changing old-age dependency ratio.

Many employer and industry groups advocated that the Government should pursue a policy which links the State Pension age with life expectancy. Submissions noted the future sustainability challenges as a result of impending ratios of pensioners to working age people make it inevitable that the age at which most workers enter pensionable retirement will have to rise.

It was noted that the impact of increasing the pension age on addressing sustainability challenges is limited if the effective retirement age does not increase. That is, if people simply receive another social welfare payment that is paid at a marginally lower rate to the State Pension, rather than continuing to work and contributing to the Exchequer and the Social Insurance Fund. This issue is discussed further later in this chapter.

In addition, it was highlighted that there would need to be sufficient notice of any increase to the State Pension age. It was noted that the future increases to the State Pension age should be introduced within a fair, transparent and clearly understandable framework.

11.4.3. Increase the rate of the Benefit Payment for 65 Year Olds or re-introduce the State Pension Transition

While no organisation that made a submission to the consultation process explicitly called for a reduction in the State Pension age, many of those that called for the State Pension age to be maintained, also called for the payment of a State Pension Transition (or the Benefit payment for 65 year olds) to be at the same rate as the State Pension Contributory.

11.4.4. Flexibility

A number of submissions supported flexibility in recognition of the different experiences of people in society. The submissions noted the importance of health, the greater impact of changes in the pension age on those fully or mostly reliant on the State Pension for their income in retirement, those in physically demanding jobs, those in the private sector and gender impacts. Many submissions referenced that a 'one size fits all' approach to the State Pension may not be appropriate. One submission noted that flexibility is necessary in order to take into account all sections of our society. According to another submission, the changing labour market means that the inflexibility of a rigid pension age does not reflect the different natures of various types of work and is increasingly ill-suited to a modern society.

In this regard, there was support by various submissions for accessing the State Pension at different ages. For example, those with a long contribution history could access the State Pension earlier or those who wish to continue to work could access an enhanced pension at a later stage. This is discussed further in Chapter 12.

11.5. State Pension Age Savings

The State Pension age is one of a number of policy levers considered by the Commission in examining the sustainability of the State Pension system. The Technical Sub-Committee's Working Paper 2 on *Expenditure Projections* examined the extent to which increasing the State Pension age moderates expenditure growth based on analyses by Irish Fiscal Advisory Council (IFAC) and the Department of Finance (DFIN).

Table 11.3 presents the difference in State Pension expenditure if the State Pension age had increased in line with previous legislation i.e. increased to 67 in 2021 and to 68 in 2028. Looking at State Pension expenditure alone (social welfare expenditure for those above pension age only, bar survivor's pensions), it can be seen that there is a reduction in such expenditure of 0.5 percentage points of GNI* by 2030, which increases to 0.9 percentage points by 2050.

It should be noted that the projections below are based on pension age increases taking place in 2021 and 2028, in line with previous Government legislation. State Pension age increases at a later stage will reduce the projected level of savings for any given year.

Table 11.3: Breakdown of DFIN projected expenditure on social welfare pensions excluding those below State Pension age, as per cent of GNI* 2019

	2019	2030	2050	2070
State Pension Age Remaining at 66	3.8%	5.0%	7.9%	9.2%
Increase pension age in line with previous legislation	3.8%	4.5%	7.0%	8.3%

Source: DFIN submission (Table 2). Rounding may affect totals.

It is clear from the figures in Table 11.3 that increasing the pension age reduces expenditure on State Pensions. However, increasing the State Pension age would also work to increase expenditure on working age payments, with knock-on impacts on public sector pensions.

The Commission considered it appropriate to review the wider expenditure impacts of changing the pension age rather than just considering the impact on State Pensions' expenditure, as expenditure on working age payments would increase as a result of an increased pension age. Conversely, expenditure on public sector pensions would decrease, as the pension age for public servants under the Single Public Service Pension Scheme is the State Pension age. In this regard, the net effect only becomes apparent through consideration of the wider definition of pension expenditure.

Accordingly, Table 11.4 below sets out the impact of overall pension expenditure (which includes public sector pension and wider social protection payments) of changes to the State Pension age. This shows that by 2030, increases in the State Pension age would have moderated increases in expenditure by an estimated 0.6 percentage points of GNI* (DFIN) or 0.8 percentage points of GNI* (IFAC) by 2030, and this would have increased to 0.8 percentage points (DFIN and IFAC) by 2050.

Table 11.4: Broader "Pensions" Expenditure Projections by Pension age scenarios – per cent of GNI*

	2019		2030	2050		2070
	IFAC	DFIN	DFIN	IFAC	DFIN	DFIN
Keeping State Pension Age at 66	7.75%	7.4%	9.6%	12.7%	12.1%	12.3%
Previously planned legislative changes i.e. 67 in 2021 and 68 in 2028 (legislation repealed)	7.75%	7.4%	9.0%	11.9%	11.3%	11.5%
Linking to Life Expectancy	7.75%			11.5%		

Sources: Irish Fiscal Advisory Council (2020) Long-term Sustainability Report p.74. DFIN submission to the Commission, Table 3.

The Commission considered it useful to set out how these GNI* percentage figures above translated into nominal amounts of expenditure. It is important to discount future expenditure by an appropriate discount rate to capture the net present value of the figure (to give an indication of expenditure in today's terms). Given that the specific discount rate used can significantly impact the calculation of the net present value of the savings, the Commission sought a range of discount values from the Department of Finance.

As set out in Table 11.5 below, the Commission looked at the difference between the cost of keeping the State Pension age at 66 and the previously planned changes.

- Nominal figures show a savings of €1.487 billion in 2030, €3.812 billion in 2050 and €8.331 billion in 2070.
- Using a discount rate of 2 per cent, the savings are calculated at €1.196 billion in 2030, €2.063 billion in 2050 and €3 billion in 2070.
- Applying a discount rate of 4 per cent, the savings are calculated at approximately €966 million in 2030, €1.13 billion in 2050, and €1.127 billion in 2070.

It should be noted that these savings relate to the particular year alone i.e. the savings in 2030, 2050 and 2070. The cumulative changes over time are more significant.

Table 11.5: Present value of savings from previously planned State Pension age increase, applying varying discount rates

Discount rate	2030	2050	2070
0%	€1.487 billion	€3.812 billion	€8.331 billion
2%	€1.196 billion	€2.063 billion	€3.034.6 billion
4%	€965.6 billion	€1.13 billion	€1.127 billion

Table 11.6 below sets out how much of the savings arise from a State Pension age increase can be attributed to savings in the social welfare system, and how much from public sector pensions.

Table 11.6: Nominal 4%, 2% and 0% Discount Rates - DFIN Projected Expenditure – Difference Between Constant Pension Age and Increasing State Pension Age

	2030			2050			2070		
Discount rate	**4%**	**2%**	**0%**	**4%**	**2%**	**0%**	**4%**	**2%**	**0%**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Social Welfare Pension	€901	€1,115	€1,387	€1,071	€1,955	€3,612	€1,100	€2,962	€8,131
Public Sector Pension	€65	€80	€100	€60	€108	€200	€27	€73	€200
Total Pension	€965	€1,196	€1,487	€1,130	€2,063	€3,812	€1,127	€3,035	€8,331

Source: DFIN. Rounding may affect totals

It is evident that while a small proportion of the savings is due to savings in public sector pensions, it is primarily attributable to savings in the social welfare payments.

Based on this and the preceding data that was presented, the Commission concluded that increasing the State Pension age generates savings which improves the fiscal sustainability of the State Pension.

11.6. Implementation Considerations

The Commission recognises the significant legitimate concerns that arose with the previous planned increase in the pension age.

One of the most strongly voiced concerns raised in the public consultation process related to the gap between the traditional retirement age in employment contracts (65) and the State Pension age (66). The Commission notes that these concerns have been partially addressed by the introduction of the Benefit Payment for 65 Year Olds scheme and will be further addressed if the Commission's recommendation that the retirement age in employment contracts be aligned by law with the State Pension age is implemented. This legislation should be enacted in advance of any increase in the State Pension age.

Some individual submissions stated that they were not aware that there was to be increase in the pension age. The Commission, in accordance with the general principle that there should be adequate communication and notice of pension reforms, considered that any pension age increase should not take effect immediately.

In light of international experience, the Commission considered that a gradual incremental increase – by three months rather than a full year – would lessen the impact of any pension age increase on upcoming pensioners. These two factors combined would provide for a longer lead-in time which was sought in a number of submissions.

11.7. Effective Retirement Age

The average age at which older workers withdraw from the labour force is known as the effective or average retirement age. As noted in Chapter 4, increasing the employment rate of older workers can have a significant impact on the sustainability of the State Pension system. This section considers whether an increase in the State Pension age would affect the effective retirement age.

The *2021 EU Ageing Report* notes that to ensure that higher State Pension ages are reflected in higher labour market exit ages, governments need to restrict early exit possibilities accordingly, e.g. by extending career requirements or early retirement ages, or providing financial incentives to stay longer in the labour market. The State Pension age, early retirement possibilities and the presence of incentives and/or penalties all influence the retirement behaviour of individuals and determine the effective exit ages from the labour market.

In 2017 Redmond et al (2017) published a paper examining whether the increase in the contributory State Pension age from 65 to 66 in 2014 had an impact on the retirement rate of 65-year-olds in that same year. As a result of the increase in the State Pension age to 66 in January 2014, 65-year-olds who were born in December 1948 could receive the State Pension, while others born in January 1949 (one month younger) had to wait until age 66. By comparing the retirement rates of these two groups of individuals at age 65, the paper assessed the impact of the pension age change on the retirement decisions of those born after the cut-off point. The research found that there is no clear evidence that the change in the pension age impacted the retirement rate of those born after the cut-off point. The retirement rate among the younger group of 65-year-olds who were born in January and February 1949 was very similar to the retirement rate of the older group born in November and December 1948.

Redmond et al note that in 2014, even after the policy change, it is likely that employment contracts still specified a retirement age of 65, or even where none was specified, there may still have been an expectation that people would retire at this age. In addition, the age at which an individual's occupational pension begins would not have been affected by the pension age increase. Furthermore, the authors note that there was no real financial incentive to continue working until the age of 66, as retirees could avail of Jobseeker's Benefit for one year, with no expectation of seeking work.

In this regard, as discussed in Chapter 10 on Retirement age, this makes it all the more important to ensure that workers can remain in employment until State Pension age in order to bridge the gap that currently exists. This in turn could support the gradual change in employment norms leading to a higher effective retirement age.

11.8. Gender, Equality and Poverty Proofing

There are a number of groups that may be disproportionately affected by increases to the State Pension age. This section sets out the issues and available data in relation to these different impacts. Some of these impacts were also raised in submissions to the public consultation process.

11.8.1. Arduous jobs

For individuals in particularly hazardous or arduous employments it may not be considered possible to remain in employment. It was noted in submissions to the public consultation process that in deciding the State Pension age, the variations in the work people undertake should be taken into account.

The Commission reviewed the specific provisions available in other countries for those in hazardous and arduous employments (more details are available in Appendix 11A). In general, the international trend is moving away from providing specific pension provision and instead using other provisions available within the system to support those in arduous employment.

In this regard, the OECD states that, in cases where such work-related health risks are recognised, they can be better dealt with by some well targeted conventional social policies, such as unemployment benefits and disability pensions or work-related sickness benefits, on case-by-case bases. They note that, "… in general there is a weak case for either maintaining or introducing special pension schemes for workers in hazardous or arduous jobs. The continuance of these schemes owes more to institutional resistance to change than their usefulness as a supplementary public pension scheme." (OECD, 2009:4)

It should be noted that there are alternative social welfare payments for those who are unable to work past 65.

- The Benefit Payment for 65 Year Olds provides payment for people aged 65 who have ceased employment or self-employment and who satisfy the Pay Related Social Insurance (PRSI) contribution conditions.

- Invalidity Pension is a weekly payment to people who cannot work because of a long-term illness or disability and are covered by PRSI.
- Illness Benefit provides a short-term payment to individuals who are unable to work due to illness.

The Commission recognises that as the labour market evolves, increasingly people are moving between employments more fluidly. Individuals who wish to continue working but can no longer work in their current job should be facilitated in moving to another area of employment.

It should be noted that the gender and equality impacts of this issue are difficult to quantify as the definition of arduous work is so broad. The European Social Policy Network (ESPN) defines “arduous and hazardous jobs” as, “Occupations involving the exposure of the worker over a period of time to one or several factors leading to professional situations susceptible to leave long-lasting and irreversible effects on his/her health; these factors are related to physical constraints, psychosocial risks, an aggressive physical environment, working organisation and working rhythms, including shift work.” (2016:4).

Research by McGinnity et al (2020) finds that men are more likely to experience workplace injuries, which can be seen as indicative of hazardous work. Research by Russell et al (2019) finds that migrants are statistically significantly less likely to perceive job longevity (where they agree that they could remain in the same job or similar job at age 60). There was a slight difference by gender but it was not statistically significant.

The Commission’s recommendation from Chapter 10 that, in the context of the Commission’s support for fuller working lives, social partners, relevant Government bodies, and the Workplace Relations Commission should consider and issue guidance on measures to facilitate those who wish to continue working may be relevant in this regard.

11.8.2. Healthy life expectancy

Some submissions to the consultation process noted that access to the State Pension should reflect that living longer does not necessarily mean being in full health and capable of working at the same capacity as before. One submission noted 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.

The Commission notes that the data shows that Ireland is above the EU average in terms of healthy life expectancy from age 65. Table 11.7 shows that the EU average of healthy life years at 65 for females is 10.4 and for males is 10.2. In Ireland, the healthy life years at 65 is above the EU average at 14.1 for females and 13.1 for males.

Table 11.7: Healthy life years at age 65

	Healthy life years after age 65	
	Females	Males
Sweden	16.6	15.9
Malta	15.1	14.4
Ireland	14.1	13.1
Germany	12.8	11.5
Spain	12.3	12.4
Denmark	11.8	10.7
France	11.6	10.4
Belgium	10.7	10.5
Luxembourg	10.6	10.1
EU	10.4	10.2
Bulgaria	10.4	9.2
Netherlands	9.6	10.2
Finland	9.6	9.3
Poland	9.0	8.1
Slovenia	8.6	8.7
Czechia	8.2	8.0
Greece	7.7	8.1
Austria	7.7	7.7
Hungary	7.4	6.7
Cyprus	7.1	8.1
Portugal	6.9	7.9
Romania	6.5	6.7
Lithuania	6.4	6.0
Croatia	4.9	4.6
Latvia	4.8	4.5
Slovakia	4.7	4.6

Source: Eurostat

It should be noted that while these figures apply in the main, healthy life years depend on other factors, such as where an individual lives and if they have a disability. In this regard, the CSO has previously reviewed such mortality differentials in Ireland. Table 11.8 below shows that the life expectancy at birth of males living in the most deprived areas in the State was 79.4 years in 2016/2017 compared with 84.4 years for those living in the most affluent areas. The corresponding figures for females were 83.2 and 87.7 years. The differential between female and male life expectancy (3.8 years) was greatest in the most deprived areas.

Table 11.8: Life expectancy differentials by area deprivation rates

	Males	Females
All	**82.0**	**85.5**
First Quintile (least deprived)	84.4	87.7
Second Quintile	83.2	86.5
Third Quintile	82.2	85.7
Fourth Quintile	81.9	84.9
Fifth Quintile (most deprived)	79.4	83.2

Sources: CSO Mortality Differentials 2016/2017

Life expectancy was also influenced by disability. Table 11.9 shows that a 65-year-old male with a disability is expected to live a further 15.7 years compared to an expected additional 24.9 years for a 65-year-old male without a disability. This differential is evident across both genders.

Table 11.9: Life expectancy by sex at 65 by disability, 2016-2017

	Males	Females
Disabled	15.6	18.5
Not disabled, including no response	24.9	28.0
All persons	**19.9**	**22.4**

Source: CSO Mortality Differentials 2016/2017

It is evident that Ireland has one of the highest healthy life expectancy years at age 65 in the EU. While there are differences in life expectancy by gender, disability and deprivation, on average, these differences emerge from approximately age 80.

11.8.3. Those reliant on State Pensions for all or most of their retirement income

Changes to the State Pension age will disproportionately affect those who are reliant on the State Pension for all of their income in retirement. This was considered by a range of submissions, which noted that increasing the State Pension age will have a disproportionate impact on those without any occupational pension coverage and those with very low levels of occupational pension savings.

ESRI research published in 2019 (Nolan et al) presented evidence on the gender pension gap in Ireland. The report notes that the total gender pension gap is due to differences in incomes from private and occupational pensions. 55 per cent of retired men receive a private or occupational pension, compared to only 28 per cent of women. For men and women who receive a State Pension, there is no difference observed in the amount received, i.e. there is no gender gap in State Pensions.

In this regard, the Government commitment to introduce an automatic enrolment retirement savings system will be key to improving supplementary pension coverage.

11.9. Alternatives Considered

In the course of its deliberations the Commission considered alternatives to the gradual increase in the State Pension age, including not increasing the State Pension age and linking Pension age increases to life expectancy.

11.9.1. No increase in the State Pension age

As noted in the previous section, the Commission considered the following specific policy levers to meet the projected shortfalls in the Social Insurance Fund (SIF):

- Increases to PRSI contribution rates for the self-employed, employees and employers;
- PRSI base broadening measures;
- Increasing the State Pension age; and
- Commencing annual Exchequer contributions to the State Pensions Fund.

As noted before, using any one of these policy levers by itself to meet the projected shortfalls in the SIF would require such an extreme change that it would be impractical or impossible to implement. Furthermore, using a combination of the other policy options but with no increase to the State Pensions age would place increased stress on these levers.

Table 11.10 sets out the combined Class A employee and employer (higher) rates that would apply depending on which policy options are included to address fiscal sustainability. These are based on the packages set out in Chapter 5. Package 1, which relies on PRSI increases to reach the projected SIF shortfalls, would require the combined employer/employee (Class A) rate to increase from 15.05 per cent to 16.25 per cent by 2030, 19.45 per cent by 2040 and 21.65 per cent by 2050. By including a State Pension age increase (Package 2), this reduces the level of increases required. Similarly, Package 3 which includes PRSI rate increases and the Exchequer contribution but no State Pension age increase, would require a Class A PRSI increase from 15.05 per cent to 15.45 per cent by 2030, 18.55 per cent by 2040 and 20.35 per cent by 2050. This is in contrast to the Commission's recommendation of Package 4 which includes these levers plus the State Pension age increase, and consequently requires no increase to Class A PRSI by 2030, an increase to 17.75 per cent by 2040 and 17.95 per cent by 2050.

Table 11.10: Combined Class A PRSI contribution rates, with and without State Pension age increases

	2021	2030	2040	2050
Package 1 – PRSI increases	15.05%	16.25%	19.45%	21.65%
Package 2 – PRSI increase and State Pension Age increase	15.05%	15.65%	18.85%	19.15%
Package 3 – PRSI and Exchequer contribution	15.05%	15.45%	18.55%	20.35%
Package 4 – PRSI, Exchequer contribution, and State Pension age increase	15.05%	15.05%	17.75%	17.95%

The Commission therefore considers that the most equitable and effective approach is to employ a combination of policy options, including PRSI increases, base broadening, an annual Exchequer contribution and a gradual increase to the State Pension age, in order to meet the SIF shortfalls.

11.9.2. Linking pension age increases to life expectancy

This approach to increasing the State Pension age was suggested by a number of submissions to the Commission's consultation process. The Commission also recognises that this approach has been adopted as policy in a number of EU Member States. However, the Commission felt that gradually increasing State Pension age to 68 over almost two decades would be sufficient at present. Implementing this policy along with the other reforms noted in the Package, will provide certainty and reliability. As such, the Commission considered that it would be premature to make policy recommendations for further increases or adjustments at this juncture. Any further modifications, including linking State Pension age to life expectancy, would need to be assessed at a later stage once the pension age increases had taken place.

11.10. The Commission's Recommendations

- **By a significant majority (10 out of 11 members), the Commission recommends[27] a gradual incremental increase in the State Pension age by three months each year commencing in 2028, reaching 67 in 2031 (10 years from now), with further increases of three months every two years reaching 68 in 2039.**
  - One of the main concerns with an increase in the State Pension age – the gap between the traditional retirement age in employment contracts (65) and the State Pension age (66) has been partially addressed with the introduction of the Benefit Payment for 65 Year Olds and will be further addressed if the Commission's recommendation to legislatively align retirement ages in employment contracts with the State Pension age is implemented. This legislation should be enacted in advance of any increase in the State Pension age.
  - The gradual implementation will reduce the impact of the pension age increase on upcoming pensioners.
  - The increase in the State Pension age will apply to all State Pension schemes.

[27] The member nominated by ICTU did not support any increase in the State Pension age."

Chapter 12: Flexible Access

This chapter sets out the range of flexible access options that the Commission considered, in recognition that a 'one-size-fits-all' approach to State Pensions access may no longer be appropriate for society today. Ireland is an outlier compared to the rest of the EU in not having flexibility built-in to accessing State Pensions. Flexibility in other countries takes the form of deferred access, early access and/or partial access (where a person works and accesses a partial pension). In this regard, the Commission considered options for deferred access with actuarial increases applying, deferred access where a person can continue to make PRSI contributions and improve their State Pension Contributory (SPC) entitlement, and early access based on a long contribution history. Other flexible access options such as early access based on an actuarially reduced rate applying, a matrix approach based on age and contributions, and partial access were considered by the Commission but are not recommended at this juncture.

12.1. Background

At the Commission's inaugural meeting, the Commission was asked to consider whether a 'one-size-fits-all' model of accessing State Pensions reflected the significantly changed nature of working lives in Ireland.

Successive Irish governments committed to measures supporting and encouraging fuller working lives (see Appendix 4B). People are living longer and healthier lives and many, who are in a position to do so, regard working further into their later years and beyond the traditional retirement age as something that is both possible and desirable. There are also tendencies towards later entry to and earlier exit from the labour market in many European countries over the past decades.

Flexible State Pension arrangements can increase people's well-being and incentivise people to work longer than they would have otherwise. This can, in turn, increase workers' future pension entitlements, which is particularly important for those with less secure attachment to the labour market. It has the potential to help with sustainability as more people would continue to contribute to economic growth and generating tax revenues.

12.2. International examples of flexibility

From the Commission's overview of pension systems internationally, Ireland is an outlier in not having some element of flexibility in its State Pension system. Some examples of flexible access options in other EU countries are set out below.

- In **Estonia**, the public pension can be claimed up to three years before the standard pension age provided that the individual retires and if the condition of a 15-year qualification period is met (OECD, 2019d). The pension is reduced by 4.8 per cent for each year of early retirement. It is also possible to combine part-time work with receiving part of the pension. The public pension can be deferred after the normal pension age. Deferring the pension earns an increment of 10.8 per cent per year. During the deferral period, the worker can continue to contribute and earn extra entitlement. It is also possible to combine work and pension receipt. In this case, contributions are again paid, and the pension is recalculated annually.
- In **Germany**, early retirement is possible at the age of 63 for a person with an insurance record of at least 35 years (OECD, 2019e). However, the pension benefit will be reduced by a permanent deduction, which increases in line with the rise of the statutory retirement age. If retiring before the statutory retirement age (age of 67 for those born 1964 or later), benefits are permanently reduced by 3.6 per cent for each year pensioners fall short of the statutory retirement age. In addition, by retiring at age 63 instead of 67, pension entitlements can be significantly lower due to working fewer years and not earning additional pension points.

  Individuals can currently retire at the age 63 without any pension penalties, however, if they complete 45 years of insured time (employment, childcare or from child-raising periods up to age 10 or periods of short-time unemployment all count as insured time, although unemployment spells at the ages 61 or 62 do not count).

Beginning in 2016 this age is increasing until it reaches 65 for those born 1964 or later. At present, early retirement is possible from age 63 and four/ six months.

Postponing the retirement age is also possible in Germany and will yield a higher pension accrual of 0.5 per cent for each month worked after the statutory retirement age.

- In **Portugal**, early retirement was suspended during the bailout assistance agreement, but in 2015 the suspension was partially lifted for those aged 60 and with 40 years of contributions, with actuarial penalties (reduction of 0.5 per cent for each month claimed before the pensionable age plus the effect of the sustainability factor that applies). However, since 2017, early retirement without penalties can be taken by workers with a contribution record of 48 years and by workers aged 60 or more with a contribution record of 46 years who started their working life at the age of 14 or younger (European Commission, 2018; OECD, 2019g).

While Ireland is atypical in not having some element of flexibility in its State Pension system, care needs to be taken in comparing State Pension systems internationally. Disparities in preferences for flexibility across countries are likely driven by the design of pension systems in each country. As noted previously, Ireland is atypical in having a flat rate, rather than earnings related, State Pension payment system. While it makes the State Pension system effective at redistribution and reducing pensioner poverty, it can also limit the extent to which flexibility can be introduced into the system.

Ireland is atypical again in being the only OECD country without a mandatory or automatic enrolment supplementary pension system, which means a large proportion of the population is reliant on the State Pension system for all or most of its income in retirement. What stems from this is that any changes to the State Pension system in Ireland can have very real and significant impacts on the retirement income of pensioners in Ireland in a way that does not happen to the same extent in other countries, where having other sources of retirement income is standard.

The next section sets out the Commission's consideration of flexible options for the State Pension system.

12.3. Deferred Access – Actuarial Increases

One of the ways of introducing flexibility into the State Pension system is to allow pensioners to defer access to their SPC payment. As the duration of pension payment is shorter than would otherwise have been the case, an actuarial increase in the weekly rate of payment is applied. This increase in the payment rate is cost neutral to the SIF and the State's finances in the long-run. Internationally, the actuarial uplift is typically about 4 per cent each year that the pension is deferred (plus or minus a percentage point).

Becoming eligible for a pension is a driver for retirement (Ward, 2019). The option to defer access can be an incentive to people who remain in employment past State Pension age, which aligns with the Commission's support of measures that support and encourage fuller working lives.

While the policy is cost-neutral to the SIF, a financial incentive arises in relation to the payment of tax. SPC is a taxable benefit. Accordingly, someone who is in employment and in receipt of the State Pension is likely paying tax either at the standard or higher marginal rate of taxation on all of their income, including the State Pension. By implementing this reform, the person would have the option to defer entitlement to the State Pension while in employment (and therefore not pay tax on it), while increasing the rate of SPC payment when they do access it. They would then likely pay less tax on their State Pension payment once they retire (as income typically reduces in retirement).

12.3.1. Policy context

The *Programme for Government* states that it will, "Introduce a system to enable people to defer receipt of their state contributory pension on an annual basis, to include actuarial increases in payment as soon as practicable." (p.75)

Introducing deferred access to SPC with an actuarial increase has been a long-standing pensions policy goal. The *Roadmap for Pensions Reform* committed, under Strand 6 'Supporting Fuller Working Lives', to prepare an options paper to, "allow deferral of the State Pension contributory on an annual basis to include actuarial increases of payments." This built on the *National Pensions Framework* (2010), which stated that, "People are living longer, and many people want to have the option of working longer. For those people who wish to postpone drawing down their State Pension, arrangements will be put in place to enable them to receive an actuarially increased benefit when they decide to retire." (p. 24). Appendix 4B sets out a range of Government policy commitments in relation to supporting fuller working lives.

12.3.2. Consultation Findings

A number of submissions to the public consultation process suggested that the Commission recommend the introduction of deferred access to the State Pension, with actuarial increases to the payment rate. This was seen as an incentive to continue working later in life. It was also noted in submissions that this was a Government commitment which should be implemented.

12.3.3. Gender, Equality and Poverty Proofing

It was raised by the Department of Social Protection that a possible gender impact that could arise with this policy proposal is that when a person chooses to defer their State Pension entitlement, this would also have the effect of deferring any Increase for a Qualified Adult (IQA) payment that their spouse or partner could have directly received. Qualified Adult payments are primarily paid to women. Given that it is likely that a person who is deferring their State Pension payment is doing so because it is financially advantageous to do so, this means that it is likely that the person deferring has means and that the spouse or partner may not qualify for the means-tested State Pension Non-Contributory. It should be noted that in the UK, where a person chooses to defer their State Pension entitlement, the household cannot apply for means-tested benefits, as the person has chosen to deprive themselves of a benefit to which they are entitled.

This could lead to concerns that introducing such a policy reform could give rise to poverty or deprivation for these dependants, who are predominantly women. In this regard, currently men are more likely to be in employment after State Pension age than women (with the CSO's *Labour Force Survey* finding a participation rate of 18.5 per cent for men aged 65 and over compared to 7.6 per cent for women aged 65 and over in Q3, 2020 – to validate that these are representative figures and not affected by the pandemic, the equivalent figures for 2019 are 17.5 per cent and 7.7 per cent respectively).

There are a number of mitigating factors to consider in relation to this issue. Firstly, the take-up of deferred pension options tends to be very small. The OECD estimates that about 10 per cent of individuals in the 60 – 64 or 65 – 69 age groups in EU-28 combine pension and work. However, only 2 per cent of individuals continue in employment without claiming a pension (and are likely to have deferred claiming their pension entitlements). The OECD (2017) concluded that take-up of "pure" pension deferral is not very common, with the majority of those working beyond pension age also claiming their pension entitlement at normal retirement age.

Secondly, the number of qualified adults (IQA) paid as dependents is decreasing over time as more women become entitled to the State Pension Contributory in their own right (see Chapter 2). Accordingly, between the overall low numbers likely to take up this option, and the declining number of qualified adults, the scale of any impact is likely to be small.

Furthermore, research carried out by Maître et al (2016) using a special Survey on Income and Living Conditions module on income pooling between couples did not find any evidence that the burden of deprivation is more likely to fall on women in couples. The authors noted that, "Research on poverty usually assumes that household income is shared equally among household members so that they all benefit from the same living standard. This assumption has been criticised, however, by some who argue that differences in power within the household – typically linked to who receives the income or who makes the decisions – may mean that some members of households enjoy better access to goods and services than others. One possibility is that since women are less likely to have earned income, their bargaining power will be decreased and they will have higher levels of deprivation than their male partners. This study examined couple families in Ireland to test whether this was the case."

The paper, "…did not find any evidence that the burden of deprivation is more likely to fall on women in couples… In general, the results do not undermine the conventional assumption of shared resources within couples. In particular, there is little support for the concern that making this assumption means that female poverty is underestimated."

In this regard, the data and research available indicate that the scale of this potential issue is small and diminishing and that, in general, income pooling does take place between couples. Accordingly, any negative gender and poverty impacts of this reform are likely to be minimal. However, this issue should be carefully considered in the design and implementation of the reform.

12.3.4. Costs

The *National Pensions Framework* considered that with this option, the, "actuarial adjustment applied will not impose any additional burden on the Exchequer." While it should be possible to design the actuarial increases on a cost neutral basis from the perspective of the Social Insurance Fund, deferring the State Pension could work to reduce the tax take from pensioners in employment and result in a loss of income to the Exchequer, if the take-up of this option was primarily by people seeking to reduce their tax liability. However, as noted above, the take-up for deferred State Pension options tends to be small and, in this regard, any Exchequer impact is likely to be minimal. In addition, this potentially negative Exchequer impact could be offset if the reform worked as an incentive that encouraged more older people to remain in employment past State Pension age.

12.3.5. Commission's Conclusions

The introduction of the option to defer access to the State Pension and receive an actuarial increase in the rate of payment would introduce a welcome element of flexibility to the State Pension system, and would offer an incentive to older people to remain in employment past State Pension age. Some implementation issues in relation to deferred pensions are discussed in the section 12.4.6 below.

12.4. Deferred Access – Continue building SPC entitlement

Another way of introducing flexibility into the State Pension system would be to allow people to continue making PRSI contributions past State Pension age to improve their SPC entitlement. Entitlement could be improved in two ways:

- A person could become eligible for SPC by making PRSI contributions past State Pension age which would help them to reach the 520 paid contributions threshold required to access the payment;
- Where a person did not have the contributions required to qualify for the maximum weekly rate of payment by State Pension age, they could continue to make PRSI contributions and improve the weekly rate of payment for which they would qualify. This is particularly relevant with the full move to a Total Contributions Approach (discussed in Chapter 8), where every contribution counts in the calculating the weekly rate of payment.

Social insurance contributions by those in employment would continue to be paid at the Class A rates for employees and employers, and Class S for the self-employed.

12.4.1. Policy context

The *Programme for Government* states that it will, "Facilitate those without a full social insurance record to increase their retirement provision by choosing to continue making PRSI payments beyond pensionable age." (p.75)

Facilitating continued PRSI contributions to improve SPC entitlement is also a long-standing pensions policy goal. The *Roadmap for Pensions Reform* stated that "consideration will be given to allowing those without a full Social Insurance contribution record increase their retirement provision by choosing to make PRSI contributions beyond State Pension age and up to the actual date of retirement (p.37)". This built on the *National Pensions Framework* (2010), which stated that: "for those with contribution shortfalls at pension age, arrangements will be put in place to allow them to receive additional benefits at a later date if they continue to make paid contributions for pension purposes while remaining in work or self-employment." (p.25)."

12.4.2. Consultation Findings

This policy reform was suggested by a wide range of organisations in the public consultation process in order to support people to improve their retirement income, and in recognition of the contributory principle of the social insurance system.

12.4.3. Gender, Equality and Poverty Proofing

Negative gender, equality or poverty impacts are not readily apparent with the implementation of this option. On a preliminary consideration, this reform option would provide an avenue for people without a full social insurance record at State Pension age to improve their SPC entitlement. In this regard, this will be of most benefit to those with shorter social insurance records such as:

- Women (even with the provision of 20 years of HomeCaring periods under the Total Contributions Approach).
- Migrants, including returning emigrants, who worked in non-EU countries with which Ireland does not have a bilateral social security agreement.
- People with more than 10 years of credited contributions – this would include long-term jobseekers. It should be noted that a person who suffered from long-term illness would likely be in receipt of Invalidity Pension, which qualifies for the maximum weekly rate of SPC. A person who was a long-term receipt of the means-tested Disability Allowance could qualify for the State Pension Non-Contributory.
- People with sporadic working histories – groups such as people with disabilities and Travellers, are more likely to experience inequality in access to employment and job security (McGinnity et al, 2021).

It should be noted that the State Pension Non- Contributory (which has a maximum weekly rate of payment that is 95 per cent of the SPC) remains as the a source of retirement income for those who do not qualify for the maximum weekly rate of the SPC. This ensures that the State Pension system will not require people without sufficient contributions to remain in employment to access an income past State Pension age. Deferral would be an option for those who wish to avail of it.

The same issue in relation to the Increase for a Qualified Adult (IQA) payment as set out in Section 12.3.3 above may also apply with this policy option, although it would not apply to the same extent as the person may not qualify for SPC at State Pension age without continuing to pay PRSI contributions.

12.4.4. Costs

The cost of this reform option depends on its final design. Costs would need to be met through the application of policy levers in order to prevent shortfalls in the SIF arising from the implementation of this measure. Some of the issues that need to be considered by Government are set out in the section below on implementation considerations.

12.4.5. Commission's Deliberations

The Commission considered that the introduction of the option to defer access to the SPC and continue paying PRSI contributions to improve SPC entitlement would provide a welcome element of flexibility to the State Pension system. It would provide those without a full social insurance record a means of improving their record, in the context where people are living longer and healthier lives and may wish to continue to work. In this regard, it provides for the continuation of the contributory principle past State Pension age. This reform is also particularly relevant in the context of the recommendation to fully move to a Total Contributions Approach (see Chapter 8), where every contribution makes a difference to the calculation of the SPC rate of payment. It would also offer an incentive to older people to remain in employment past State Pension age, which aligns with the Commission's support for measures that encourage fuller working lives.

12.4.6. Deferred Pensions - Implementation Considerations

This is a complex policy area. While the Commission recommends its introduction, several design issues will need to be considered in detail. Some of the Commission's deliberations are set out below.

- **Social insurance rates:** Social insurance contributions by those in employment would continue to be paid at the existing relevant rate – that is, Class A rates for employees and employers, and Class S for the self-employed (and the relevant rates for Classes E and H, which also qualify for SPC – see Appendix 3B for the list of PRSI classes and rates payable).
- **Working age payments**: On the issue of whether the person past pension age making PRSI contributions gets access to any other benefits than SPC (for instance, short-term benefits like Jobseeker's Benefit or Illness Benefit), while in other jurisdictions, such as the UK, a person can access short-term benefits when they have deferred their SPC entitlement, access to social insurance benefits past State Pension age could be limited to pension payments to prevent additional costs arising to the SIF.
- **Secondary benefits:** On accessing secondary benefits and allowances when a pension is deferred, where entitlement to a secondary benefit is expressly linked to receipt of a State Pension, then the secondary benefit or allowance could not be accessed during the deferred period (for instance, the Living Alone Allowance). However, where a secondary benefit or allowance is not expressly tied to receipt of a State Pension, then it should be possible to access (for instance, Free Travel).
- **Pension rate uplift**: On the issue of the uplift in the rate that would apply where a person defers access to SPC while continuing to make contributions, this uplift could take into account both the increase in the number of contributions paid while working past pension age, and the increase in payment rate from deferring the pension.
- **Duration of deferral:** Internationally speaking, the length of deferral in the EU ranges from three years to indefinitely. In this regard, the initial time period for deferral could be up to 70 years of age (four years), which can then be reviewed to see if it should be extended. This deferral duration would continue to apply with any increase in the State Pension age. In addition, a person should not have to choose the length of deferral at the outset, as circumstances can change.

12.5. Early Access – Long Contribution History

As outlined at the outset of this chapter, the Commission considered several flexible access options. The sections above focused on deferred access while this section discusses early access for those with lengthy contribution histories. This option provides for a full State Pension payment to be payable to those who have to or wish to retire at age 65, and who have a long contribution history (defined by 45 years – or 2,340 – contributions). For those without this high level of contributions, the Benefit Payment for 65 Year Olds will remain until reaching State Pension age.

12.5.1. Policy context

The policy direction of recent Governments, in line with international trends, has been to limit early access to State Pensions and in fact to increase the State Pension age in order to make the State Pension system more sustainable for future generations. This was evident from the abolition of the State Pension Transition in 2014 which provided access to a State Pension payment from age 65, and the 2011 legislation (now repealed) that provided for increases in the State Pension age to 67 in 2021 and 68 in 2028.

It should be noted that there are a range of Social Welfare payments for which 65 year olds can apply, including the new Benefit Payment for 65 Year Olds which was introduced earlier this year. In addition, special provisions apply for jobseekers aged 62 and over.

12.5.2. Consultation Findings

There were calls in a number of submissions in the public consultation process for a SPC payment before State Pension age, such as through the re-introduction of the State Pension Transition (SPT). SPT was payable from age 65 at the rate of SPC, with a retirement condition, and a higher contribution requirement than the SPC. It was noted in submissions that the Benefit Payment for 65 Year Olds is paid at the Jobseeker's Benefit rate, which is some €45.30 per week lower than the maximum rate of SPC.

As outlined in Chapter 11, early access to the SPC was particularly recommended for those who have a long contribution history and/or those who are unable to continue in work due to the physically demanding nature of their employment and who wish to retire.

There was also a call for those with long working histories to be recognised in the State Pension system. This was the case by both organisational and individual submissions. In this regard, a number of individual submissions highlighted that they had been working all their lives and had a legitimate expectation that they could retire at 65 and access the State Pension, which was their only source of retirement income.

12.5.3. Gender, Equality and Poverty Proofing

Much of the general impact assessment around early access was considered in the previous chapter on the State Pension age, in terms of arduous work, recognising longer working lives, healthy life expectancy, and the potential income gaps arising at 65.

This section considers the specific eligibility conditions for accessing an early access State Pension and how those conditions can result in a differential impact on who can access the payment. Based on analysis by the Department of Social Protection, the Commission considered the gender impacts of access from age 65 based on different approaches to counting contributions (paid contributions only; TCA approach with 20 years of HomeCaring periods and 10 years of credited contributions, with a 20 year combined cap for HomeCaring periods and credited contributions; and a TCA approach with no cap with regard to HomeCaring periods and credited contributions).

While limiting early access to paid contributions alone would recognise long working histories and reduce costs, it would result in significantly more men than women qualifying (at 45 years of paid contributions, it is estimated that 9 per cent of men would qualify compared to 2 per cent of women). Removing all caps would make the proportion of men and women that would qualify more equal (23 per cent of men compared to 21 per cent of women). However, if this calculation method did not apply to the State Pension in general, a person could qualify for a full rate of the State Pension at 65 and then qualify for a reduced rate at State Pension age.

Accordingly, it is important to keep the conditions for early access the same as for SPC in general to ensure that a consistent rate of payment applies. This would result in 19 per cent of men and 14 per cent of women qualifying for early access (this excludes Invalidity Pension recipients, as the TCA

design would not impact on the eventual rate of payment for this cohort). As the social insurance records of women improve further over time, the proportions qualifying should become more equal. In this regard, the Commission's recommendations in relation to long-term carers (Chapter 9) would further improve women's ability to qualify for the early access option.

12.5.4. Costs

The Department of Social Protection projected the costs of this measure – at a constant State Pension age – at €50 million in 2030, increasing to €91 million in 2050 and €130 million in 2070.

Additional costs arise with early access from age 65 if the State Pension age is increased. Table 12.1 below provides estimates of costs of this measure if the State Pension age rose to 66.75 by 2030, and to 68 before 2050. The costs below are estimated for the cost of paying the early access SPC to 65 and 66 year olds in 2030, and for 65 to 67 year olds inclusive in 2050 and 2070.

The costs are estimated to more than double when in payment for two years (65 and 66) – this is because a higher proportion of 66 year olds would meet the 45 year contribution threshold. It is assumed that the costs of an extra year duration of payment is 1.25 times the base cost of one year (base costs times 2.25). With two additional years of payment (65, 66 and 67), the cost is estimated at 3.75 times the base cost.

In this regard, the costs of early access increase substantially if the State Pension age increases and early access is available from age 65. It would be possible to moderate these costs by limiting early access to State Pension age minus one or two years.

Table 12.1: Net Costs of Early Access Pension

Scenario	2030	2050	2070
No Pension Age Increase	€50 million	€91 million	€130 million
Pension Age Increases	€106 million	€340 million	€475 million

Source: Based on analysis by Department of Social Protection Investment Analysis Unit

These costs are based on certain key assumptions. Firstly, the *status quo* is that many 65-year olds are currently in receipt of social welfare payments from the Department of Social Protection (Invalidity Pension, Benefit Payment for 65 Year Olds, Illness Benefit, Widow/er's and Surviving Civil Partner's Contributory Pension, Jobseekers payments etc). The net cost to the State under the new option is the difference between the State Pension Contributory rate granted and the counter-factual social welfare payments. Based on analysis of Department of Social Protection administrative data, it is assumed that 50 per cent of the particular population would already be in receipt of a social welfare payment.

Secondly, there is a retirement condition associated with this payment – not all those who are eligible would take up the payment. The cost assumes a take-up rate at age 65 of 60 per cent. This is based on the proportions of those with long service transferring from SPT to SPC. The SPT data from before the scheme was abolished in 2014 indicated that those with long service had a higher propensity to avail of SPT than the general SPC population.

12.5.5. Commission's Deliberations

The Commission considered that early access to the State Pension from age 65 should only be considered for implementation by Government in the context of an increase in the State Pension age.[28] Members were keenly aware of the potential fiscal impacts of such a reform in terms of adding costs to the State Pension system which is contrary to its remit, and the potential negative impacts of early access to State Pensions on the effective retirement age and on encouraging fuller working

[28] The member nominated by ICTU did not support an increase in the State Pension age.

lives. However, it was also recognised that introducing flexibility in the form of early access to the State Pension would work to mitigate some of the potential gender, equality and poverty impacts of increasing the State Pension age. Limiting access to those with long contribution histories and requiring a retirement condition reduces the costs significantly compared to the re-introduction of the State Pension Transition.

12.6. Alternatives Considered

The Commission considered several other flexible and early access options. This includes early and partial access to pensions with actuarial reductions applying, and flexible access to pensions based on contributions. This section provides a brief overview of its considerations.

12.6.1. Early and Partial Access – Actuarially Reduced

Early access to State Pensions on an actuarially reduced basis is commonly offered internationally. This is where the pension payment is calculated on a cost-neutral basis i.e. it assumes the overall amount that would be paid out to the individual is the same, simply being paid out over a longer time period, and accordingly a reduced rate is payable. This reduced payment generally applies for the duration of the person's pension payment. This option could be appealing to those who wish to access the labour market early, and who believe that they may have not have a long life expectancy.

Partial pensions are where a person can access some of their State Pension payment while remaining in work, to allow for easing in work intensity as a person reaches retirement. Given that there is no retirement condition attached to SPC (a person can work and there is no impact on their SPC payment), how this works in practice internationally is as a form of actuarially reduced early access pension.

12.6.2. Access based on contributions

Another form of flexibility that was considered by the Commission was where the maximum weekly rate of SPC could be accessed some years before State Pension age if the person had a higher level of contributions. An actuarially reduced rate would apply if the person did not have the level required for a full rate.

Intuitively, it would seem that this model should be sustainable, as only people with longer contribution histories would be accessing the State Pension earlier, and that this cohort would have paid sufficient contributions. However, the social insurance system is redistributive, and it does not operate on the basis of contributions paid in equating to the social insurance benefits paid out. In this regard, there are significant costs associated with introducing early access of payments.

Preliminary analysis carried out by the Department of Social Protection for the Commission estimated that it could cost €315 million (conservatively) in a full year to introduce a system on the basis of being able to access a full State Pension with 42 years of contributions at age 65, 44 years at age 64, and 46 years at age 63, based on current pensioner numbers, and with actuarial reductions applying for those with fewer contributions. These costs are based on no retirement condition applying – accordingly, costs would be lower if a retirement condition applied. However, the costs assume that 50 per cent of recipients would already be in receipt of a social welfare payment – this assumption may be valid for 65 year olds but it is unlikely to be the case for those aged 63 and 64. The costs are therefore likely higher than estimated. In addition, as pensioner numbers increase over time, the costs associated with early access would increase.

12.6.3. Commission's deliberations

The Commission considered these flexible access options in the context of the State Pension's primary policy objective to prevent pensioner poverty. While recognising that a significant minority of SPC recipients currently do not receive the maximum weekly rate of payment, and that the SPNC would remain as a safety net in terms of preventing pensioner poverty, members did not believe that introducing choice in the State Pensions system, that resulted in a permanent reduction in a State

Pension weekly rate of payment, aligned with the primary objective of State Pensions to prevent pensioner poverty. Accordingly, any flexible option that resulted in an actuarial reduction in payment was not recommended by the Commission. This allowed for a holistic assessment of how the different elements would work together to provide flexibility in the State Pension system.

12.7. Flexible Access - combined options

The Commission considered a number of combinations of flexible access options, which included the components of deferred access and early access. State Pension age increases were also considered as part of these combined options (the State Pension age is discussed in more detail in Chapter 11).

Table 12.2 below sets out the main combinations of flexible access options considered by the Commission. Depending on the combination of options, the State Pension could be accessed from age 65 to 70+.

Table 12.2: Combinations of Flexible Access Options

	Combined Options A	**Combined Options B**	**Combined Options C**	**Combined Options D**
Age at which SPC can be accessed	State Pension Age to 70+	State Pension Age to 70	65 to 70+	65 to 70
Deferred Access – Actuarial Increase	Yes	Yes	Yes	Yes
Deferred Access – Continue PRSI Entitlement	Yes	Yes	Yes	Yes
Early Access at 65 for those with a Long Contribution History	No	No	Yes	Yes
State Pension Age increase	Yes	No	Yes	No
Cost or Savings	Savings – set out in Chapter 11	Neutral	Savings (pension age increase savings are greater than cost of limited early access from age 65)	Cost – set out in Table 12.1

Considering the interaction of the combination of these options formed the basis of the Commission's deliberations in developing sustainable options for Government to consider. In this regard,

- Combined Options A which includes a pension age increase and does not include early access provides the greatest level of savings, and was supported by the Commission.[29]
- The Commission also saw merit in Package C, which provided for early access alongside an increase in the pension age.
- Combined Options D, which provides for early access without an increase in the State Pension age, would be a cost measure and accordingly was not supported by the Commission as it would be contrary to its remit to develop sustainable options.

[29] The nominee from ICTU did not support any increase in the State Pension age.

12.8. The Commission's Recommendations

- **The Commission recommends that access to the State Pension should be on a flexible basis.**
- **The Commission recommends that a person may choose to defer access to the State Pension up to age 70, and receive a cost neutral actuarial increase in their State Pension payment.**
- **The Commission recommends that a person can continue to pay social insurance contributions past State Pension age at their existing PRSI contribution rate (employees, employers and the self-employed) to improve their social insurance record for State Pension Contributory purposes.**
- **These PRSI contributions will enable individuals without a full contribution record (and who have deferred access to the State Pension) to become entitled to the State Pension Contributory, or increase the pension rate of payment, as a consequence of the additional paid contributions.**
- **As an option for Government to consider, done in conjunction with a State Pension age increase, the Commission sees merit in recognising long PRSI contribution histories by including a provision whereby those who choose to retire at 65, and have a long Total Contributions (TCA) record of 45 years, may receive a full pension.**
  - Done on its own, this is a cost increasing measure. By limiting access to those with a long contribution history, and retaining a retirement condition, the costs of this option are curbed. In light of experience with take-up, it may need to be reviewed as the pension age increases.

Chapter 13: Increasing Social Insurance Fund (SIF) Income

13.1. Background

Revenue raising measures are one of the principal policy options that can be used to improve the sustainability of the SIF and the State Pension system. This chapter focuses on increasing SIF income in two main ways, through raising PRSI rates and base broadening measures.

In relation to increasing PRSI rates, the Commission specifically looked at increasing Class S PRSI (self-employed) and increasing Class A PRSI (employer and employee).

In relation to base broadening options the Commission specifically looked at:

- Removing the exemption whereby people of State Pension age (age 66) and older do not pay PRSI on their income, and
- Removing the exemption from paying PRSI on supplementary pension income (which applies to people regardless of age).

This chapter considers each of these options in turn.

The *Programme for Government* (2020) states that, "Consideration will be given to increasing all classes of PRSI over time to replenish the Social Insurance Fund to help pay for measures and changes to be agreed including, inter alia, to the State Pension system, improvements to short-term sick pay benefits, parental leave benefits, pay-related jobseekers benefit and treatment benefits (medical, dental, optical, hearing)."

13.2. Class S PRSI (self-employed)

13.2.1. Current situation

Class S PRSI for self-employed people was introduced in 1988. Class S PRSI is paid on both earned (e.g. self-employment/farming) and unearned income (e.g. income from investments, rents or maintenance payments). At the end of 2019 there were over 351,000 Class S contributors (DSP, 2021).

All self-employed people (ages 16 - 65) with earnings of more than €5,000 a year must pay PRSI.[30] This PRSI contribution is either 4 per cent of reckonable income, or an annual minimum charge of €500, whichever is greater. It is notable that the effect of this formula is that low paid self-employed workers pay 10 per cent PRSI which reduces, in percentage terms to 4 per cent as earnings increase – which is the direct opposite to the PRSI arrangements for low paid employees. For a full list of PRSI classes and benefits see Appendix 3C.

In 2019 Class S PRSI raised €631 million in SIF income. This is equivalent to 5.1 per cent of total 2019 SIF income. In 2020 Class S PRSI raised €647 million in SIF income. This is equivalent to 5.7 per cent of total 2020 SIF income (DSP, 2021).

13.2.2. Considerations

Class S PRSI rates for the self-employed have long been recognised as being disproportionately low for the social insurance benefits received, especially when compared to other workers. While the range of benefits that the self-employed could access was more limited in the past, there has been an extensive expansion in recent years (to include cover for Invalidity Pension and Treatment Benefit in 2017, a Jobseeker's Benefit scheme for the self-employed in 2019 and the Enhanced COVID-19 Illness Benefit payment in 2020) without any increase in the 4 per cent contribution rate. In this regard, self-employed contributors are now covered for most of the benefits available under the social insurance system, with access to 93 per cent of the value of all available benefits.[31]

[30] Employees who are also self-employed in a trade or profession pay Class S PRSI on their self-employment income as well as Class A PRSI on their income as an employee.
[31] The self-employed are currently not covered for the Carer's Benefit, Illness Benefit and Occupational Injuries Benefit schemes.

To put the PRSI rate paid by self-employed contributors into context, a comparison with the rate applying to employed contributors is illustrative. In general, a combined PRSI rate of 15.05 per cent is paid in respect of most employees under PRSI Class A. This includes a 1 per cent contribution to the National Training Fund. The Class A PRSI charge comprises 4 per cent payable by employees and 11.05 per cent by their employer (there is an 8.8 per cent employer PRSI rate, inclusive of the National Training Fund contribution, where weekly earnings do not exceed €395).

In effect, self-employed contributors, in return for a contribution 10.05 percentage points lower than that made in respect of employed contributors, have access to almost all of the benefits available to employed contributors.

The difference in value received from PRSI contributions between Class S and Class A contributors has been noted in a number of reports by a range of bodies:

- A 2009 Commission on Taxation report recommended that, "A similar PRSI base should apply to employees and the self-employed and there should be a single rate of charge which should apply to both." (Government of Ireland, 2009).
- The Advisory Group on Tax and Welfare's 2013 report, *Extending Social Insurance Coverage for the Self-Employed*, published prior to the extension of benefits to the self-employed stated that, "…it is clear that this group [self-employed workers] are already paying low contribution rates for their current range of benefits." The Report recommended the extension of a range of social insurance benefits to the self-employed, with commensurate increases in the relevant social insurance contribution rate.
- The 2015 *Actuarial Review* found that, for a self-employed person on average earnings, their Class S PRSI rate of 4 per cent was 11.8 percentage points below the rate of PRSI that would be needed to pay for a full State Pension (the equivalent figure for an employee is 2.5 percentage point below the required rate of PRSI). (KPMG, 2017).
- In 2016, prior to the extension of a range of social insurance benefits to the self-employed, a DEASP survey of 3,000 self-employed Class S contributors found that a large majority (88 per cent) said they would be willing to pay more PRSI in return for access to more benefits (DEASP, 2019).
- A DEASP paper for the Department of Finance's Tax Strategy Group in 2019 proposed that consideration be given to adjusting the level of social insurance contributions for self-employed workers to that of an employer. The paper suggested, "Changing the basis for the self-employed rate from that of employee to that of employer. The basis for charging a lower rate for self employed workers is that it would be unfair to charge them both an employer and an employee contribution simply because they perform both roles. However, even if this is accepted, it raises the question as to the basis for assessment – that of employee (as at present) or that of employer? Given the extension of benefits, the willingness of self-employed people to pay an additional contribution (from a survey carried out by the Department) and the findings of the report on the use of intermediary-type structures and self-employment arrangements it is believed that consideration should be given to charging self-employed people the employer rate of PRSI." (DEASP, 2019). In parallel with any increase in the underlying contribution rates the DEASP paper proposed that the outstanding social insurance benefits – Illness Benefit and Carer's Benefit – not currently available to self-employed contributors be extended to them. The *Actuarial Review* estimated that this would give rise to an annual cost of about €80 million (KPMG, 2017).
- In 2020 NESC noted that Class S contributors get better value from the PRSI system than those in Class A due to the different rate of contribution paid by each class and proposed that the PRSI contribution of the self-employed be increased to reflect the benefits they are now eligible to receive (McGauran, 2020).

- In 2021 the ESRI calculated that due to employer PRSI, there is an additional €4,420 tax (PRSI, income tax, and USC) burden associated with an employee annual income of €40,000 compared to a self-employed worker with the same level of income (Kakoulidou et al., 2021).
- In response to the Commission's public consultation process, several organisations recommended that the Class S PRSI rate should be increased, or they highlighted the gap between Class A and Class S rates of PRSI.

While the vast majority of self-employment is genuine, the difference between Class A and Class S PRSI rates can contribute to bogus self-employment (i.e. incorrectly classifying an employee as self-employed in order to evade paying the correct rate of PRSI). NESC noted that, "It has also been suggested that a single rate of PRSI contribution should apply to both employees and the self-employed, to help reduce any incentive to try to avoid paying higher employee PRSI contributions." (McGauran, 2020). In addition, the ESRI has stated that, "While many self-employed are involved in 'entrepreneurial activities' such as employing others, innovating and investing, those operating as self-employed include everyone from taxi-drivers to IT consultants and barristers. Blanket lower rates of tax – including PRSI – are therefore poorly directed at encouraging entrepreneurship or business start-ups." (Kakoulidou et al., 2021).

13.2.3. Recommendation: Class S

The Commission agrees with the proposals from the wide range of bodies that the Class S PRSI rates should increase. In this regard, the Commission recommends:

- **Increasing the self-employed PRSI contribution rate. In the first instance, the Commission recommends that Class S PRSI for all self-employed income is gradually increased from 4 per cent to 10 per cent. In the medium term, the Class S PRSI rate should be set at the higher rate of Class A employer PRSI (currently 11.05 per cent).**

13.2.4. Income yield from increasing Class S

Table 13.1 below shows the annual yields from increasing the rate of Class S PRSI by 1 percentage point in 2021.

The yield has been calculated on the basis of the following assumptions:

- Economic and demographic projection assumptions taken from the EU Commission 2021 Ageing Report (European Commission, 2021b), with no adjustment for COVID-19 effects;
- Macroeconomic effects of PRSI rate changes on earnings have not been modelled in these projections;
- Figures exclude National Training Fund Levy receipts;
- State Pension age has been modelled to remain at 66.

Table 13.1: Projections for annual PRSI yield from 1 percentage point increase in Class S PRSI

Year	Yield € millions
2030	200
2040	200
2050	300
2070	400

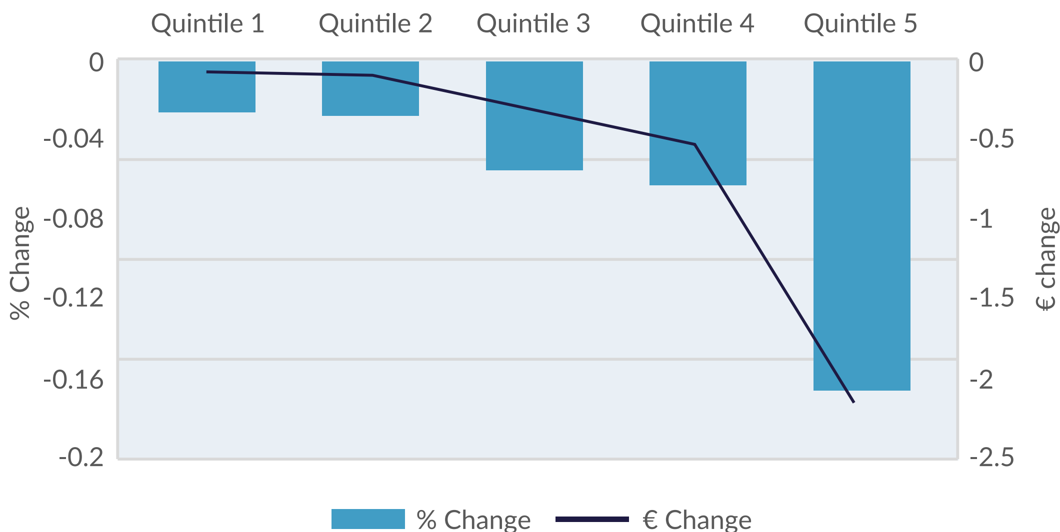
Source: DSP Investment Analysis Unit

13.2.5. Gender, Equality and Poverty Proofing: Class S

In terms of gender impacts, men are more likely to be self-employed than women (see Appendix 4A), therefore an increase in Class S PRSI rates will affect more men.

In terms of considering the poverty impacts, Figure 13.1 below displays the results of a DSP analysis using the ESRI's tax and welfare microsimulation model, SWITCH. It shows a broadly progressive distributional impact[32] by quintile of equivalised disposable income. This measure would result in very small reductions in household disposable income. There is no change to the at-risk-of-poverty rate.

Figure 13.1: Distributional impact by income quintile of increasing self-employed (Class S) PRSI by 1 percentage point (from 4% to 5%)



Source: DSP Social Inclusion Unit

The Commission considered how increasing Class S PRSI rates could have wider economic impacts, by acting as a disincentive to self-employment. The Department of Finance has found that self-assessed taxpayers are more responsive to changes in tax rates compared to PAYE workers. However, the Department of Finance noted that, "...the relatively low responsiveness compared to other countries, coupled with the well-known progressivity of the Irish income tax system, suggest that the trade-off involved in pursuing both equity and efficiency objectives in the Irish system is reasonably limited." (Department of Finance, 2018).

In this regard, the Commission proposes a gradual increase in the Class S PRSI rate (of a percentage point per year initially until it reaches 10 per cent). This would lessen the impact for the self-employed and for the wider economy compared to a sudden 6 percentage point increase.

13.2.6. Alternatives considered: Class S

The Commission considered a number of other Class S policy reforms:

- **Increasing the level of self-employed PRSI to that of an employee and employer combined (from 4 per cent to 15.05 per cent)**: The Commission examined whether increasing Class S PRSI to the combined total of the prevailing rates of employer and employee Class A PRSI could be considered once its recommendations above had been implemented. The rationale for this option would be that the self-employed should pay the same amount as paid by employees and employers to receive the same benefits.

[32] In these analyses, "progressive" reductions in household disposable income are ones that have a proportionately smaller impact on lower-income quintiles than they do on middle and higher-income quintiles.

The ESRI estimates that the impact of this measure would be broadly progressive with income losses for those in the highest income decile just over twice the figure for households on average, while losses for those in the lower half of the distribution would be less than half the average (Kakoulidou et al., 2021).

In favour of this, the Commission noted that the self-employed social insurance rate in a number of European countries, (Croatia, Hungary, and Slovenia) is the same as the combined total of employer and employee rates (Deloitte, 2017).

However, given that its work did not include an examination of all the facets of social insurance, the Commission considered that increasing the Class S rate to the higher rate of the employer Class A rate is a sufficient policy goal for the medium term. The Commission on Taxation and Welfare may wish to consider this further in line with its terms of reference relating to the structure and coverage of social insurance (Commission on Taxation and Welfare, 2021).

- **Increasing the minimum Class S payment from €500 to €1,500:** As noted earlier, currently a self-employed person earning €5,000 per year pays a minimum payment of €500 for a year's social insurance contributions. The rationale for this option is that at present, the value for money for a person paying the minimum Class S payment is very high, in terms of the return received from the social insurance system relative to the amount paid in. A DEASP paper for the Tax Strategy Group estimated that introducing this measure would result in a yield of €146 million per annum (DEASP, 2019). This would result in a person earning €5,000 in self employment paying the equivalent of a 30 per cent PRSI contribution rate. Analysis by the Department using the ESRI's SWITCH model found that this measure had a regressive impact, with the strongest effects on those in the lowest income deciles. On the basis of the regressive impact of this proposal the Commission decided not to proceed with this option.

13.3. Class A PRSI (employers and employees)

13.3.1. Current situation

The majority of PRSI contributors are employees who pay Class A PRSI. In 2019 there were over 2.4 million Class A contributors (DSP, 2021). Therefore almost 65 per cent of all PRSI contributors are employees. Table 13.2 below shows the employee rate and employer rates of payment. It should be noted that employees are covered for social insurance purposes once they earn €38 or more a week.

Table 13.2: PRSI Class A rates

PRSI Class	Weekly pay band	All income
Class A	€38 – €352 inclusive	Employee 0% Employer 8.8%
	€352.01 - €398 inclusive	Employee 4% Employer 8.8%
	€398.01 and over	Employee 4% Employer 11.05%

In 2019 Class A PRSI raised almost €10.9 billion in SIF income. This is equivalent to 88.7 per cent of total 2019 SIF income. In 2020 Class A PRSI raised almost €10 billion in SIF income. This is equivalent to 87.7 per cent of total 2020 SIF income (DSP, 2021).

13.3.2. Considerations: Class A

As noted above, in Ireland, the combined employee and employer PRSI rate is 15.05 per cent. This compares to an EU average of almost 38 per cent. Ireland has the second lowest rate of employer PRSI in the EU, and the third lowest rate of employee PRSI (Deloitte, 2017). However, it is important to note that most EU social welfare systems pay benefits on an earnings-related basis unlike the flat rate of payments under the Irish system. The more comprehensive range of social welfare benefits available in some European countries (e.g. comprehensive public health insurance) also accounts for the higher levels of social insurance contributions elsewhere in the EU.

In 2020 employer contributions to the SIF made up some 63 per cent of all SIF income (over 68 per cent in 2019) (DSP, 2021). Therefore, the majority of SIF income is currently received from employer contributions.

The following issues were taken into account by the Commission when examining the implications of increasing Class A PRSI rates:

- Employers and employees are currently facing the impact of the pandemic. In addition, in the short to medium term, the introduction of an automatic enrolment retirement savings system will increase costs for employees and employers. The proposed introduction of mandatory sick pay will also add to costs for employers.
- Employees may also be impacted by increases to employer social insurance. The ESRI notes that research in the area has found that the initial short-run incidence of employer social insurance increases falls in line with its statutory burden on employers. However, over time, much of the increase is likely to be passed on to workers through lower wages or reduced employment. Therefore, the longer-run distributional impact of employer PRSI is probably best thought of as being similar to (if not the same as) employee PRSI (Kakoulidou et al., 2021).
- Ireland's personal tax wedge (income tax and PRSI) is relatively low for low earners, and more aligned with international comparisons for average and higher earners (OECD, 2021b). A submission to the Commission noted that, based on European Commission data, the implicit rate of labour tax for Irish employees (24.1 per cent) is above the EU average (21.1 per cent). However, the implicit rate of labour tax for Irish employers (8.8 per cent) is below the EU average (17.1 per cent).

13.3.3. Recommendation: Class A

On the basis of the need to strengthen the contributory principle by more closely aligning the cost of social welfare benefits and the rates of PRSI contributions, as well as the necessity of increasing the fiscal sustainability of the SIF, the Commission recommends that the Government:

Increase the Class A rate of PRSI for both employers and employees.

The precise level of increase depends on the package of policy options that is implemented, as outlined in Table 13.3 below (based on Packages presented in Chapter 5). The Commission recommends Package 4, which makes use of all policy levers – PRSI rates, PRSI base, State Pension age increase, and Exchequer contributions. This package will not require PRSI rate increases for employers and employees until after 2030. It will require a 1.35 percentage point increase in Class A for both employers and employees by 2040.

Table 13.3: Class A PRSI increases, Packages 1 – 4

	2021	2030	2040	2050	2070
Package 1 – PRSI					
Class A Percentage point increase	**-**	**0.6**	**1.6**	**1.1**	**0.6**
Employee rate	4.00%	4.60%	6.20%	7.30%	7.90%
Employer rate (lower)	8.80%	9.40%	11.00%	12.10%	12.70%
Employer rate (higher)	11.05%	11.65%	13.25%	14.35%	14.95%
Combined EE and ER higher rate	15.05%	16.25%	19.45%	21.65%	22.85%
Package 2 – PRSI and State Pension age					
Class A Percentage point increase	**-**	**0.3**	**1.6**	**0.15**	**0**
Employee rate	4.00%	4.30%	5.90%	6.05%	6.05%
Employer rate (lower)	8.80%	9.10%	10.70%	10.85%	10.85%
Employer rate (higher)	11.05%	11.35%	12.95%	13.10%	13.10%
Combined EE and ER higher rate	15.05%	15.65%	18.85%	19.15%	19.15%
Package 3 – PRSI, Exchequer contributions					
Class A Percentage point increase	**-**	**0.2**	**1.55**	**0.9**	**0.5**
Employee rate	4.00%	4.20%	5.75%	6.65%	7.15%
Employer rate (lower)	8.80%	9.00%	10.55%	11.45%	11.95%
Employer rate (higher)	11.05%	11.25%	12.80%	13.70%	14.20%
Combined EE and ER higher rate	15.05%	15.45%	18.55%	20.35%	21.35%
Package 4 – PRSI, Exchequer contributions and State Pension age					
Class A Percentage point increase	**-**	**0.0**	**1.35**	**0.1**	**0**
Employee rate	4.00%	4.00%	5.35%	5.45%	5.45%
Employer rate (lower)	8.80%	8.80%	10.15%	10.25%	10.25%
Employer rate (higher)	11.05%	11.05%	12.40%	12.50%	12.50%
Combined EE and ER higher rate	15.05%	15.05%	17.75%	17.95%	17.95%

Source: Pensions Commission analysis

The Commission notes that in the context of financing the Irish pension system overall, the introduction of an automatic enrolment retirement savings system will require increasing levels of contributions from employers and employees from the mid-2020s over the period of a decade. The implementation of Package 4 for financing the State Pension system would preclude this same group from facing increasing PRSI costs as well as contributing to retirement savings. See Appendix 5C for full details of these packages.

13.3.4. Income: Class A

Table 13.4 below shows the annual yields from increasing the rate of Class A PRSI by 1 percentage point (for both employers and employees) in 2021. The data in Table 13.4 has been calculated on the same assumptions as for Table 13.1

Table 13.4: Projections for annual PRSI yield from 1 percentage point increase in Class A (Employer and Employee) PRSI

Year	Yield
2030	€2.0 billion
2040	€2.4 billion
2050	€2.8 billion
2070	€3.8 billion

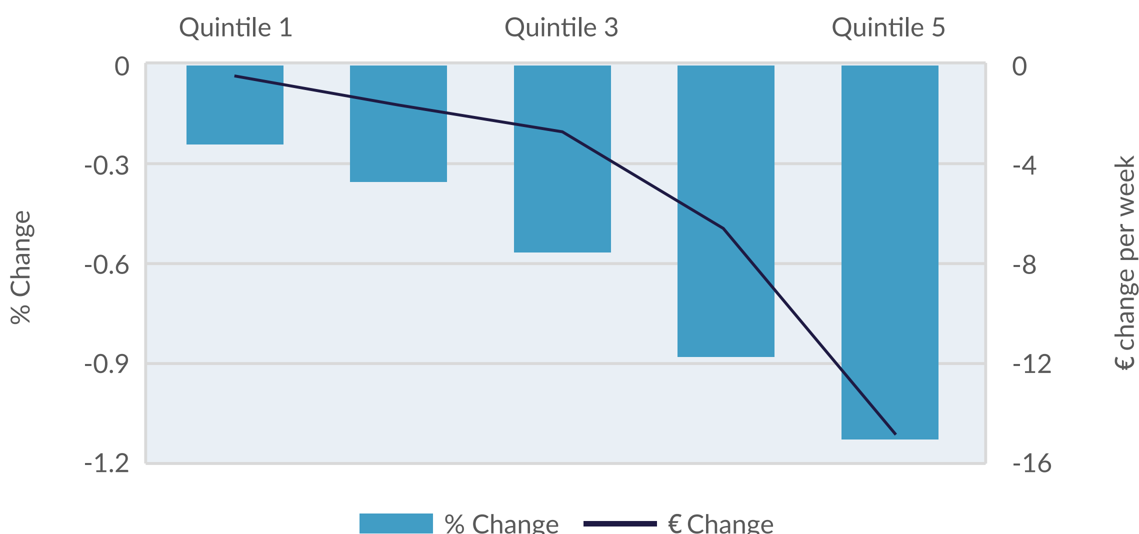
Source: DSP Investment Analysis Unit

13.3.5. Gender, Equality and Poverty Proofing: Class A

The Commission considered which groups would be most impacted by increasing the rates of Class A PRSI.

- Low earners (below €352 weekly) would not be impacted by this measure, as they do not pay employee PRSI contributions (they are covered by employer contributions once earnings exceed €38 per week).
- A DSP analysis, using the ESRI's SWITCH model, of the distributional impact of increasing employee PRSI by 1 percentage point is shown in Figure 13.2 below. The analysis shows that there are relatively small, but progressive reductions in disposable household income under this proposal. The average household disposable income reduces by 0.8 per cent, equivalent to approximately €4.90 per week. Households in the first income quintile experience a reduction of just under 0.2 per cent, or €0.30 per week. Reductions in both percentage and monetary terms are progressively higher in higher income quintiles, reducing by 1.1 per cent, or €13.40 per week for the highest income quintile.

Figure 13.2: Distributional impact of increasing employee (Class A) PRSI rate by 1 percentage point, by income quintile



Source: DSP Social Inclusion Unit

- A DSP analysis using the ESRI's SWITCH model on the impact of the at-risk-of-poverty rate found that there are very small increases to the at-risk-of-poverty rate for the whole population and adult (working age) population but these are less than 0.1 percentage points each.

13.3.6 Alternatives considered: Class A

The Commission considered a number of other Class A PRSI policy reform options.

- **Introduce an employee 0.5 per cent Class A PRSI contribution for low earners:** Currently employees are covered for social insurance when they earn over €38 a week but are not required to pay PRSI contributions themselves until their earnings reach €352 per week (they are covered by employer contributions). A DEASP paper stated that, "Should a new low-rate of employee PRSI be applied to earnings below €352, it would strengthen the contributory and solidarity principles of the PRSI system, any reduction in employer PRSI consequent on increasing the earnings threshold." (DEASP, 2018). This measure would disproportionately affect women who are more likely to be low-earners and/or part-time workers. People with disabilities and migrants are also more likely to be lower earners. The potential yield from a 0.5 per cent rate applying from a €115 threshold, which was based on 12 hours at the National Minimum Wage at the time (estimated at €17.6 million in a full year) was outweighed by the risk of reducing the income of low-income part-time workers. On this basis the Commission decided not to proceed with this option.
- **Increase the entry threshold for Class A employee PRSI from €38 to €122 weekly:** The rationale for this policy reform would be that currently a person is covered for social insurance purposes once earnings reach €38 per week. This is less than four hours of employment, earning the minimum wage. This threshold has not been adjusted over time, with the consequence that an increasing number of people qualify for social insurance cover.

  This measure would reduce social insurance cover for those with very low earnings – this could exclude part-time workers, such as students and carers, from social insurance cover. This measure would disproportionately affect women, people with disabilities and migrants who are more likely to be low-earners and/or part-time workers.

  In the context of a full transition to a Total Contributions Approach, this measure would require a greater level of work intensity (12 hours per week compared to less than four hours of work a week at minimum wage) in order to gain a PRSI contribution.

  This option would provide some savings for employers and accordingly is a short-term cost measure (the DEASP's 2019 Tax Strategy Group paper indicated that this measure would cost €20.9 million). However, there would be less entitlement to social insurance benefits from the SIF and accordingly, it would result in longer-term savings.

  On the basis of the impacts of this measure on low earners, particularly in the context of the Commission's recommendation to fully transition to a Total Contributions Approach, the Commission does not recommend this option.

13.4. Base broadening measures

13.4.1. Background

As outlined at the start of this chapter, on the basis of the need to improve the fiscal and social sustainability of the State Pension system, the Commission considered a number of base broadening measures in order to increase PRSI income.

Intergenerational equity was held central in the Commission's deliberations on these issues. The Commission recognises the need to make sure that the costs of maintaining current State Pension arrangements are not placed solely on younger generations. In addition to the burden of a higher dependency ratio – see Chapter 4 – and increased cost of housing, younger workers may also experience more precarious employment arrangements.

The Commission's deliberations on the policy options available led it to conclude that, as well as increasing PRSI rates, broadening the base of PRSI contributors should be examined in order to increase PRSI income, strengthen the contributory principle, and maintain intergenerational equity.

Within base broadening options the Commission specifically looked at:

1. Requiring people aged 66 and older to pay PRSI on their income; and
2. Removing the exemption on paying PRSI on supplementary pension income (occupational and personal pensions, and public sector pensions) which applies to people regardless of age.

It is important to note that PRSI is currently not payable on social welfare payments, including State Pensions, and the Commission did not consider this as a base broadening measure due to its potential poverty impacts.

These base broadening options should be read in conjunction with Chapter 12 (Flexible Access Packages) which recommends that individuals should be able to continue to pay PRSI contributions in order to improve their State Pension entitlement (i.e. individuals will continue to pay PRSI at their existing contribution rate).

13.5. Extending PRSI liability to people aged 66 and older

13.5.1. Current Situation

Employees or self-employed workers over State Pension age do not have to pay PRSI on their income. Employers pay 0.5 per cent PRSI (Class J) for employees past State Pension age which provides cover for the Occupational Injuries Benefit scheme only.

13.5.2. Considerations: Extending PRSI to people aged 66 and older

The Commission considered the implications of charging PRSI on the earned and unearned income of those over the State Pension age. The Commission considered extending Class K PRSI (payable at 4 per cent on income over €100 per week) on a solidarity basis – no social insurance benefits accrue with Class K contributions.

Extending Class K PRSI to the earned and unearned income of those at State Pension age or older would (except where a person has opted to continue to improve their social insurance record – see below) result in:

- Those with earnings from employment of over €100 per week paying 4 per cent PRSI on all earned income;
- Those with unearned income (such as rent, dividends, investment income, and interest on deposits and savings) of over €100 per week paying 4 per cent PRSI on all unearned income.

There are precedents for adjusting the PRSI system in order to raise income on the basis of the social solidarity principle (i.e. where no entitlements to social insurance benefits accrue for the payment of PRSI).

As can be seen in Table 13.5 below, the rate of PRSI payable by those at State Pension age or older would depend on whether or not they had continued working and deferred receipt of their State Pension in order to improve their social insurance record and pension.

Table 13.5: PRSI rates considered by the Commission for people age 66+

Status	Employment Status	PRSI rate, to apply in line with the normal rate thresholds	PRSI benefits accrue
State Pension deferred to improve social insurance record/ pension	Working	Class A (15.05%) or Class S (4%) on earned income, Class K (4%) on all unearned income	Yes – for State Pension purposes only
All others aged over 66	Working or not working	Class K (4%) on all earned and unearned income (except any State Pension and other social welfare income)	No

Retirement income adequacy: The payment of PRSI by those aged 66 and over on all earned and unearned income, except social welfare payments, will reduce the net income of those with income above the relevant thresholds. It should be noted that a significant minority of people who do not qualify for the maximum weekly State Pension rate may rely on other sources of income for retirement income adequacy. Applying a PRSI charge will reduce the income of these pensioners if they earn more than the relevant threshold amount (currently income up to €100 a week).

The Contributory principle: This reform would result in a person paying a PRSI contribution on earnings or income even if they are not entitled to a State Pension payment. For example, pre-1995 civil/public service pensioners are not entitled to a State Pension payment as they did not pay a relevant class of PRSI (although they are entitled to Free Travel at age 66 and the Household Benefits Package at age 70 and above).

Employment: The current situation of not paying PRSI contributions on earnings may be seen as providing an incentive to those aged 66 and over, and to their employers, to continue in paid employment. The ESRI has noted that increases in PRSI can affect financial incentives to work (Kakoulidou et al., 2021). This is particularly the case for the self-employed, who make up the majority of the people aged 66 and over in employment. On the other hand, research has found that there is a range of push and pull factors influencing retirement timing decisions, beyond financial considerations (Privalko et al., 2019).

13.5.3. Recommendation: Extending PRSI to people aged 66 and older

- **The Commission recommends maintaining the exemption from PRSI on all social welfare payments.**
- **Other than social welfare payments, the Commission recommends removing the exemption from PRSI for those aged 66 or over.**
  - **The Commission recommends that all those over State Pension age should pay PRSI on a solidarity basis (Class K) on all income currently subject to PRSI.**

13.5.4. Income yield: Extending PRSI to people aged 66 and older

The revenue raised by extending PRSI to people over the State Pension age will depend on the rate of PRSI and thresholds applied to this group. Social welfare payments and income from occupational and personal pensions are not liable for PRSI at present and this is assumed to continue in this costing.

Preliminary estimates for the total yield from a 1 per cent rate across all liable PRSI income for those aged 66 and over would be €14.4 million if introduced in 2022. If the rate increased to 4 per cent, it is tentatively estimated that it would yield €79 million in 2030 and €155 million in 2050. It should be noted that these figures are very tentative and accordingly, have not been included in any of the Commission's modelling of addressing future shortfalls in the SIF.

13.5.5. Gender, Equality and Poverty Proofing: Extending PRSI to people aged 66 and older

The Commission considered the impact of this measure on several groups:

- **People age 66 and over:** Individuals aged 66 and over will become liable to pay PRSI.
- **Younger people:** The intergenerational equity of the State Pension system would be enhanced if people past State Pension age were liable to pay PRSI. The ESRI notes in their report on raising revenue that while increases in tax and USC would be borne by both younger and older generations, increased PRSI would only be paid by younger generations. Extending PRSI to those over State Pension age would enable the costs of the pension system to be borne across generations.
- **Men:** Currently, more men than women engage in paid work after State Pension age (see Appendix 4A for a breakdown of employment by age and gender), and consequently, would be more likely to be impacted by this measure.
- **Low earners:** Low earning employees who work past State Pension age in order to improve their social welfare entitlement (i.e. earn less than €352 a week) and receive low levels of unearned income (i.e. less than €100 per week) would not be affected by the recommendation to pay classes A or K PRSI past State Pension age. However, the Commission is conscious of the impact a 4 per cent PRSI charge will have on people who are not in receipt of a State Pension and, under this proposal would be required to pay PRSI on all their income if they earn over €100 a week. Therefore, if this proposal is progressed, it may be appropriate for changes to the income threshold that would apply for people age 66 and over to be considered.

13.6. Removing PRSI exemption for supplementary pension income

13.6.1. Background

Under social welfare legislation any payments received by way of occupational, personal and public pensions, regardless of the person's age, are not regarded as reckonable emoluments for PRSI purposes (i.e. no PRSI is charged on this income). However, it should be noted that income from Approved Retirement Funds (ARFs)[33] is treated as an investment return on an asset rather than pension income and is subject to PRSI under Class S or Class K, as appropriate.

Therefore, a person under State Pension age whose retirement savings are in the form of a supplementary pension does not pay PRSI on pension income but a person whose retirement savings are in the form of an ARF would be liable to pay PRSI on any ARF income received under State Pension age (if a person's total reckonable income was above the PRSI threshold). In this regard, there is already an apparent inequity and some precedents for the payment of PRSI on retirement income.

It should be noted that the Commission did not consider extending PRSI to pension lump sum payments.

[33] ARFs are post-retirement investment funds for the proceeds of any DC pension scheme, AVCs, PRSA, personal pension, or buy out bond. ARF funds accumulate tax-free but income tax is payable on withdrawals.

13.6.2. Considerations: Removing PRSI exemption for supplementary pension income

The rationale for removing the PRSI exemption for supplementary pension income (occupational and personal pensions, and public sector pensions) is similar to that for removing the PRSI exemption for those above the State Pension age. It would broaden the base of PRSI income by including occupational, personal and public sector pension income (social welfare payments, including State Pensions would remain exempt). Given the sustainability issues facing the State Pension system, base broadening measures will help pay for the State Pensions into the future. As supplementary pensions are primarily received by those over State Pension age (though they can be accessed from age 55), this reform would also ensure that the State Pension system financing is being shouldered across generations.

The Commission is aware that, since January 2012, employee and employer contributions to an employee's supplementary pension arrangement(s) are liable for PRSI. Extending the payment of PRSI to those in receipt of pension payments will mean that a person will pay PRSI on their supplementary pension contributions going in and will then also pay PRSI when they are drawing down a pension. This will mean that they will be paying PRSI twice on the same income.

However, the Commission notes the ESRI's report on revenue raising which refers to the fact that in effect employer pension contributions are subject to an exempt-exempt-exempt (EEE) PRSI regime. The ESRI states that, "The government could address this anomaly by levying PRSI on the pension income of those aged above the State Pension age. This would have the advantage of harmonising the income tax and PRSI treatment of employer pension contributions to an exempt-exempt-taxable (EET) regime but leave employee pension contributions subject to PRSI both when made and when drawn down in retirement." (Kakoulidou et al., 2021).

13.6.3. Recommendation: Removing supplementary pension PRSI exemption

On balance, taking into the account the need for fiscal and social sustainability, the Commission recommends:

- **Removing the exemption to pay PRSI on supplementary pension income (occupational and personal pensions, and public sector pensions).**

This recommendation is summarised in Table 13.6 below. This table should be read in conjunction with Chapter 12 (Flexible Access) which recommends that individuals should be able to continue to pay PRSI contributions in order to improve their State Pension entitlement and that the State Pension may be deferred for a period up to age 70 during which entitlement would continue to accrue.

Table 13.6: Recommendations in relation to the payment of PRSI past State Pension age and on supplementary pension income

Age	Pension	Status	PRSI rate	PRSI benefits accrue
66+	No – **State Pension** deferred to improve social insurance record	Working	Class A (15.05%) or Class S (4%) on earned income Class K (4%) on all unearned income	Yes – for State Pension purposes only
66+	No – **State Pension** deferred to receive actuarial increase	Working	Class K (4%) on all earned and unearned income	No
66+	Yes – Receiving **State Pension**	Working	Class K (4%) on all earned income	No
66+	Yes – Receiving **State Pension and supplementary pension**	Not working	Class K (4%) on all income (excluding State Pension payment)	No
Under State Pension age	Yes – Receiving **supplementary pension**	Working	Class A or S on earnings from employment Class K (4%) on supplementary pension income	No benefits under Class K but Class A/S benefits on earned income will accrue under State Pension age
Under State Pension age	Yes – Receiving **supplementary pension**	Not working	Class K (4%) on supplementary pension income	No - but if under State Pension age a person may apply to make voluntary contributions to maintain entitlement to benefits.

13.6.4. Income yield: Removing supplementary pension PRSI exemption

If PRSI is extended to include all income (including supplementary pension income and excluding State Pensions) for those aged 66 and over, it is estimated this would yield approximately €50 million at the outset at a 1 per cent rate. It is not possible to give a more exact estimate as this estimate includes pension lump sum payments. While the Commission is not proposing that PRSI would be payable on pension lump sum payments, it is not possible at present to disaggregate the data. Accordingly, this is a very tentative figure. In addition, it does not include the yield from supplementary pension income received by people under age 66. Further analysis will be needed to accurately determine the yield from this measure.

13.6.5. Gender, Equality and Poverty Proofing: Removing supplementary pension PRSI exemption

- Men are more likely to have supplementary pension income than women (55 per cent compared to 28 per cent) (Nolan et al., 2019).
- Poverty: The Commission is conscious of the impact a 4 per cent PRSI charge could have on people who are not in receipt of a State Pension and, under this proposal would be required to pay PRSI on all their income if they earn over €100 a week. For instance, low earning pre 1995 public sector workers could be in receipt of a public sector pension that is less than the value of the State Pension Contributory and would be liable to pay PRSI on their income. Accordingly, if this proposal is progressed, it may be appropriate for changes to the income threshold that would apply for people age 66 and over to be considered.

13.7. Conclusions

- Class S PRSI contribution rates for the self-employed, at 4 per cent, are very low compared to the rates paid by employees and employers, and internationally. A wide range of reports from bodies such as the Commission on Taxation, the Advisory Group on Tax and Social Welfare, the National Economic and Social Council, and the Department of Social Protection have highlighted this issue. A survey of self-employed Class S contributors in 2016 found that they were willing to pay higher rates of social insurance contributions in order to have additional social insurance benefits extended to them. Benefits were extended in recent years but the social insurance rates were not increased. A distributional impact assessment finds that increasing Class S PRSI would have a progressive effect, whereby those in lower income quintiles would be less affected than those in higher income quintiles.
- Class A PRSI contribution rates are low by international comparison for both employers and employees. However, social insurance systems are difficult to compare – for instance, Ireland has flat-rate benefits, while earnings-related benefits are more typical internationally, and some countries include long-term care and health cover in their social insurance system. A distributional impact assessment finds that increasing Class A PRSI would have a progressive effect, whereby those in lower income quintiles would be less affected than those in higher income quintiles.
- The Commission's deliberations on the policy options available led it to conclude that, as well as increasing PRSI rates, broadening the base of PRSI contributors should be examined in order to increase PRSI income, strengthen the contributory principle, and maintain intergenerational equity. The Commission recognises the need to make sure that the costs of maintaining current State Pension arrangements are not placed solely on younger generations.
- PRSI is currently not payable on social welfare payments, including State Pensions. The Commission did not consider this as a base broadening measure due to its potential poverty impacts.

- There are precedents for adjusting the PRSI system in order to raise income on the basis of the social solidarity principle (i.e. where no entitlements to social insurance benefits accrue for the payment of PRSI).
- Under social welfare legislation any payments received by way of occupational, personal and public pensions, regardless of the person's age, are not regarded as reckonable emoluments for PRSI purposes (i.e. no PRSI is charged on this income). However, income from Approved Retirement Funds (ARFs) is treated as an investment return on an asset rather than pension income and is subject to PRSI under Class S or Class K as appropriate. Therefore, a person under State Pension age whose retirement savings are in the form of a supplementary pension does not pay PRSI on pension income but a person whose retirement savings are in the form of an ARF would be liable to pay PRSI on any ARF income received under State Pension age (if a person's total reckonable income was above the PRSI threshold). In this regard, there is already an apparent inequity and some precedents for the payment of PRSI on retirement income.

13.8. The Commission's Recommendations

- **The Commission recommends increasing the self-employed PRSI contribution rate.** In the first instance, the Commission recommends that Class S PRSI for all self-employed income is gradually increased from 4 per cent to 10 per cent. In the medium term, the Class S PRSI rate should be set at the higher rate of Class A employer PRSI (currently 11.05 per cent).
- **Increase the Class A rate of PRSI for both employers and employees.**
  - The level of increases required depend on the package that the Government may choose to implement (if any). The Commission recommends Package 4 set out above, (See Tables 5.3 and 13.3) which will not require PRSI rate increases for employers and employees until after 2030. It will require a 1.35 percentage point increase in Class A for both employers and employees by 2040.
- **The Commission considered a range of PRSI base broadening measures**.
  - Broadening the base will reduce the burden on current PRSI contributors, will reduce the required effective tax on labour income (with its attendant negative labour market efficiency effects) and will enhance intergenerational equity.
- **The Commission recommends maintaining the exemption from PRSI on all social welfare payments.**
- **Other than social welfare payments, the Commission recommends removing the exemption from PRSI for those aged 66 or over.**
  - The Commission recommends that all those over State Pension age should pay PRSI on a solidarity basis (Class K) on all income currently subject to PRSI.
- **The Commission further recommends removing the exemption to pay PRSI on supplementary pension income (occupational and personal pensions, and public sector pensions)**.

Bibliography

Advisory Group on Tax and Social Welfare. (2013). *Third Report: Extending Social Insurance Coverage for the Self-Employed.* Dublin: Department of Social Protection.

Beirne, K., Nolan, A. and Roantree, B. (2020). *Income Adequacy in Retirement: Evidence from the Irish Longitudinal Study on Ageing (TILDA)*. Dublin: ESRI.

Brown, R.L. (2007). *Security for Social Security: Is Pre-Funding the Answer?* Scandinavian Insurance Quarterly.

Callan, T. and Doris, A. (eds.) (2005). *Budget Perspectives 2006*. Dublin: ESRI.

CIPD. (2019). *Pay and employment practices 2019*: CIPD/IRN Private sector survey. Dublin: 2019.

Citizens' Assembly. (2021). *Recommendations of the Citizens' Assembly on Gender Equality*. Dublin: The Citizens' Assembly.

Citizens' Assembly. (2021). *Report of the Citizens' Assembly on Gender Equality*. Dublin: The Citizens' Assembly.

Commission on Taxation and Welfare. (2021). *Commission on Taxation and Welfare 2021: Terms of Reference*. Dublin: Government of Ireland.

Council Directive 2000/78/EC of 27 November 2000 establishing a general framework for equal treatment in employment and occupation.

Crawley, M. and O'Meara, L. (2002). *Gender Proofing Handbook*. May 2002. Dublin: NDP Gender Equality Unit, Department. of Justice, Equality & Law Reform.

CSO. (2010). *Quarterly National Household Survey: Carers: Quarter 3 2009*. Cork: CSO.

CSO. (2017). *Census of Population 2016 – Profile 9 Health, Disability and Carers.* Cork: CSO.

CSO. (2018a). *Measuring Ireland's Progress 2016.* Cork: CSO.

CSO. (2018b). *Population and Labour Force Projections 2017-2051*. Cork: CSO.

CSO. (2019). E*arnings Analysis using Administrative Data Sources 2018*. Cork: CSO.

CSO. (2020a). *Irish Life Tables: 2015-2017*. Cork: CSO.

CSO. (2020b). *Labour Force Survey (LFS): Quarter 3 2020*. Cork: CSO.

CSO. (2020c). *LFS National Minimum Wage Estimates: Quarter 4 2019*. Cork: CSO.

CSO. (2021a). *Estimates of Irish Pension Liabilities 2018*. Cork: CSO.

CSO. (2021b). *Pension Coverage 2020*. Cork: CSO.

DEASP. (2018). *Tax Strategy Group – Pay Related Social Insurance*. Dublin: DEASP.

DEASP. (2019). *Pay Related Social Insurance Tax Strategy Group – 19/06*. Dublin: DEASP.

DEASP. (2020). *Tax Strategy Group – 20/04: Pay Related Social Insurance for Self-Employed Workers*. Dublin: DEASP.

Deloitte. (2017). *EU Social Security Survey*. Prague: Deloitte Czech Republic.

Dennehy, A. (2020). *New Year, New Approach to Mandatory Retirement?* Dublin: William Fry.

Department of Employment and Skills. (2016). *Ireland's National Skills Strategy 2025*. Dublin: Department of Education and Skills.

Department of Finance. (2018). *The Elasticity of Taxable Income*. Dublin: Department of Finance.

Department of Finance. (2021). *2021 Ageing Report: Ireland Country Fiche*. Luxembourg: Publications Office of the European Union.

Department of Health. (2013). *The National Positive Ageing Strategy*. Dublin: Department of Health.

Department of Health. (2015). *Healthy & Positive Ageing Initiative: Preliminary Report*. Dublin: Department of Health.

Department of Justice and Equality. (2017). *The National Strategy for Women and Girls 2017-2020: creating a better society for all*. Dublin: Department of Justice and Equality.

DPER. (2017). *Review of Barriers to Extended Participation in Public Service Workforce.* Dublin: DPER.

DPER. (2019). *Public Service Performance Report 2018*. Dublin: DPER.

DSP. (2020). *Statistical Information on Social Welfare Services: Annual Report 2019*. Dublin: DSP.

DSP. (2021). *Statistical Information on Social Welfare Services: Annual Report 2020*. Dublin: DSP.

Eckefeldt P. and Pătărău A. (2020). *Special Pensions in the EU: Discussion Paper 125*. Luxembourg: Publications Office of the European Union.

Employment Equality (Repeal of Retirement Age Provisions) Regulations 2011. [UK legislation]

Equality (Miscellaneous Provisions) Act 2015.

European Commission. (2012). *Special Eurobarometer 378: Active Ageing*. Brussels: European Commission.

European Commission. (2014). *European Economy: Occasional Papers 201: Identifying fiscal sustainability challenges in the areas of pension, health care and long-term care policies*. Brussels: European Commission Publications Office.

European Commission. (2018a). *Pension Adequacy Report 2018: Current and Future Income Adequacy in Old Age in the EU*. Volume I. Luxembourg: Publications Office of the European Union.

European Commission (2018b). *Pension Adequacy Report 2018: Current and Future Income Adequacy in Old Age in the EU. Volume II – Country Profiles*. Luxembourg: Publications Office of the European Union.

European Commission. (2020). *A Union of Equality: Gender Equality Strategy 2020-2025*. Brussels: European Commission.

European Commission. (2021). *Austria – Old-age pension benefits. Brussels*: European Commission.

European Commission. (2021). *Gender equality strategy. Brussels*: European Commission.

European Commission. (2021). *The 2021 Ageing Report: Economic & Budgetary Projections for the EU Member States (2019-2070)*. Luxembourg: Publications Office of the European Union.

European Court of Justice. (2007). *Judgment of the Court: Palacios de la Villa, F. v Cortefiel Services SA: Case C-411/05*. Luxembourg: European Court of Justice.

European Court of Justice. (2011). *Judgment of the Court: Fuchs, G. and Köhler v Land Hessen: Joined Cases C-159/10 and C-160/10*. Luxembourg: European Court of Justice.

European Institute for Gender Equality. (2019). *Gender mainstreaming: Ireland*. Vilnius: European Institute for Gender Equality.

European Parliament. (2014). *Pension Schemes: Study for the EMPL Committee*. Brussels: European Parliament.

Eurostat. (2021). *Old-age-dependency ratio*. Luxembourg: European Commission.

European Trade Union Confederation. (2014). *Better Understanding of "Arduous Occupations" within the European Pension Debate*. Brussels: European Federation of Building and Woodworkers.

Fianna Fáil, Fine Gael, and the Green Party. (2020). *Programme for Government: Our Shared Future*. Dublin: Fianna Fáil, Fine Gael, and the Green Party.

Fink, M. (2016). ESPN *Thematic Report on retirement regimes for workers in arduous or hazardous jobs*: Austria. Brussels: European Commission.

Gov.UK. (2021). *The basic State Pension*. London: UK: Gov.UK

Government of Ireland. (2007). *Green Paper on Pensions*. Dublin: The Stationery Office.

Government of Ireland. (2009). *Commission on Taxation Report 2009*. Dublin: The Stationery Office.

Government of Ireland. (2010). *The National Pensions Framework*. Dublin: The Stationery Office.

Government of Ireland. (2016). *Report of the Interdepartmental Group on Fuller Working Lives*. Dublin: Government of Ireland.

Government of Ireland. (2018). *A Roadmap for Pensions Reform 2018 - 2023*. Dublin: Government of Ireland.

Government of Ireland. (2019). *Future Jobs Ireland 2019: Preparing Now for Tomorrow's Economy*. Dublin: Government of Ireland.

Government of Ireland. (2020). *Report of the Interdepartmental Pensions Reform & Taxation Group 2020*. Dublin: Government of Ireland.

Government of Ireland (2021) 2021 Revised Estimates for Public Services. Dublin: Government of Ireland.

Houses of the Oireachtas. (2020). *Dáil Éireann debate: Question 567: 24 November 2020*. Dublin: Houses of the Oireachtas.

IFAC. (2020a). *Long-term Sustainability Report Fiscal challenges and risks 2025-2050*. Dublin:IFAC.

IFAC. (2020b). *Long-term Model Methodology Report*. Dublin: IFAC.

IHREC. (2016). *Budget Proofing: Background and some learning*. Dublin: IHREC.

IHREC. (2018). *Retirement and Fixed-Term Contracts: Guideline*s. Dublin: IHREC.

Industrial Relations Act 1990 (Code of Practice on Longer Working) (Declaration) Order 2017.

IVEA & Equality Authority. (2007). *Guidelines for conducting equality impact assessments on IVEA and VEC plans, policies and programmes.* Dublin: IVEA & Equality Authority.

Johnston, H. and McGauran, A. (2021). *Social Insurance and the Welfare System: Towards a Sustainable Developmental Welfare State: Background Paper (151/1).* Dublin: NESC.

Kangas, O. and Kalliomaa-Puha, L. (2016). ESPN Thematic Report on retirement regimes for workers in arduous or hazardous job*s: Finland*. Brussels: European Commission.

Kakoulidou, T. and Roantree, B. (2021). *Options for Raising Tax Revenue in Ireland*. Dublin: ESRI.

Keegan, B. (2021). *Q. What is the value of the state pension? A. €400,000*. Cork: Irish Examiner.

KPMG. (2017). *Actuarial Review of the Social Insurance: Fund 31 December 2015*. Dublin: KPMG.

KPMG. (2021). *Analysis for the Pensions Commission 202*1. Dublin: KPMG.

Maître, B., Watson, D. and Cantillon S. (2016). *Who earns, who shares and who decides: Does it matter for individual deprivation in couples?* Dublin: ESRI.

McGauran, A. (2020). *The Position of the Self-Employed, Background Paper (151/2).* Dublin: NESC.

McGinnity, F., Russell, H., Privalko, I. and Enright, S. (2021). *Monitoring Decent Work in Ireland*. Dublin: ESRI & IHREC.

Mel Cousins and Associates. (2008). *Report on the Consultation Process for the Green Paper on Pensions*. Dublin: Mel Cousins and Associates.

Ministry of Social Development. (2021). *Pensions: Living overseas*. Wellington: Ministry of Social Development.

MISSOC (2021). *Missoc database: Comparative tables*. Brussels: European Commission.

Natali, D., Spasova, S. and Vanhercke, B. (2016). *Retirement regimes for workers in arduous or hazardous jobs in Europe: A study of national policies*. Brussels: European Commission.

National Pensions Reserve Fund Commission. (2003). *National Pensions Reserve Fund Commission Annual Report 2002*. Dublin: NPRF.

Natali, D., Spasova, S. and Vanhercke, B. (2016). *Retirement regimes for workers in arduous or hazardous jobs in Europe: A study of national policies.* Brussels: European Commission.

National Pensions Reserve Fund Commission. (2003). *National Pensions Reserve Fund Commission Annual Report 2002*. Dublin: NPRF.

National Women's Council of Ireland. (2017). *Gender budgeting is good budgeting: Towards gender responsive budgeting in Ireland.* Dublin: National Women's Council of Ireland.

NESC. (2020). *The Future of the Irish Social Welfare System: Participation and Protection*. Dublin: NESC.

Nolan, A., Whelan, A., McGuinness, S. and Maître, B. (2019). *Gender Pensions and Income in Ireland. Research Series Number 87*. Dublin: ESRI.

OECD. (2014) *Reviews of Pension Systems: Ireland.* Paris: OECD.

OECD. (2017). *Pensions at Glance 2017: OECD and G20 Indicators*. Paris: OECD.

OECD. (2018). *Key policies to promote longer working lives in Denmark: Country note 2007 to 2017*. Paris: OECD.

OECD. (2019a). *Pensions at a Glance 2019: OECD and G20 Indicators.* Paris: OECD.

OECD. (2019b). *Pensions at a Glance 2019: Country Profiles - Austria*. Paris: OECD.

OECD. (2019c). *Pensions at a Glance 2019: Country Profiles - Belgium. Paris:* OECD.

OECD. (2019d). *Pensions at a Glance 2019: Country Profiles - Estonia*. Paris: OECD.

OECD. (2019e). *Pensions at a Glance 2019: Country Profiles - Germany.* Paris: OECD.

OECD. (2019f). *Pensions at a Glance 2019: Country Profiles - Greece.* Paris: OECD.

OECD. (2019g). *Pensions at a Glance 2019: Country Profiles - Portugal*. Paris: OECD.

OECD. (2019h). P*ensions at a Glance 2019: Country Profiles – Slovak Republic.* Paris: OECD.

OECD. (2021a). *Social security contributions (indicator).* Paris: OECD.

OECD. (2021b). *Taxing Wages – Comparative Tables.* Paris: OECD.

Parliamentary Budget Office. (2019). *An overview and analysis of the Ireland Strategic Investment Fund*. Dublin: Houses of the Oireachtas.

Pensions Authority. (2021). *Pension Calculator*. Dublin: The Pensions Authority.

Pensions Commission. (2021). *Have your say on sustainable State Pensions into the future.* Dublin: Government of Ireland.

Plamondon, P., Drouin, A., Binet, G., Cichon, M., McGllivray, W., Bédard, M. and Perez-Montas, H. (2002). *Actuarial practice in social security.* Geneva: ILO & ISSA.

Privalko, I., Russell, H. and Maître B. (2019). *The Ageing Workforce in Ireland: Working Conditions, Health and Extending Working Lives.* Dublin: ESRI.

Public Service Superannuation (Miscellaneous Provisions) Act 2004.

Red C. (2021). *Opinion Poll Report.* Dublin: Red C.

Redmond, P., McGuinness S. and Kelly, E. (2017). *Did increasing the state pension age in Ireland affect the retirement rate of 65-year-olds?* Dublin: ESRI.

Regeringskansliet. (2018). *The Swedish pension system and pension projections until 2070.* Luxembourg: Publications Office of the European Union.

Russell H., Grotti R., McGinnity F. and Privalko I. (2019). *Caring and Unpaid Work in Ireland*. Dublin: ESRI & IHREC.

Social Insurance Institute of Finland. (2019). *Early old-age pension*. Helsinki: Social Insurance Institute of Finland

SOLAS. (2018). *Supporting Working Lives and Enterprise Growth in Ireland: 2018 - 2021 furthereducation and training policy framework for skills and development of people in employment.* Dublin: SOLAS.

Swaine, S. (2017). *Equality Budgeting: Proposed Next Steps in Ireland.* Dublin: DPER.

UN Women. (2018). F*acts and Figures: Economic Empowerment.* New York: UN Women.

UNICEF. (2021). *New Year's Babies: Over 370,000 children will be born worldwide on New Year's Day.* New York: UNICEF.

Valkonen, T. (2020). *The Finnish Pension System and Its Future Challenges*. Hamburg: Intereconomics, Review of European Economic Policy.

Vukorepa, I. (2017). *Retirement Policy Changes for Workers in Arduous and Hazardous Jobs: Comparative Overview and Lessons for Croatia*. Zagreb: Zbornik PFZ

Ward, M. (2019). *Irish adults transition to retirement – wellbeing, social participation and healthrelated behaviours. Findings from The Irish Longitudinal Study on Ageing (TILDA).* Dublin: TILDA.

Whelan, S. (2005). *Pension Provision in Ireland for 21st Century. September 2005*. Dublin: IAPF.

World Bank. (1994). *Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth.* New York: Oxford University Press.

WRC. (2011). *R. Saunders v CHC Ireland Ltd: Full Case Report: DEC-E/2011/142.* Dublin: WRC.

WRC. (2018). *V. Cox v RTÉ: Adjudication Officer Decision: ADJ-00006972.* Dublin: WRC.

WRC. (2020a). *J. McGrath v Focus Ireland: Adjudication Officer Decision: ADJ-00018823*. Dublin: WRC.

WRC. (2020b). *Operations Manager v Oil Company: Adjudication Officer Decision: ADJ-00023458.* Dublin: WRC.

WRC. (2020c). *2019 Annual Report*. Dublin: WRC.

WRC. (2021). *2020 Annual Report*. Dublin: WRC.

Zaidi, A. and Whitehouse, E. (2009). *Should Pension Systems Recognise "Hazardous and Arduous Work"* Paris: OECD.

Appendices

Appendix 1A: Organisational Submissions to the Public Consultation

1	Active Retirement Ireland
2	Age Action
3	Age Friendly Ireland
4	ALONE
5	Aon Ireland
6	Association of Pension Lawyers in Ireland
7	Brokers Ireland
8	Chartered Accountants Ireland
9	Citizens Information Board
10	Department of Finance
11	Department of Foreign Affairs and Trade
12	Department of Public Expenditure and Reform
13	Department of Tourism, Culture, Arts, Gaeltacht, Sport and Media
14	ESRI
15	Family Carers Ireland
16	Financial Services Union
17	IAPF
18	IBEC
19	ICTU
20	Immigration Control Platform
21	Irish Creamery Milk Suppliers Association
22	Irish Institute of Pensions Management
23	Irish Life
24	Insurance Ireland
25	ISME
26	Joint Oireachtas Committee on Social Protection, Community and Rural Development and the Islands
27	Labour Party
28	Mandate Trade Union
29	Mercer Limited
30	Migrant Rights Centre Ireland
31	Military Management – Óglaigh na hÉireann
32	National Women's Council
33	Nevin Economic Research Institute
34	Pensions Authority
35	Pensions Committee of the Irish Foreign Affairs Family Association (IFAFA).
36	Representative Association of Commissioned Officers

37	Retired Aviation Staff Association
38	Sinn Féin
39	SIPTU
40	SIPTU Meath District Council
41	SIPTU Young Workers' Network
42	Social Justice Ireland
43	Society of Actuaries in Ireland
44	Soroptomist Ireland
45	SpunOut
46	The Green Party
47	Tontine Trust
48	Union of Students Ireland
49	Unite the Union – Ireland Regional Women's Committee
50	University of Auckland
51	Westmeath Public Participation Network

Appendix 1B: Technical Sub-Committee Terms of Reference

The objective of the Sub-Committee, drawing on relevant material made available to it, is to inform the Commission to enable it to form a view on issues around sustainability and adequacy of the pension system over time (next 30 to 50 years). It is important that this view is transparent, evidence based and stated in a straightforward manner.

Ideally, advised by the Sub-Committee, the Commission should reach an agreed view on the data, definitions, analyses, and projections (with sensitivity analysis as appropriate) related to:

1. Pensioner population, labour force, dependency ratios etc.
2. Pension expenditure, including as a percentage of relevant total expenditures (e.g. SIF, social welfare expenditure; Government expenditure) and as a percentage of relevant indices (e.g. GDP, GNP, GNI, CPI).
3. Poverty rate analyses and the impact of the State Pension on these analyses.
4. Benchmarking the State Pension (Contributory) rate, the derivation of the 34 per cent, and the current (2021) equivalent percentage and implied cash rate.
5. Indexation options for this benchmark once established.

Presentation of this agreed work should help the Commission understand the data and be alerted to any inconsistencies or misalignments.

In approaching its task, the Sub-Committee will have regard to the Commission's Terms of Reference and will be supported by the Commission Secretariat.

Appendix 2A: Information on State Pension Schemes

Appendix 2B sets out the number of recipients of these schemes (those receiving payments in their own right) as well as those in receipt of an IQA payment and those in receipt of an Increase for a Qualified Child (IQC) payment in the period 2010 to 2020. Appendix 2C shows the number of SPC, SPNC, and WCP recipients by gender from 2010 to 2020. Appendix 2D sets out expenditure on the main State Pension schemes over the last decade.

State Pension Contributory (SPC)

- Funded through the Social Insurance Fund (SIF) from which payments for this and other social insurance-based schemes are drawn.
- DSP's largest scheme in terms of expenditure - €6.1 billion allocation for 2021.
- Maximum weekly rate of €248.30, with reduced rates applicable for those with lower levels of contributions. Some 57 per cent of recipients qualify for the maximum rate of payment, while 43 per cent are in receipt of reduced rates.
- 449,442 SPC recipients at end 2020 – increasing over time.
- Not means-tested, no retirement condition (can work and receive pension).
- Not resident-based: approximately 10 per cent of recipients live outside Ireland.
- Spouses, civil partners and cohabitants of those in receipt of SPC can receive an Increase for a Qualified Adult (IQA) allowance, which is paid directly to them.

State Pensions Non-Contributory Scheme (SPNC)

- Funded through the Exchequer.
- Means-tested (capital including property other than the family home, and any income. Some disregards apply e.g. €200 per week of earnings from employment, and the first €20,000 of capital).
- May qualify for SPNC if insufficient contributions to qualify for the SPC or if qualify for a reduced rate of SPC.
- Maximum rate of SPNC is €237 per week, 95 per cent of the maximum rate of the SPC.
- 95,465 SPNC recipients at end 2020 and €1.1 billion expenditure allocation in 2021.
- Spouses, civil partners and cohabitants of SPNC recipients aged 66 and over can apply for SPNC in their own right. Increase payable for those under 66.

Widow/er's or Surviving Civil Partner's Contributory Pension (WCP)[34]

- Funded through the SIF.
- Paid to a qualifying person of any age. 123,019 recipients at end-2020, three quarters aged 66 and over €1.6 billion expenditure allocation for 2021.
- Not means-tested, no retirement condition.
- For those aged 66 and over, the maximum weekly rate of payment is the same as the State Pension Contributory (€248.30 in 2021). For those under 66, the maximum weekly rate of payment is €208.50.

[34] The Widow/er's or Surviving Civil Partner's Non-Contributory Pension, funded by the Exchequer, is not included here as it is only payable to those under the age of 66. On reaching State Pension age, recipients can apply for the State Pension Non-Contributory, which is the only non-contributory payment to pensioners. In addition, a small cohort receives the Occupational Injuries Death Benefit pension - 759 recipients at end-2019, €10.6 million expenditure allocation in 2021.

Other supports available to pensioners – 2021 rates

- Living Alone Allowance (€19 per week, not means-tested – payable to pensioners who live alone).
- Household Benefit Package (€35 per month plus free TV licence – not means-tested for those aged 70 and older).
- Fuel Allowance (€28 per week for the duration of the fuel season which runs from October to April. Eligibility is means-tested).
- Telephone Support Allowance (€2.50 per week for those in receipt of both the Living Alone Allowance and the Fuel Allowance).
- Over 80s Allowance (€10 per week increase for pensioners aged 80 and over – this is not means-tested).
- Living on a Specified Island (€20 per week for those living on a specified island).
- Free Travel pass for all pensioners.
- Medical Card eligibility – less onerous means test for those aged over 70.

Appendix 2B: State Pension Schemes Recipients/Beneficiaries, 2010 - 2020

Scheme	Beneficiary Type	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
State Pension (Non-Contributory)	Recipients	97,179	96,749	96,126	95,801	95,570	95,179	95,221	95,140	95,263	94,854	95,465
	Qualified Adult (under 66)	2,962	3,012	3,059	3,080	3,162	3,207	3,252	3,212	3,189	3,117	3,112
	Qualified Child (Full Rate)	439	434	423	451	473	474	484	473	476	474	437
	Qualified Child (Full Rate)	96	104	117	116	108	106	112	112	106	108	106
	Beneficiaries	**100,676**	**100,299**	**99,725**	**99,448**	**99,313**	**98,966**	**99,069**	**98,937**	**99,034**	**98,553**	**99,120**
State Pension (Contributory)	Recipients	280,419	296,995	312,314	329,531	346,420	361,725	377,062	394,378	411,660	431,224	449,442
	Qualified Adult (under 66)	65,031	66,609	67,892	68,505	68,850	68,561	67,604	66,256	63,559	60,486	58,015
	Qualified Child (Full Rate)	1,376	1,359	1,367	1,366	1,327	1,300	1,303	1,257	1,174	1,121	1,001
	Qualified Child (Full Rate)	1,318	1,377	1,376	1,228	1,056	909	805	729	599	536	533
	Beneficiaries	**348,144**	**366,340**	**382,949**	**400,630**	**417,653**	**432,495**	**446,774**	**462,620**	**476,992**	**493,367**	**508,991**
Widow/er's & Surviving Civil Partners Contributory Pension	Recipients	114,579	115,762	116,751	117,417	118,670	119,712	120,673	121,091	121,689	122,502	123,019
	Qualified Child (Full Rate)	11,444	11,310	10,940	11,067	10,899	11,161	11,099	10,908	10,359	10,497	10,450
	Beneficiaries	**126,023**	**127,072**	**127,691**	**128,484**	**129,569**	**130,873**	**131,772**	**131,999**	**132,048**	**132,999**	**133,469**
Widow/er's & Surviving Civil Partners Contributory Pension (Death Benefit)	Recipients	633	628	645	646	636	649	717	717	757	759	741
	Qualified Child (Full Rate)	128	120	120	107	60	59	65	69	71	74	60
	Beneficiaries	**761**	**748**	**765**	**753**	**696**	**708**	**782**	**786**	**828**	**833**	**801**
Total Pensions	**Recipients**	**503,016**	**522,244**	**540,208**	**556,025**	**562,844**	**577,331**	**593,822**	**611,381**	**629,369**	**649,339**	**742,381**

Source: DSP (2021), DSP (2020)

Appendix 2C: SPC, SPNC, and WCP Recipients by Gender, 2010 - 2020

Year	State Pension (Contributory)		State Pension (Non Contributory)		WCP (all ages)	
	Female	Male	Female	Male	Female	Male
2020	175,442	274,000	57,264	38,201	104,413	18,606
2019	165,471	265,753	57,314	37,540	103,821	18,681
2018	154,840	256,820	58,041	37,222	103,537	18,152
2017	146,172	248,206	58,259	36,881	103,163	17,928
2016	137,809	239,253	58,677	36,544	102,949	17,724
2015	130,695	231,030	59,078	36,101	102,389	17,324
2014	123,613	222,807	59,672	35,898	101,666	17,004
2013	116,161	213,370	59,998	35,803	100,838	16,579
2012	108,840	203,474	60,455	35,671	100,503	16,248
2011	102,562	194,433	60,910	35,839	99,857	15,905
2010	95,456	184,963	61,494	35,685	99,192	15,387

Source: DSP, Statistical Information on Social Welfare Services: Annual Report 2020, 9th August 2021 and Statistical Information on Social Welfare Services: Annual Report 2019, 27th August 2020

Appendix 2D: Expenditure on State Pension Schemes (€ millions), 2010 - 2020

Scheme	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
State Pension (Non-Contributory)	977.29	971.77	963.21	952.46	954.41	972.21	982.14	994.74	1,020.25	1,042.83	1,048.55
State Pension (Contributory)	3,451.50	3,622.75	3,802.80	3,983.26	4,185.23	4,475.69	4,662.37	4,915.85	5,216.96	5,603.13	5,834.59
Widow/er's & Surviving Civil Partners Contributory Pension	1,335.58	1,337.87	1,343.20	1,349.84	1,369.76	1,422.10	1,437.09	1,466.60	1,510.41	1,558.92	1,586.56
Widow/er's & Surviving Civil Partners Contributory Pension (Death Benefit)	7.78	7.98	7.83	7.78	8.07	8.25	8.59	9.37	9.89	10.06	10.21
Total Pensions	**5,898.64**	**6,092.19**	**6,238.42**	**6,450.89**	**6,595.51**	**6,879.48**	**7,090.45**	**7,386.72**	**7,757.61**	**8,214.99**	**8,479.91**
Total Social Welfare Spending	20,976	21,095	20,912	20,425	19,963	20,083	19,979	20,120	20,427	20,909	30,570
Total Pensions as Percent of Total Social Welfare Expenditure	28.1	28.9	30.0	31.6	33.0	34.3	35.5	36.7	38.0	39.3	27.7

Source: DSP (2021), DSP (2020)

Appendix 3A: Financing of the Social Insurance Fund (€ millions) 2010-2020

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Employer PRSI	5,000.28	5,460.79	4,995.97	5,331.15	5,749.43	6,165.21	6,606.09	7,136.82	7,697.18	8,408.31	7,209.66
Employee PRSI	1,377.14	1,617.35	1,479.98	1,579.55	1,703.96	1,826.41	1,957.09	2,114.03	2,280.24	2,490.91	2,772.99
Self-Employed PRSI	330.603	348.342	310.386	397.079	406.266	460.266	607.441	521.803	604.561	631.34	646.68
NTF	310.97	319.621	294.58	314.7	339.677	364.298	390.9	421.744	575.065	707.841	718.923
Income from Health Contributions	76.59	115.26	-13.68	-5.06	7.32	6.54	4.24	2.94	2.64	3.64	1.05
Investment Income	1.613	0.999	0.369	0.051	0.056	0	0	0	0	0	0
Benefit Overpayments Recovery	0	5.852	6.218	6.97	8.963	11.964	10.226	10.196	9.335	10.849	9.068
Redundancy & Insolvency Recoveries	0	4.452	5.842	7.028	10.232	7.551	10.691	6.934	9.289	12.645	6.652
Recoverable Benefits	0	0	0	0	4.686	19.474	20.575	23.117	22.055	21.94	20.157
Other Receipts	0.05	1.147	0.464	0.741	0.433	0.277	0.136	0.066	0.043	0.039	0.019
Total Income	8,926.24	7,873.81	7,080.14	7,632.21	8,231.02	8,861.99	9,607.43	10,237.73	11,200.41	12,287.51	11,385.19
Expenditure (including payment to NTF)	11,598.84	9,330.55	9,168.57	8,948.64	8,771.14	8,980.72	9,154.10	9,516.13	10,056.80	10,727.85	14,818.54
Expenditure (excluding payment to NTF)	9,460.84	9,004.25	8,863.73	8,624.61	8,422.91	8,616.51	8,763.68	9,085.12	9,481.74	10,020.01	14,099.62
Excess of receipts over payments	9,460.84	-1,456.74	-2,088.43	-1,316.43	-540.121	-118.739	453.327	721.607	1,143.61	1,559.66	-3,433.35
Increase in balance due to NTF	-78.556	-3.621	4.42	2.3	-1.677	-0.298	-0.9	9.256	-9.565	4.159	-2.173
Surplus/Deficit in the year	-2,751.15	-1,460.36	-2,084.01	-1,314.13	-541.798	-119.037	452.427	730.863	1,134.05	1,563.82	-3,435.53
Exchequer subvention	1,862.29	1,460.36	2,084.01	1,314.13	541.798	119.037	0	0	0	0	0

Source: DSP, Statistical Information on Social Welfare Services, Annual Report 2020 (Table A4)

Appendix 3B: 2021 PRSI Rates

CLASS A				
Subclass	**Weekly pay band**	**How much of weekly pay**	**All income**	
			Employee	**Employer**
AO	€38 – 352 inclusive	All	Nil	8.8%
AX	€352.01 – 352 inclusive	All	4.00%	8.8%
AL	€398.01 - €424 inclusive	All	4.00%	11.05%
A1	More than €424	All	4.00%	11.05%

CLASS B				
Subclass	**Weekly pay band**	**How much of weekly pay**	**All income**	
			Employee	**Employer**
B0	Up to €352	All	Nil	2.01%
BX	€352.01 - €500 inclusive	All	0.90%	2.01%
B1	More than €500	First €1,443 Balance	0.90% 4.00%	2.01% 2.01%

CLASS C				
Subclass	**Weekly pay band**	**How much of weekly pay**	**All income**	
			Employee	**Employer**
C0	Up to €352	All	Nil	1.85%
CX	€352.01 - €500 inclusive	All	0.90%	1.85%
C1	More than €500	First €1,443 Balance	0.90% 4.00%	1.85% 1.85%

CLASS D				
Subclass	**Weekly pay band**	**How much of weekly pay**	**All income**	
			Employee	**Employer**
D0	Up to €352	All	Nil	2.35%
DX	€352.01 - €500 inclusive	All	0.90%	2.35%
D1	More than €500	First €1,443 Balance	0.90% 4.00%	2.35% 2.35%

CLASS E				
Subclass	**Weekly pay band**	**How much of weekly pay**	**All income**	
			Employee	**Employer**
E0	Up to €352	All	Nil	6.87%
E1	More than €352	All	3.33%	6.87%

CLASS H				
Subclass	Weekly pay band	How much of weekly pay	All income Employee	Employer
H0	Up to €352	All	Nil	10.35%
HX	€352.01 - €424	All	3.90%	10.35%
H1	More than €424	All	3.90%	10.35%

CLASS J				
Subclass	Weekly pay band	How much of weekly pay	All income Employee	Employer
J0	Up to €500	All	Nil	0.50%
J1	More than €500	All	Nil	0.50%

CLASS S			
Subclass	Weekly pay band	How much of weekly pay	All income
S0	Up to €500	All	4.00%
S1	More than €500	All	4.00%

CLASS K				
Subclass	Weekly pay band	How much of weekly pay	All income Employee	Employer
Use class M	Up to €100		Nil	Nil
K1	More than €100	All	4.00%	Nil

CLASS P (optional)	
First €2,500 per year	Nil
Balance	4.00%

CLASS V		
Type of Contribution	Amount Payable	If you previously paid PRSI at Class
High Rate *(see note below)	6.6%	A, E, H
Low Rate *(see note below)	2.6%	B, C, D
Special Rate	Flat rate of €500	S

Note: The amount of voluntary contributions that an individual pays in any contribution year is a percentage of their reckonable income in the previous tax year, subject to a minimum charge of €500 for the High Rate and €250 for the Low Rate.

Appendix 3C: PRSI Classes and Benefits

Class A applies to people in industrial, commercial and service type employment who are employed under a contract of service with a reckonable pay of €38 or more per week from employment. It also includes civil and public servants recruited from 6th April 1995. The vast majority of employees in Ireland pay PRSI Class A.

Class B applies to civil servants and Gardaí recruited before 6th April 1995, and registered doctors and dentists employed in the Civil Service.

Class C applies to Commissioned Army Officers and members of the Army Nursing service recruited before 6th April 1995.

Class D applies to permanent and pensionable employees in the public service, other than those mentioned in Classes B and C, recruited before 6th April 1995.

Class E applies to ministers of religion employed by the Church of Ireland Representative Body. (Class E covers all social insurance payments except Jobseeker's Benefit and Occupational Injuries Benefit.)

Class H applies to NCOs and enlisted personnel of the Defence Forces. (Class H provides cover for all social insurance payments except Occupational Injuries Benefit.)

Class J applies to people earning less than €38 per week. However, people aged over 66 or people in subsidiary employment, regardless of the level of earnings, are always insurable at Class J. In addition, it includes people insurable at Class B, C, D or H in their main employment and who have a second job which is of a subsidiary nature. Class J social insurance provides cover for Occupational Injuries Benefit only.

Class K applies to certain office holders (e.g. TDs, members of the Judiciary etc.) whose annual office holder income exceeds €5,200; the self-employed income of civil and public servants recruited prior to 1995; and unearned income received by employees and early retirees, where that unearned income is their only non- employment income. Class K PRSI is charged at a rate of 4 per cent and does not give access to social insurance entitlements. These employees and pre-1995 civil and public servants generate social insurance entitlements based on PRSI paid on their employment income.

Class M is recorded where there is no PRSI liability to contribute to social insurance such as employees under 16 years of age. No contributions are payable and accordingly there are no benefits.

Class P applies to fishermen or fisherwomen who are classified as self-employed and who are already paying PRSI under Class S. (Class P covers limited access to certain social insurance payments not covered by Class S. These are limited Jobseeker's Benefit, limited Illness Benefit and Treatment Benefit.)

Class S applies to self-employed people including certain company directors, people in business on their own account and people with income from investments and rents.

Class V are voluntary contributions (VCs) paid by contributors who are under pensionable age (currently 66 years) and who are no longer working or are no longer compulsorily insured. An individual can opt to become a voluntary contributor where they have left the workforce early. Other categories paying VCs include Public Office Holders, such as TDs who do generate entitlements based on the payment of PRSI on other sources of income. Class V contributions help to protect the rate of SPC the individual will receive, provided they have already qualified for SPC. VCs do not provide cover for other short-term benefits i.e. Illness Benefit.

Table 3C.1 below sets out the social insurance benefits associated with the various PRSI Classes and the numbers paying each class (a total of 3,705,563 contributors in 2019. A person may pay more than one class depending on their sources of income.

Table 3C.1: Number of Pay Related Social Insurance (PRSI) Contributors by Class and Benefits 2019

Employer PRSI	A	B	C	D	E	H	J	K	M	P	S	Voluntary Contributors
SPC	X				X	X					X	X
WCP	X	X	X	X	X	X**					X	X
Adoptive Benefit	X				X	X					X	
Health and Safety Benefit	X				X	X						
Jobseeker's Benefit	X					X				X*	X*	
Maternity Benefit	X				X	X					X	
Paternity Benefit	X				X	X					X	
Treatment Benefit	X				X	X**					X	
Carer's Benefit	X	X	X	X	X	X**						
Illness Benefit	X				X	X				X*		
Invalidity Pension	X				X	X					X	
Occupational Injuries Benefit	X	X*		X			X		X*	X		
Guardian's Payment (Contributory)	X	X	X	X	X	X					X	X
Partial Capacity Benefit	X										X	
Parent's Benefit	X	X	X	X	X	X					X	
No. of contributors insured	2,406,381	16,868	301	38,532	200	8,731	298,045	90,086	492,334	7	351,193	2,885

** In limited circumstances*

Note: PRSI data is obtained from employer P35 forms and tax returns from the self-employed, who will submit a final return for 2019 in late 2020. As a result, complete PRSI data is only available up to 2019.

Source: DSP, 2021: Table A6 and Appendix 3

In addition to the above benefits, the Pandemic Unemployment Payment is available to employees who lost their employment and to self-employed workers who lost their income on or after 13th March 2020 due to the COVID-19 pandemic. The Enhanced Illness Benefit, introduced from 9th March 2020, is also available to employed and self-employed workers for COVID-19 absences from work.

The Benefit Payment for 65 Year Olds is a payment for people aged between 65 and 66 years who are no longer engaged in employment or self-employment. This benefit was introduced from February 2021.

Appendix 3D: PRSI Credited Contributions

Qualifying conditions for PRSI credited contributions

As with other schemes operated by the Department, there are qualifying conditions which must be met before a person can be allocated credited contributions. These conditions are:

A person must first have entered insurable employment - he or she must have paid at least one PRSI contribution as an employed contributor, *and*

A person must have a paid or credited employment contribution in the previous two full tax years. If at any stage in their working life, a person has no PRSI paid or credited contributions for two full tax years, they cannot be awarded credits again until they return to work and pay PRSI contributions for at least 26 weeks.

Once the two conditions above are satisfied credits may be awarded for the following events:

For days of notified incapacity for work (Article 58(1)(a) of S.I. 312 of 1996);

For days of proven unemployment (Article 58(1)(a) of S.I. 312 of 1996);

For weeks in receipt of Maternity Benefit, Paternity Benefit, Health and Safety Benefit, Adoptive Benefit, Carer's Benefit, Invalidity Pension, Carer's Allowance and Disability Allowance (Article 58(1)(b) of S.I. 312 of 1996);

For weeks in receipt of Carer's Allowance, Jobseeker's Transitional Payment and One Parent Family Payment, where the person qualified for credits prior to receiving the payment (Article 58(1)(c) of S.I. 312 of 1996);

For weeks during which the individual attends a course of training provided or approved by SOLAS, the National Tourism Development Authority, Teagasc, or BMI or participates on a Community Employment Scheme, the Back to Education Allowance, the Part-time Job Incentive, or the VTOS scheme.

The requirement for an insured person to have paid or credited employment contributions in the previous two full tax years, does not apply in the following situations where credits are awarded.

Upon the cessation of a full-time course of education and upon re-entry into insurable employment provided he/she was in insurable employment and aged under 23 years, prior to starting the course. Credits are awarded for the two full contribution years prior to re-entering insurable employment. The credits are reckonable only for certain short-term benefits (i.e. Jobseeker's Benefit).

Weeks during which the individual availed of statutory leave entitlements (i.e. Parental Leave or force majeure leave), additional Maternity Leave, Adoptive Leave, or Carer's Leave (where they are not in receipt of Carer's Benefit, Carer's Allowance, Maternity Benefit or Adoptive Benefit).

Subsequently, insured workers may be awarded credits if they claim a social welfare payment because they are out of work, or they are ill or incapacitated, or if they are engaged in certain training or educational courses.

Types of PRSI Credits

Generally, the PRSI class[35] at which a contributor paid his or her last PRSI contribution while working determines the type of credits which may be awarded. For example, those whose last paid PRSI contribution was at Class A may be awarded Class A credits and those who paid PRSI at Class D (modified rate contributor) may only be awarded Class D credits. See Appendices 3C for details of PRSI classes.

Individuals are not permitted to buy back credits in relation to an earlier period of their working life. They may, however, be in a position to establish an underlying entitlement to credits for that period of time.

Individuals, who cease to be covered by compulsory social insurance, may opt to protect their existing long-term social insurance pension entitlements by becoming insured on a voluntary basis and paying voluntary contributions. A person who wishes to become a voluntary contributor must satisfy certain contribution conditions and must apply to become a voluntary contributor within 60 months after the end of the contribution year in which he/she was last compulsorily insured.

[35] PRSI 'Classes' are not set out in legislation. They are an administrative categorisation used to differentiate between various levels of social insurance including modified rates prescribed under Section 14 of the Social Welfare Consolidation Act 2005 and Chapter 1, Part IV of S.I. 312 of 1996.

Appendix 3E: SIF Performance 1952-2020

	Income	Expenditure	Surplus /Deficit	Surplus /Deficit as % of expenditure	Accumulated surplus at end of year	Exchequer Subvention	Status
	€m	€m	€m	€m	€m	€m	
1952/53	1.40	2.47	-1.07	-43.2%		1.07	Jan-March 1953 only
1953/54	5.43	8.50	-3.07	-36.1%		3.07	
1954/55	7.37	10.52	-3.14	-29.9%		3.14	
1955/56	7.41	10.46	-3.04	-29.1%		3.04	
1956/57	7.81	12.63	-4.82	-38.2%		4.82	
1957/58	8.12	13.81	-5.69	-41.2%		5.69	
1958/59	8.05	13.47	-5.42	-40.3%		5.42	
1959/60	8.45	13.39	-4.94	-36.9%		4.94	
1960/61	9.50	15.10	-5.60	-37.1%		5.60	
1961/62	14.61	23.47	-8.86	-37.8%		8.86	
1962/63	15.42	25.22	-9.80	-38.9%		9.80	
1963/64	17.70	28.94	-11.25	-38.9%		11.25	
1964/65	20.20	32.49	-12.29	-37.8%		12.29	
1965/66	21.22	35.06	-13.83	-39.5%		13.83	
1966/67	25.44	42.46	-17.02	-40.1%		17.02	
1967/68	21.56	34.92	-13.36	-38.3%		13.36	
1968/69	33.77	51.26	-17.49	-34.1%		17.49	
1969/70	43.51	63.34	-19.83	-31.3%		19.83	
1970/71	48.84	75.04	-26.20	-34.9%		26.20	
1971/72	59.10	90.05	-30.95	-34.4%		30.95	
1972/73	68.92	103.12	-34.20	-33.2%		34.20	
1973/74	89.65	128.18	-38.53	-30.1%		38.53	April 1973-March 1974
1974	98.22	125.43	-27.21	-21.7%		27.21	April- Dec 1974
1975	192	250	-58	-23.3%		58	
1976	248	315	-67	-21.3%		67	
1977	290	357	-67	-18.9%		67	
1978	328	409	-81	-19.7%		81	
1979	378	473	-95	-20.1%		95	
1980	480	646	-166	-25.6%		166	
1981	610	866	-256	-29.5%		256	
1982	833	1,153	-321	-27.8%		321	
1983	965	1,339	-374	-27.9%		374	
1984	1,057	1,434	-377	-26.3%		377	
1985	1,111	1,567	-455	-29.1%		455	
1986	1,151	1,661	-510	-30.7%		510	

	Income	Expenditure	Surplus /Deficit	Surplus /Deficit as % of expenditure	Accumulated surplus at end of year	Exchequer Subvention	Status
	€m	€m	€m	€m	€m	€m	
1987	1,197	1,711	-514	-30.0%		514	
1988	1,303	1,694	-392	-23.1%		392	
1989	1,404	1,683	-278	-16.5%		278	
1990	1,604	1,781	-177	-9.9%		177	Occupational Injuries Fund merged with SIF surplus of €55m transferred from OIF to SIF
1991	1,761	1,947	-186	-9.5%		186	
1992	1,906	2,103	-197	-9.3%		197	
1993	2,043	2,177	-134	-6.2%		134	
1994	2,139	2,192	-52	-2.4%		52	
1995	2,215	2,488	-273	-11.0%		273	
1996	2,272	2,399	-127	-5.3%		127	Exchequer Subvention 1953 to 1996 was €5,473.5 million
1997	2,470	2,461	8	0.3%			
1998	2,717	2,648	69	2.6%	**77**		
1999	3,159	2,817	341	12.1%	**410**		
2000	3,726	3,291	435	13.2%	**776**		
2001	4,307	3,676	631	17.2%	**1,066**		
2002	4,798	4,376	422	9.7%	**1,273**		Payment of €635m to Exchequer
2003	5,089	4,833	255	5.3%	**1,529**	0	
2004	5,650	5,273	377	7.2%	**1,906**	0	
2005	6,159	5,665	494	8.7%	**2,400**	0	
2006	6,974	6,326	649	10.3%	**3,049**	0	
2007	7,834	7,251	583	8.0%	**3,632**	0	
2008	8,144	8,400	-255	-3.0%	**3,377**	0	
2009	7,280	9,784	-2,505	-25.6%	**872**	0	
2010	6,710	9,461	-2,751	-29.1%	**0**	1,879	Less surplus carried forward from 2009
2011	7,544	9,004	-1460	-16.2%	**0**	1,460	
2012	6,781	8,870	-2089	-23.6%	**0**	2,089	
2013	7,318	8,632	-1314	-15.2%	**0**	1,314	
2014	7,891	8,431	-540	-6.4%	**0**	540	
2015	8,498	8,617	-119	-1.4%	**0**	119	Cumulative Exchequer Subvention 2010-2015 €7,401m
2016	9,217	8,764	453	5.2%	**453**	0	
2017	9,816	9,085	731	8.0%	**1,184**	0	
2018	10,625	9,491	1,135	12.0%	**2,319**	0	
2019	11,585	10,016	1,569	15.7%	**3,888**	0	
2020	10,666	14,102	-4,214	-27.5%	**453**	0	

Source: DSP administrative data

Appendix 3F: Recent Developments to the Social Insurance System

The social insurance (PRSI) system has developed considerably over the last 30 years or so. The policy orientation of successive Governments has been directed at the development of the social insurance system. Some of the changes that have been made to the system in that period include the following:

1988: Social insurance for self-employed workers introduced;

1991: Part-time workers (earning in excess of £25 per week – now €38) covered by full-rate social insurance;

1995: Full-rate social insurance coverage extended to Community Employment workers and to all new civil and public servants;

2004: Introduction of PRSI on the non-pecuniary benefits (Benefits-in-Kind) received by employees;

2007: Recipients of Farm Assist became liable to make Class S PRSI contributions if their annual income is above the €5,000 threshold;

2011: Budget 2011 introduced significant changes to the PRSI system including:

a. The abolition of the annual PRSI ceiling (€75,036) for employees;

b. The application of a new rate of 4 per cent employee PRSI to modified (Civil and Public service) contributors on earnings above €75,036 (up from 0.9 per cent);

c. Office Holders were made liable, for the first time, to pay a PRSI contribution of 4 per cent on all income where income is greater than €5,200 per annum (no benefit entitlement accrues);

d. The rate of contribution payable by self-employed workers was increased from 3 per cent to 4 per cent. The income floor, after which self-employed workers pay PRSI on all income, was raised from €3,174 to €5,000;

e. Employee PRSI relief on employee pension contributions and public service pension-related deduction was abolished;

f. Employer PRSI relief on employee pension contributions was halved;

g. Share-based remuneration became chargeable to employee PRSI from 1st January 2011. Where the share award was the subject of a written agreement entered into prior to that date, the employee liability commenced from 1st January 2012;

h. With effect from 2nd July 2011, as part of the Government's Jobs Initiative, employer's PRSI for those earning less than €356 a week or equivalent was halved from 8.5 per cent to 4.25 per cent (including the National Training Fund Levy) until 31st December 2014;

2012: The relief of 50 per cent of employer PRSI for employee contributions to occupational pension schemes and other pension arrangements was removed from 1st January 2012;

2012: The minimum number of paid PRSI contributions required to be eligible to become a voluntary contributor increased from 260 paid contributions to 520 paid contributions;

2013: The minimum annual payment for self-employed contributors with annual income in excess of €5,000 (who pay Class S PRSI at 4 per cent), increased from €253 to €500;

2013: People paying modified rate contributions (mainly civil and public servants recruited before April 1995) became liable to PRSI of 4 per cent (paid at Class K) on earned self-employed income and any unearned income (from 1st January 2013) and on self-employed income which comes under PAYE (from 28th June 2013);

2013: For employees whose weekly earnings exceed €352, the weekly PRSI- free allowance available to employees who pay PRSI, was abolished;

2014: Since 1st January 2014 unearned income from rents, investments, dividends and interest on deposits and savings is liable to PRSI at 4 per cent. Anyone with unearned income of over €5,000 is considered to be a 'chargeable person' and is liable to pay the PRSI charge at 4 per cent on all their unearned income. This PRSI charge is paid at Class K and does not entitle the person to any social insurance benefits;

2014: Since 2014, certain spouses and civil partners of self-employed sole traders can pay PRSI and therefore establish entitlements to benefits in their own right;

2016: The upper threshold for paying the 8.5 per cent Class A rate of Employer PRSI was increased from €356 to €376 per week;

2016: A new tapering PRSI Credit was introduced for PRSI Class A and Class H employees earning between €352.01 and €424 in a week. Once earnings exceed €424, the PRSI Credit no longer applies;

2016: A new Paternity Benefit scheme introduced for employees and the self-employed;

2017: From March, access to Treatment Benefit which includes free eye and dental exams, and contributions towards the cost of hearings aids was extended to the self-employed;

2017: Eligibility for Invalidity Pension extended to include the self-employed;

2019: A new Jobseeker's Benefit scheme introduced for the self-employed;

2019: The upper threshold for paying the new 8.7 per cent Class A rate of employer PRSI increased from €376 to €386. The threshold increase addressed the Low Pay Commission concern that the pay increase would force employers to pay the new higher 10.95 per cent rate of employer PRSI in respect of employees working full-time on the minimum wage;

2019: A new Parent's Benefit scheme introduced, for employees and the self-employed;

2020: The threshold for paying the new 8.8 per cent Class A rate of employer PRSI increased from €386 to €395;

2020: Introduction of Pandemic Unemployment Payment and Enhanced Illness Benefit Payment;

2021: The threshold for paying the 8.8 per cent Class A rate of employer PRSI increased from €395 to €398;

2021: Introduction a new Benefit Payment for 65 Year Olds.

Social welfare legislation was consolidated in 1981 and, again, in 1993 with the enactment of the Social Welfare (Consolidation) Act 1993. Between 1981 and 1993, no less than 19 Social Welfare Bills with over 500 sections were enacted. This legislation made many amendments to the social insurance system – most notably the extension of PRSI to self-employed people in 1988. The Social Welfare (Consolidation) Act 1993 has since been superseded by the Social Welfare Consolidation Act 2005.

Appendix 4A: Overview of Labour Market Data

Summary

- Older workers aged 55 and over make up 14.7 per cent of those employed in Q3, 2020;
- Employment and participation rates peak for men and women in the 35 to 44 age group and then begin to decline. There is an overall gap of 15 percentage points in the employment rates for men and women, with this gap at its widest in the 60 to 64 age group (a 21 percentage point difference);
- More than half of those in employment aged 65 and over are self-employed;
- Older workers (aged 55 and over) make up a significant proportion of those in employment in the agricultural sector (36 per cent);
- Higher levels of education are associated with higher levels of employment for all age groups. The gap in the employment rate between men and women is less pronounced at higher levels of education;
- While self-reported health declines with age, few older people report having bad or very bad health. Health status varies with 'social class', with poorer health reported by those in less skilled occupations;
- Ireland's employment rate for those with bad health was the lowest in the EU as reported in the 2018 *Pensions Adequacy Report*. However, Ireland also had the second lowest incidence of self-reported bad health.

Key Labour Market Statistics

This section sets out key labour market indicators. It first sets out the employment, participation and unemployment rates by age and gender. It then sets out employment by status (employed and self-employed), sector and occupation by age. It then turns to employment by education level and gender. The data is primarily from the CSO's *Labour Force Survey*, supplemented by additional sources where possible, such as the Irish Longitudinal Study on Ageing (TILDA).

Employment share by age

CSO data show that people aged 25 to 54 make up about three quarters (73.3 per cent) of those employed. People aged 60 to 64 made up 4.9 per cent of those employed, and those aged 65 and over made up 2 per cent (CSO, 2020, Table 6a).

Employment, Participation and Unemployment Rates by age and gender

Employment rates vary by age group and gender. The employment rate is the number of persons employed aged 15 to 64 expressed as a percentage of the total population aged 15 to 64. The total number of persons employed is 2,295,200. The overall employment rate for all persons in Q3, 2020 is 67.7 per cent. The rate for men is higher at 73.3 per cent compared to 62.1 per cent for women. For both men and women, the employment rate increases until it peaks in the 35 to 44 age group, at 88 per cent for men and 73 per cent for women, at which point it starts to gradually decline. There is a notable difference in the employment rates of men and women in the 60 to 64 age group – 62.9 per cent for men and 41.9 per cent for women (CSO, 2020, LFS Q3 2020).

The participation rate is the number of persons in the labour force expressed as a percentage of the total population aged 15 or over. The overall participation rate for all persons in Q3, 2020 was 62 per cent. The total number of persons in the labour force in Q3 2020 is 2,469,800. The overall participation rate for men is higher at 68.2 per cent compared to 56 per cent for women. Participation rate by age follows a similar curve to the employment rate, peaking at age 35 to 44 for both men and women at 91 per cent and 77 per cent respectively, at which point it begins to decline (CSO, 2020, Table 8).

The unemployment rate is the number of persons unemployed expressed as a percentage of the total labour force, aged 15 to 74. The number of persons unemployed in Q3 was 174,700. The unemployment rate also varies by age, but in a different way. The overall unemployment rate for both men and women of all ages in Q3 2020 was 7.1 per cent. Unemployment is the highest for the youngest age group (ages 15 to 24) at 20.6 per cent for men and 19.3 per cent for women, and declines in the 35 to 44 age group at 3.6 per cent for men and 5 per cent for women, and stabilises there.

The unemployment rate is slightly higher for females than males across most age groups, but notably higher for women aged 60 to 64 (7.1 per cent compared to 3.7 per cent for men). This was not the case in previous years and may be particular to the pandemic.

Employment Status, Sector and Occupation by Age

In Q3, 2020, there were a total of 312,500 persons in self-employment, 87,400 of those being self-employed with employees, and 225,100 being self-employed without employees. The self-employed (both with and without employees) make up 13.6 per cent of all of those in employment in Q3, 2020. This proportion increases significantly with age, with more than half of those in employment at age 65 and over in self-employment (CSO, 2020, data request).

Employment rates vary by age in the different NACE sectors. The agriculture sector has the highest proportion of older workers aged 60 and over (36 per cent), followed by the transportation (12.9 per cent), other services (12.4 per cent), administrative (12.8 per cent) and health (10.6 per cent) sectors. Older workers (aged 60 and over) make up more than 10 per cent of a number of occupations – skilled trades (CSO, 2020, data request).

Earnings by age and gender

CSO data show the median weekly earnings by age group and gender. The overall average earnings are €592.60. The overall figure for men is €659.58 and for women is €517.62. Average weekly earnings increase for both men and women, peaking for those aged 40 to 49 (€814.04 for men and €619.87 for women) before a slight decline for those aged 50-59 and a notable decline for those aged 60 and over (CSO, 2019, Table 5.2).

Age planning to retire

The Irish Longitudinal Study on Ageing (TILDA) has collected detailed survey and health assessment data from adults aged 50 years and older in the Republic of Ireland since 2009. As part of the survey data collection that is carried out every two years, TILDA collects comprehensive information on participants' employment status and their transition to retirement.

As part of the survey, employed respondents under the age of 68 were asked when they planned to retire – under the age of 65, between 65 and 67, or 68 and over. A greater proportion of public sector workers (approximately a third) plan to retire under the age of 65 – the comparable proportion in the private sector is one in five or six. Interestingly, more than one in five women working in the private sector stated that they did not plan to retire – whether this reflected an intention to stay in employment, or a lack of a retirement plan is not known (Ward, 2019, Fig. 2).

Education

Education levels have an impact on employment rates. People with a third level degree or higher have higher employment rates across all age groups. Notably, the employment rate for women with a third level honours degree is 26.2 percentage points higher than for women with lower levels of education – 79.8 per cent compared to 52.6 per cent. While there remains a gender gap in the employment rates between men and women across almost all age groups, the gap is greater for those with a third level non-honours degree or below (a 14 percentage point gap) compared to those with an honours degree or higher (a 9.5 percentage point gap).

As higher education levels filter through into the labour market over time, this suggests there is scope for some further reduction in the gap in the employment rates between men and women, while recognising that education alone will not affect societal structures that lead to greater numbers of women taking time out of the labour market.

Table 4A.1: Employment rate by age, education group and gender Q3, 2020

	Third level non-honours degree or below		Third level honours degree or above	
	Men	Women	Men	Women
15 - 24 years	35.1	33.1	70.3	72.4
25 - 34 years	76.7	57.6	89.4	80.0
35 - 44 years	84.0	64.1	95.1	84.3
45 - 54 years	81.2	64.6	93.2	81.7
55 - 59 years	72.9	60.7	83.7	76.8
60 - 64 years	61.7	39.8	67.2	52.2
All	66.6	52.6	89.3	79.8

Source: Request to CSO Labour Market Analysis Unit

Considering this impact from an age perspective, *Supporting Working Lives and Enterprise Growth in Ireland* (2018) notes that, “There is a generational gap between the educational opportunities which were afforded to an older cohort of workers and those currently enjoyed by a younger generation in Ireland. This reality is demonstrated in two contrasting facts – within the EU, Ireland has the highest proportion of 30-34 year olds who are educated to tertiary level and also one of the highest proportions of older workers who did not complete the senior cycle of secondary education.” Some of the policy responses to this are included in the final section of this paper, on relevant Government policies.

Analysis of Wave 4 TILDA data found that education levels can have a significant impact on when a person retires, with those with primary level education much more likely to retire at age 65 or over (Ward, 2019).

Health

The health status of individuals may impact on their ability to participate in the labour market. Self-reported health status of individuals from Census 2016 show that while 90 per cent of all individuals reported their heath as being ‘very good’ or ‘good’, this varies by age. For instance, 92 per cent of those aged 40 to 44 reported their health as being ‘very good’ or ‘good', compared to 80 per cent of those aged 60 to 64 (CSO, 2017, *Census of Population 2016 – Profile 9 Health, Disability and Carers).*

The Census makes a classification of 'social class' based on occupational status. Health status by this classification for those aged 55 and over shows that professionals, those in managerial occupations and those in non-manual occupations are more likely to report that their health status is 'very good' or 'good' (more than 80 per cent) than those in skilled manual, semi-skilled and unskilled (67 per cent) occupations (CSO, 2017, *Census of Population 2016 – Profile 9 Health, Disability and Carers*).

The European Commission's Pension Adequacy Report sets out the employment rate by health status across EU Member States. The data for Ireland shows that the employment rate for those with self-reported 'bad' health aged 50 to 64 was the lowest among EU Member States at 24 per cent. The employment rate for those with self-reported good health is average among EU Member States at 66 per cent (European Commission, 2018, p.94).

However, it is worth putting this into context with regard to the extent to which bad health is self-reported across EU Member States. In this regard, Ireland has the second lowest level of self-reported bad health in this age group compared to other EU Member States.

As the Report notes, the,

> "...overall rate of (self-reported) bad health can help understand how it impacts employment, and health itself is driven by education. The better educated tend to have better health as well; this in turn, impacts access to care, type of job and possibly behaviour in a virtuous cycle.... The low share of people reporting bad health in Ireland may indicate a strict interpretation of what constitutes bad health, explaining the low employment rate in this category. In contrast, the high values in such countries as Lithuania, Hungary or Latvia point to large potential employment gains from improving older people's health." (European Commission, 2018, p.94).

Appendix 4B: Overview of Government Policies Aimed at Older Workers

Government policies have committed to:

- Increasing the participation rate of older workers;
- Incentivising older workers to remain in the labour market past retirement age by considering the introduction of deferred State Pension payments or allowing the continuation of PRSI contributions to be made;
- Encouraging lifelong learning and upskilling for older workers, and;
- Identifying age-friendly work practices and maintaining a positive ageing perspective.

Relevant Government policies

Future Jobs Ireland 2019 **(Department of Business, Enterprise and Innovation)**

Pillar 4 of this strategy is to increase participation in the labour force, noting that,

"as people are living and working for longer, we must have a labour market welcoming of older workers."

Target: Future Jobs Ireland will target a substantial 3 percentage point increase in overall participation rates for people aged 25 to 69 years to 78 per cent by 2025 with higher increases for females and older people.

Specifically, the report sought to reduce disincentives for those who wish to work longer by considering options such as:

- Deferral of State Pension contributory on an annual basis to include actuarial increases in payment;
- Facilitating those without a full social insurance record to increase their retirement provision by choosing to continue making PRSI contributions beyond State Pension age and up to the actual date of retirement; and
- Review barriers to older workers participating in the labour market.

A further 2019 deliverable was, "As part of Jobs Week 2019 and Jobs Fairs, develop promotions for female participation, participation by older people and people with disabilities." This was undertaken by the Department of Social Protection.

A Roadmap for Pensions Reform 2018 – 2023 (DEASP)

The *Roadmap for Pensions Reform* published in 2018, details specific measures presented under six strands that aim to modernise the pension system while continuing to target resources at those most in need. Strand 6 is titled "Supporting Fuller Working Lives" and includes a commitment to clarify mandatory retirement age provisions.

The paper states that:

> "The Government recognises general concerns have been raised regarding the use of mandatory retirement ages in employment contracts given the reforms to gradually increase State Pension age. This thinking was reflected in the July 2017 conclusion of the Citizens' Assembly that mandatory retirement of employees should be abolished. The Government also recognises that any widespread practice which sees the continuation of any prevailing mandatory retirement age of 65 would be inconsistent with strategies to remove obstacles to working to an older age.
>
> We are determined that the provisions detailed in this reform plan will combine to result in greater employee flexibility to work beyond what may be considered the traditional retirement age of 65. To ensure this is the case, employment practices in this area will be kept under close review in the near term. Should it appear that these provisions are not resulting in improved flexibility for workers… the Government will consider the merits of restricting the capacity to use mandatory retirement provisions relative to the prevailing State Pension age."

This report also contained an action in relation to, "the preparation of an options paper to allow deferral of the State Pension contributory on an annual basis to include actuarial increases in payments. (DEASP)".

***Report of the Interdepartmental Group on Fuller Working Lives 2016 (DPER**)*

The Interdepartmental Group on Fuller Working Lives, chaired by the Department of Public Expenditure and Reform, was established in January 2016 with the aim to examine the implications arising from prevailing retirement ages for workers in both the public and private sectors and to make recommendations to Government on a policy framework aimed at supporting fuller working lives.

The Report noted the following key policy considerations:

- **Work characteristics and sectoral variations:** While Ireland's average effective retirement age compares favourably to other OECD and EU Member States, the extent to which this is the case varies by employment sector.
- **Training and reskilling of older workers:** It must be recognised that older workers in certain occupations e.g. trades/heavy physical work may not have the same potential to continue with the same job role as they grow older and less physically able. Research has shown that working conditions play an important role in retirement decisions and 'blue collar' workers are | more likely to retire early than 'white collar' workers. Measures are needed to reverse this trend and to support the continued participation of such workers in the labour market through workplace adaptation or re-skilling.
- **Intergenerational equity:** Considerations of longer working need to be balanced against ensuring adequate employment opportunities for young adults and preserving pathways for career advancement and progression.

  That said, the argument is frequently made that the amount of work in an economy is fixed so therefore one more job for an older person means one less job for a younger person ('lump of labour' theory) – the belief that older persons are 'crowding out younger workers from jobs. However, the Group noted that research has shown this theory to be a fallacy and observes that the number of jobs in an economy is elastic and not finite, labour markets are dynamic and economies adapt to labour force changes.

Ireland's National Skills Strategy 2025 (Department of Education)

The *National Skills Strategy 2025* was published in 2016. People aged 50+ are among the cohorts highlighted throughout the strategy. The Strategy includes the following goals:

- People across Ireland will engage more in lifelong learning.
- There will be a specific focus on active inclusion to support participation in education and training and the labour market.
- It will support an increase in the supply of skills to the labour market.

Supporting Working Lives and Enterprise Growth in Ireland 2018 (SOLAS)

The central objective of this Employee Development Policy Framework is to provide targeted employee development support to vulnerable groups in the Irish workforce. In particular, the policy targets workers who have lower levels of skills, are in the 50+ age bracket, and are in sectors/occupations at risk of economic displacement. Targeted workers will be afforded training and development opportunities to advance their working lives and careers and to sustain their employment.

The National Positive Ageing Strategy 2013 (Department of Health)

The *National Positive Ageing Strategy* was published in April 2013. The Strategy is a high-level document outlining Ireland's vision for ageing and older people and the national goals and objectives required to promote positive ageing. The Report is widely referenced in the Report on Fuller Longer Working Lives.

- Develop a wide range of employment options for people as they age and identify any barriers to continued employment and training opportunities for people as they age.
- Areas for action include age-friendly workplaces; Contracts of employment; Flexible workplace practices; Gradual retirement; and Pre-retirement planning.

***Healthy and Positive Ageing Initiative (Department of Health*)**

Pillar 2 on participation includes the following action: To evaluate age-friendly workplaces in Ireland, and what initiatives can enhance the age-friendliness of workplaces.

The research concluded with the following key messages:

- Work intensity, such as pace and emotional demands, is the main challenge faced by older workers in Ireland.
- Age-friendly work practices should seek to address the challenge of work intensity alongside promoting a positive work environment.

Appendix 5A: Gender, Equality and Poverty Proofing

Background

The purpose of this appendix is to give a high-level overview of gender, equality and poverty proofing, as considered by the Commission. It sets out the how the Commission has, as part of its work, undertaken the various elements required to gender and equality proof policy reforms.

This appendix first sets out how various bodies utilise gender and equality proofing tools in order to understand gender and/or equality gaps and take appropriate actions to promote equality when developing policies. It considers material from the Irish Human Rights and Equality Commission (IHREC), the Department of Public Expenditure and Reform (DPER), the National Women's Council of Ireland, (NWCI), the Equality Authority (forerunner of IHREC), and the Gender Equality Unit funded *Gender-Proofing Handbook*.

While there are a number of different approaches to gender and equality proofing, the general features of these approaches are broadly similar.

Affected groups

Equality proofing is concerned with the impact of a policy on affected groups of people. The Equal Status Acts 2000-2018 list nine grounds on which discrimination is prohibited. These nine grounds are referred to in some equality proofing guidelines as the main issues that should be considered when equality proofing policies. The nine grounds on which discrimination is prohibited are:

1. Gender
2. Marital status
3. Family status
4. Sexual orientation
5. Religion
6. Age
7. Disability
8. Race
9. Membership of the Traveller community

However, depending on the policy, equality proofing may be relevant to issues beyond the scope of the Equal Status Acts 2000-2018. For example, under DPER's *Equality Budgeting Framework* (2018), nine equality themes have been identified including poverty rates. Based on the Commission's Terms of Reference, the three key equality impacts that the Commission has been concerned with are:

- **The gender impact of the Commission's recommendations.** The Commission's Terms of Reference specifically refer to gender as one of the socio-demographic characteristics it should consider.
- **The impact of the Commission's recommendations on people living in poverty in Ireland.** When the Pensions Commission was established the Minister highlighted the poverty prevention role of the State Pension, "The State Pension is the bedrock of the Irish pension system. It is extremely effective at reducing poverty for pensioners and I want to ensure that this remains the case into the future."
- **The impact of the Commission's recommendations on different age groups.** The Commission's Terms of Reference state that it should take into account cross-generational equity in its work.

There are of course other cohorts who will be impacted by the Commission's recommendations. These are considered as appropriate. Equality proofing will not always prevent specific individuals from experiencing equality gaps. The intersecting elements of an individual's identity (age, ethnicity, income, class, disability status, etc.) mean that more targeted measures beyond the scope of high-level equality proofing may be needed for certain individuals.

Background and purpose of equality proofing

IHREC (2016) has stated that, "Ireland has experience of various proofing initiatives, including poverty proofing, gender, equality, disability impact assessments, and latterly 'social impact' assessment." While these proofing initiatives are not strictly the same, the general high level aim of such tools (Equality Authority, 2007) is to ensure that:

- **Policies do not create or exacerbate equality gaps** (e.g. by creating or increasing gender gaps or poverty, or disproportionately impacting on one age group over another).
- **Policies take account of the needs of each of the affected groups and its members in terms of their situation, identity, and experience** (e.g. carers).
- **Where possible, policies promote equality** (e.g. reduce gender gaps and poverty, promote intergenerational equity).

With all of the Commission's work, there is a need to strike a balance between the adequacy and the sustainability of the State Pension system as a whole. Measures that are not fiscally sustainable could undermine the system as a whole, which would be to the detriment to all in Irish society.

DPER (2017) uses "equality budgeting" which involves, "...involves providing greater information on the likely impacts of proposed and/or ongoing budgetary measures, which, in turn, enhances the potential to better facilitate the integration of equality concerns into the budgetary process and enhance the Government's decision making framework."

The *Gender Proofing Handbook* (Crawley and O'Meara, 2002), funded by the Gender Equality Unit (of the Department of Justice and Equality), states that, "Gender proofing is the means by which it is ensured that all policies and practices within organisations have equally beneficial effects on men and women." The Handbook further notes that a, "Gender Impact Assessment is one of the tools used in gender proofing. It involves an assessment of policies and practices to see whether they will affect women and men differently, with a view to adapting these policies/practices to make sure that any discriminatory effects are neutralised.

The National Women's Council (2017) stated that in order to achieve the goal of a fully gender equal society, "...specific consideration of different gender implications needs to inform the policy decision making process..." It notes that, "Most fundamentally, equality and gender analysis tells us the extent to which a particular resource allocation or revenue measure reduces or increases inequality, or leaves it unchanged and what can be done to enhance the outcome."

Equality Authority (the forerunner to the IHREC) guidelines (2007) stated that, "An equality impact assessment is a process that seeks to test whether a proposed plan, programme or policy:

- promotes equality for;
- accommodates diversity for; and
- does not discriminate (including making reasonable accommodation for people with disabilities) against individuals and groups across the nine grounds of the equality legislation that experience inequality." (p.9)

The same document notes that two of the reasons relevant for conducting an equality impact assessment are where policies are, "...likely to have a significant impact upon the lives or well-being of individuals from groups experiencing inequality; or where there is a history or long established pattern of unequal outcomes, including access, participation or achievement, for particular groups and their members from across the nine grounds."

How to implement equality proofing

The Equality Authority has noted that conducting equality impact assessments can be a challenging process but they do not have to be overly complicated. It states that the process for undertaking such impact assessments is not an exact science and a common sense approach should be adopted.

The Gender Proofing Handbook

The *Gender Proofing Handbook* (Crawley and O'Meara, 2002) adopts a five-step gender proofing process:

Step 1: What are the different experiences and roles of men and women which might have an effect on how they benefit from a policy? Answers to this question may include information from relevant data such as gender disaggregated statistics, facts and information on the issue being addressed by the action/objective. This step can be supplemented by consulting with target groups.

Step 2: What are the implications of the differences (outlined in Step 1) for this policy?

Step 3: Given these implications, what do we need to do when pursuing this policy to ensure equality of outcome for men and women?

Step 4: Who will assume responsibility for ensuring these actions are carried out?

Step 5: How will we measure success in this area? The relevant data collected for Step 1 will help set realistic indicators and/or targets.

National Women's Council of Ireland (NWCI)

The NWCI has identified a three-stage process for gender/equality budgeting but this general process could also apply to other non-budget policies too:

- **Analyse:** Gender/equality analysis of policy to determine differential impact of measures. The NWCI has noted at this stage that, "...a priority focus must be ensuring the availability of relevant data."
- **Restructure:** Reformulate policies and allocations to achieve gender and broader equality outcomes. The NWCI has noted that, "Having completed the equality and gender analysis, the next stage is to examine how the budget [or policy] can be restructured to take account of these differences so as to advance equality, reduce poverty and strengthen economic and social rights. Where resources have been allocated inequitably, where the distribution of resources doesn't align with government priorities, a realignment is required." (2017:14)
- **Mainstream:** Systematically embed gender and equality within all budgetary processes.

IHREC/Equality Authority

The Equality Authority guidelines (2007) identified five core steps to an equality impact assessment:

1. **Information and data gathering:** This involves identifying and gathering relevant information and data about the groups experiencing inequality across the nine grounds in relation to the particular plan, programme or policy.

2. **Impact assessment:** TThis involves formal consultation with representatives from groups across the nine grounds that experience inequality to seek and explore their views on the particular plan, programme or policy
3. **Consultation:** This involves formal consultation with representatives from groups across the nine grounds that experience inequality to seek and explore their views on the particular plan, programme or policy.
4. **Decision:** When all the available information has been considered and feedback what changes (if any) are required to enhance the impact of the plan, programme or policy on groups and their individual members experiencing inequality.
5. **Monitoring:** The plan, programme or policy will need to be monitored as it is implemented to check its impact on these.

Summary of approaches

The various approaches to gender and equality proofing, while different, share a number of common steps:

1. Gather data and information in order to understand the differential impact of policy proposals.
2. Analyse the data and information to assess the gender and equality impacts of the proposed policy.
3. Consult with individuals and groups who may be impacted by the policy proposals.
4. Where appropriate policy proposals can be amended or restructured to mitigate negative impacts or promote equality.
5. After a policy has been implemented (e.g. through legislation) it should be reviewed to ensure that, in practice, the gender and/or equality proofing goals have been achieved.

Information and data gathering, analysis and consultation

The Commission has gathered and analysed a significant range and quantity of material to ensure that it could develop a holistic view of the State Pension system. The data has also helped the Commission also identify the potential impact of its recommendations on groups that, for gender and equality reasons, should not be disadvantaged by any recommendations. The Commission's recommendations have, in specific areas, made proposals which will promote equality by addressing structural inequalities in the design of the State Pension system.

The extensive range of inputs used by the Commission include:

1. **Gender-disaggregated data:** This type of data is crucial to gender proofing policies. Where available, the Commission sought gender disaggregated data to inform its deliberations.
2. **The public consultation:** Over 200 submissions and 1,100 survey responses were received. Responses were received from a number of groups in relation to gender and/or equality issues including Active Retirement Ireland, Alone, Migrant Rights Centre Ireland, NWCI, Social Justice Ireland, and a number of trade unions.

The public consultation document question, "What concerns you with respect to current State Pension arrangements?" explicitly sought views about groups who may be differentially impacted by the existing State Pension policies among both current pensioners and future pensioners,

> "This question seeks your views on aspects of State Pension arrangements that you think are not working well, and/or areas where you think there are emerging issues, particularly in respect of fiscal and social sustainability challenges.

Please be specific about the concerns you have. For example, these concerns might relate to pension age, to eligibility requirements, to contributions, to calculation of pension methods, to income supports available before reaching State Pension age, to sustainability and equity concerns that impact upon future pensioners, to efforts to achieve fuller and later working lives….it is useful to give a sense of how many people are affected by the concerns you have; if these concerns affect particular groups more than other groups, and if so, what are these groups; the implications of these concerns for those affected in terms of e.g. eligibility criteria, rates of payment, contribution rates, or any other aspect of current State Pension arrangements. Where possible, please give your information and/or data sources."[36]

A similar request was made in term of any reform proposals. Submitters were asked to consider "What impacts such reform proposals may have, e.g. for other age groups, for different genders, for workers, for employers, for carers, for people with disabilities, for the State, for society" and "How these impacts might be mitigated, e.g. through consideration of trade-offs between and within reform proposals, through implementation principles and mechanisms".

Gender and equality issues raised by these submissions included:

1. A need for a flexible State Pension age to mitigate issues for workers in arduous jobs, to cover the gap between mandatory retirement age in a contract of employment, and to enable people to mitigate the impact of increasing State Pension age.
2. The need for benchmarking the State Pension payment rate to protect pensioners from poverty.
3. The gender gap between the number of men and women receiving the SPC.
4. The fact that carers, the majority of whom are women, can find it difficult to accumulated 520 paid contributions.
5. The cap of 20 years on HomeCaring periods under TCA.
6. A universal pension system as means to address differential outcomes for men and women under the current system.

Other relevant inputs utilised by the Commission include:

1. **Expert presentations:** Presentations from independent experts were given by the CSO, DFIN, IFAC, ESRI, and the OECD which included intergenerational, poverty and gender impacts.
2. **Stakeholder presentations**: The Commission identified a number of key groups who would be impacted by its proposals and requested presentations from Age Action, Family Carers Ireland, IBEC, ICTU, NWCI, and SpunOut.
3. **Distributional impact analysis**: This was produced specifically for the Commission by the Social Inclusion Unit in the Department of Social Protection using the ESRI's tax and welfare microsimulation model, SWITCH, as well as relevant ESRI SWITCH analyses in various research papers. This analysis provides evidence on the impact of proposals on income deciles or quintiles, household types and at-risk-of-poverty thresholds.
4. **Actuarial analyses:** The gender impacts of the different designs of TCA in terms of the numbers qualifying and the rate of payment for men and women.
5. **Commission's analyses:** The Commission considered the potential impact of proposals on specific cohorts using the various data made available to it. Where quantitative data was not available, a qualitative assessment of potential impacts was made.

[36] P.10, The Pensions Commission, *Have your say on the future of sustainable State Pensions into the future*, 9th February 2021.

Conclusion

A high-level equality gender, equality and poverty proofing of the Commission's recommendations can ensure that:

- Policies do not create or exacerbate equality gaps.
- Policies take account of the needs of each of the affected groups and its members.
- Where possible, policies promote equality.

The Commission has, as part of its work, explicitly considered the gender, equality and poverty implications of its proposals. The Commission has used wide range of data and information sources, including a public consultation process, as well as members' own expert knowledge, to consider the gender and equality impacts of policy options.

The Commission has sought to balance the fiscal sustainability of its proposals with the need to ensure that the impact of its proposals do not negatively affect key principles of the State Pension system (such as its poverty prevention and redistributive functions). It also sought to ensure that the increasing financial costs of the State Pension system can be shared fairly and equitably within and between generations.

While the Commission has considered the gender, equality and poverty impacts of its proposals throughout its work, a comprehensive gender and equality proofing process can only fully be undertaken at the time of implementation. This is because the full gender, equality and poverty impacts of proposals depend on the combination of options progressed by Government, the timing of their implementation, and other related Government policies (e.g. in relation to other social welfare or taxation policies that may take place at the same time).

In this regard, the Commission notes the commitments in the *National Strategy for Women and Girls 2017-2020* in relation to pension policy: "With the aim of ensuring that pension policy takes account of the women's differing work patterns, future pension policy reforms will be gender proofed to assess their impact on women as well as men." In addition, the Strategy commits that, "All state pensions reform plans proposed by the responsible Department (DSP) (including the current Total Contributions Approach (TCA) reform process) will be analysed for expected gender impact."

Appendix 5B: Gender, Equality and Poverty Proofing Policy Options

This appendix presents a summary table of the gender and equality proofing considerations that were taken into account during the Commission's deliberations, and how these considerations informed decisions on whether to proceed with, amend, or reject proposals to reform the State Pension system.

Note on the table

The table below is a high-level overview of the gender, equality and poverty considerations by the Commission in relation to a range of policy options, including options that the Commission did not recommend. This is not a comprehensive list but provides some insight into the Commission's deliberations.

Commission recommendations are shaded in blue. Proposals which the Commission decided to reject, generally (wholly or partly) on the basis of gender, equality and poverty impacts are highlighted in grey.

The first column sets out the draft policy option/recommendation. The second column sets out the differential impacts on particular groups that were identified by the Commission, and the data sources that were considered to establish these differential impacts. The final column sets out gender and equality proofing i.e. what steps have been taken, or supports are available, to mitigate these differential impacts. Where the mitigating measures were deemed insufficient, the Commission decided not to proceed with the policy proposal.

Table 5B.1: Policy options and the Commission's gender, equality and poverty proofing considerations

Policy Option	Gender, Equality and Poverty considerations	Gender, Equality and Poverty proofing
Funding – Structural: **Continue to fund the SIF on a PAYG basis** **(Recommended)**	**Group(s) impacted:** • Current workers and current pensioners – changing old-age dependency ratios. • Those who have experienced gaps in their labour market history as a result of unemployment, illness, maternity, etc. • Low income workers. **Data sources:** • DSP data on SIF income and expenditure • CSO data on population ageing and accrued to date liability of the State Pension • KPMG *Actuarial Review* • Reports from ESRI, NESC, ILO, academic papers, media reports. • Consultation process • International examples	• Under a PAYG system it iseasier to maintain the principle of intergenerational equity. • The PAYG system enables income redistribution – beneficiaries can receive similar benefits regardless of how much tax or social insurance they paid, benefiting low income workers and ensuring poverty prevention. • The system ensures that low-income workers, people with periods of unemployment, or absences from the labour market for reasons of sickness, invalidity, maternity, caring can still receive a weekly rate of payment that is effective at preventing pensioner poverty. Those with absences from the labour market are more likely to be women, migrants, people with disabilities, Travellers.
Funding – Structural: **Regular Exchequer contributions to the 'State Pension' Fund** **(Recommended)**	**Group(s) impacted:** • Improves certainty of State Pension funding, which benefits current and upcoming pensioners. • Exchequer contributions are funded from general taxation and/or borrowing – the groups impacted by this proposal depends on how the Exchequer contributions are financed. **Data sources:** • DSP data on SIF income and expenditure • Public consultation	• Rather than relying on a residual financing of deficits by the Exchequer, regular contributions will enable planning of how to finance the annual contributions, which can reduce gender, equality and poverty impacts. • These Exchequer contributions will reduce the need to rely on increased PRSI contributions to meet rising State Pension costs, which would likely have negative labour market impacts.

Policy Option	Gender, Equality and Poverty considerations	Gender, Equality and Poverty proofing
Funding – Structural: **Individualise State Pension contributions through a notional defined contribution (NDC) system.** **(Not recommended)**	**Group(s) impacted:** • Would negatively impact lower earners if value of SPC was linked to earnings/ value of PRSI payments and not number of contributions. • Low earners are more likely to be women, migrants, people with disabilities, Travellers. **Data sources:** • DSP data • ESRI research • Consultation process • International examples	• The risk of undermining the redistributive nature of the State Pension system would threaten its poverty-prevention role. • Without adequate safeguards, a pension accrued under a NDC system would be too low to prevent certain individuals or groups from falling into poverty. • Intergenerational fairness issues could also arise with some workers having to fund current pensioners as well as their own pension.
Funding – Structural: **Fully fund State Pension costs** **(Not recommended)**	**Group(s) impacted:** • Current workers would need to pay twice - to fund their future pensions as well as current pensions. • Poverty impacts for low earners if value of SPC was based solely on personal contributions. • Low earners are more likely to be women, migrants, people with disabilities, Travellers. **Data sources:** • DSP data • Consultation process • International examples	• Multi pillar pension system relies on first pillar that provides poverty prevention function.
Pension payment rates: **No reduction in payment rates - State Pension as bedrock** **(Recommended)**	**Group(s) impacted:** • Current pensioners • Pensioners who rely on State Pension payments for the all of/the majority of their income – more likely to be women. **Data sources:** • DSP data • ESRI/Pensions Council report • Consultation process • KPMG *Actuarial Review* • IDPRTG Report • Official statistics	• Any reduction in payment rates would disproportionately impact people who depend on the State Pension for most of their income.

<table>
<tr><th>Policy Option</th><th>Gender, Equality and Poverty considerations</th><th>Gender, Equality and Poverty proofing</th></tr>
<tr><td>Pension payment rates:

Benchmarking and indexation on ‘smoothed earnings’ basis as recommended in Roadmap for Social Inclusion 2020-2025

(Recommended)</td><td>Group(s) impacted:
• All pensioners, especially pensioners below or close to the poverty line and/or rely on the State Pension for most/all of their income.
• Single pensioners are more likely to be at-risk-of-poverty.
• Workers in terms of certainty of maintaining the real value of State Pension payments into the future.
Data sources:
• Roadmap for Pensions Reform 2018-2023
• Roadmap for Social Inclusion 2020-2025
• IDPRTG Report
• Consultation process
• Technical Sub-Committee Working Paper 4</td><td>• The introduction of benchmarking and indexation will give certainty to pensioners, help with sustainability by keeping pension payments within a certain range, and maintain their adequacy in relation to earnings and price inflation.
• The Commission cautions that benchmarking against earnings will not necessarily prevent pensioner poverty. The Commission endorses the Roadmap for Social Inclusion proposal that an independent body advise Government on State Pension rates, but further recommends that this body periodically review the effectiveness of the benchmark at preventing pensioner poverty by household type.</td></tr>
<tr><td>Pension payment rates:

Benchmark to Consumer Price Index (CPI)

(Not recommended)</td><td>Group(s) impacted:
• All pensioners, especially pensioners below or close to the poverty line and/or rely on the State Pension for most/all of their income - Indexing to price inflation alone would erode the value of the State Pension over time.
Data sources:
• Roadmap for Pensions Reform 2018-2023
• IFAC Long-Term Sustainability Report
• KPMG Actuarial Review
• Consultation process
• Secretariat papers inc. Sub-Committee work</td><td>• Indexing to inflation would reduce the cost of providing State Pensions as a percentage of GNI*.
• However, the adequacy of the State Pension would be eroded over time thereby undermining the poverty prevention function of the State Pension system.</td></tr>
</table>

<table>
<tr><th>Policy Option</th><th>Gender, Equality and Poverty considerations</th><th>Gender, Equality and Poverty proofing</th></tr>
<tr><td>Pension payment rates:

Benchmark through a ‘triple lock’

(Not recommended)</td><td>Group(s) impacted:
• Intergenerational – pensioners would benefit from security and guaranteed increase in rates.
• Workers would benefit from certainty of maintaining the real value of State Pension payments into the future.
• Workers would pay for the cost of pension increases.
Data sources:
• Consultation process
• Technical Sub-Committee Working Paper 4</td><td>• Commission recommendation re: base broadening and removing PRSI exemption for those over the State Pension age would reduce intergenerational equity concerns.
• Triple lock could lead to the value of the State Pension rising above the level needed for poverty prevention.
• The compounding effect of rate increases under a ‘triple lock’ could result to a very significant cost over time thereby undermining the fiscal sustainability of the State Pension system.</td></tr>
<tr><td>Pension payment rates:

Living Alone Allowance increases

(Recommended)</td><td>Group(s) impacted:
• Pensioners who live alone are more likely to be at-risk-of-poverty
• Pensioners living alone are more likely to be women, and more likely to be widowed
Data sources:
• ESRI research
• Consultation process
• Technical Sub-Committee Working Paper 3</td><td></td></tr>
</table>

Policy Option	Gender, Equality and Poverty considerations	Gender, Equality and Poverty proofing
Pension calculation methods **Fully move to TCA and abolish Yearly Average Method** **(Recommended)**	**Group(s) impacted:** • People below State Pension age who benefit from the Yearly Average calculation (such as those with shorter working histories, and those more than 10 years credited contributions) – these are more likely to be migrants, people with disabilities, Travellers. • Self-employed people who commenced self-employment pre-1988. **Data sources:** • DSP analysis of TCA models • ESRI/IHREC research KPMG *Actuarial Review* • Consultation process	• Provision of employment supports can improve social insurance records for long-term unemployed. • People with disabilities in receipt of invalidity pension automatically qualify for the maximum weekly rate of SPC. • In order to accommodate the self-employed, several options are possible – voluntary contributions, disregards. • State Pension Non-Contributory and SPC IQA payments remain as a safety net. • A gradual transition or 10 years' notice will cushion the impact of a lower SPC pension for upcoming pensioners who would be entitled to a lower pension under TCA compared to Yearly Average. • Commission's recommendation to enable continued PRSI contributions past State Pension age and improve social insurance record for SPC purposes will help those who wish to continue to work.

Policy Option	Gender, Equality and Poverty considerations	Gender, Equality and Poverty proofing
Pension calculation methods **TCA design of:** - **40 years (2,080 contributions) for full pension** - **20 years of HomeCaring periods** - **10 years of credited contributions** - **(20 years combined HomeCaring and credited contributions)** **(Recommended)**	**Group(s) impacted:** • People with shorter contribution histories – these are more likely to be women, migrants, people with disabilities, Travellers, self-employed people who commenced self-employment pre-1988 • People with longer credited contribution histories – likely to be men • People with more than 20 years of HomeCaring – likely to be women **Data sources:** • DSP analysis of contribution histories • KMPG analysis • Consultation process	• The State Pension Non-Contributory (SPNC) and the SPC IQA payments remain as safety nets within the State Pension system. SPNC is paid at a rate of 95 per cent of the maximum rate of SPC, while the SPC IQA is 90 per cent. While the payments are means-tested, they are effective in the first pillar State Pension function of preventing pensioner poverty. • Provision of employment supports can help improve social insurance records. • People with disabilities in receipt of invalidity pension automatically qualify for the maximum weekly rate of SPC. • In order to accommodate the self-employed, several options are possible – voluntary contributions, disregards • The Commission's recommendation in relation to long-term carers addresses issue of SPC recognition of caring for 20+ years.

Policy Option	Gender, Equality and Poverty considerations	Gender, Equality and Poverty proofing
Pension calculation methods: ***Status quo* – keep both Yearly Average and TCA in operation, with most beneficial rate applying** **(Not recommended)**	**Group(s) impacted:** • People below State Pension age who benefit from the Yearly Average calculation (such as those with shorter working histories, and those more than 10 years credited contributions, self-employed pre-1988) – including migrants, people with disabilities, Travellers. **Data sources:** • DSP analysis • KPMG *Actuarial Review* and further analysis • Consultation process	• The indefinite continuation of this 'better of' two approaches calculation method is a structural driver of costs and does not a dress the fiscal sustainability of the State Pension system. An unsustainable State Pension system is detrimental to all in society, and particularly those who are wholly or mostly dependent on the State Pension for retirement income. • This option would leave in place the anomaly whereby a person with fewer contributions could receive the same State Pension as a person with more contributions. • See above for mitigating measures for full move to TCA.
Long-term carers **Access to SPC by means of retrospective contributions paid by the Exchequer** **(Recommended)**	**Group(s) impacted:** • Long-term carers - because of the length of their caring lives are unable to acquire 520 paid contributions required to access the SPC or qualified for reduced rate due to 20 years cap on HomeCaring periods. • Long-term carers are more likely to be women. • People with disabilities, who are the recipients of care. **Data sources:** • DSP administrative data • CSO – Census, Labour Force Survey • MISSOC • Consultation process	• This recommendation will improve long-term carers access to the State Pension Contributory.

Policy Option	Gender, Equality and Poverty considerations	Gender, Equality and Poverty proofing
Long-terms carers **Remove 520 paid contributions requirement** **(Not recommended)**	**Group(s) impacted:** • Women, people with disabilities, migrants and Travellers tend to have less strong attachment to the labour market and consequently a lower level of paid contributions. **Data sources:** • DSP analysis of PRSI contribution history • Consultation process • International examples	• The Commission's recommendation for long-term carers will ensure that they can qualify for the State Pension. • 520 paid contributions requirement is the standard level of contributions required to access State Pensions internationally. • Retains the contributory principle and supports the sustainability of the State Pension system and the SIF, which benefits society in general and particularly those who are wholly or mostly reliant on the State Pension for retirement income.
Retirement age **Align retirement ages in private sector employment contracts with State Pension age** **(Recommended)**	**Group(s) impacted:** • Workers with a contractual retirement age in their employment contracts below State Pension age. • Workers who are less likely to be in a position to negotiate amendments on an individual basis to their employment contracts – migrants, people with disabilities. **Data sources:** • ESRI presentation on the Ageing Workforce • ESRI, IHREC reports • Consultation process • CSO *Labour Force Survey*	• The Commission's recommendation enables but does not compel a worker to remain in employment until State Pension age.

Policy Option	Gender, Equality and Poverty considerations	Gender, Equality and Poverty proofing
State Pension age **Increase gradually to 68** **(Recommended)**	**Group(s) impacted:** • Those unable to stay in work as a result of compulsory retirement age – more likely to be in jobs with less security, such as migrants and people with disabilities. • Those reliant on the State Pension for all or most of their retirement income – more likely to be women. • Those with poor health and unable to remain in employment – potentially more likely to be people with disabilities. • Those in arduous jobs and unable to remain in employment – potentially more likely to be men and migrants. • Upcoming pensioners. **Data sources:** • ESRI presentation on the Ageing Workforce • ESRI, IHREC reports • Consultation process • CSO *Labour Force Survey*	• The Commission's recommendation in relation to aligning retirement ages with the State Pension age would address gap. • The introduction of the Benefit Payment for 65 Year Olds scheme provides an income support for this group. • Other social welfare income supports are available for those who are unable to work, such as the Invalidity Pension or Illness Benefit schemes. • The recommendation is for a very gradual implementation commencing in 2028 and increasing by 3 months at a time – this limits the impact on upcoming pensioners. • The Commission's recommendation that social partners and relevant Government and statutory bodies issue guidance to facilitate fuller working lives is also relevant. • If pension age increases are not considered, then future shortfalls would have to be met through alternative means such as additional increases to employer and employee contribution rates.

Policy Option	Gender, Equality and Poverty considerations	Gender, Equality and Poverty proofing
Flexible Access **Deferred access to SPC – Actuarial Increase** **(Recommended)**	**Group(s) impacted:** • This option will appeal to those who have alternative sources of income in retirement, or who remain in employment past State Pension age. • The majority of those who remain at work past State Pension age are self-employed men. • It is also more likely to be taken up by those in good health i.e. less likely to be taken up by people with disabilities. • By choosing to defer the State Pension, this will impact on an IQA's ability to access the State Pension. **Data sources:** • Actuarial analysis of early/late access • Labour market statistics • Consultation process	• Women's social insurance records are improving over time and it is likely that more women will wish to continue to work past State Pension age over time. • While a person cannot access an IQA payment if their spouse/partner defers access to SPC, research indicates that household income is, in general, pooled. • In terms of less take-up by people in poor health or by women, it should be noted that this recommendation provides for a cost-neutral increase in the weekly payment rate of SPC – accordingly, by not taking up this option, a person is not disadvantaged.

<table>
<tr><th>Policy Option</th><th>Gender, Equality and Poverty considerations</th><th>Gender, Equality and Poverty proofing</th></tr>
<tr><td>Flexible Access

Deferred access to SPC – Continue payment of PRSI for SPC purposes, in order to gain access or improve rate entitlement

(Recommended)</td><td>Group(s) impacted:
• This option will benefit those who continue to work past State Pension age, and have not qualified for the State Pension (as a result of not meeting the 520 paid contributions requirement), or have not reached the maximum weekly rate of payment of SPC i.e. those without a full 40 year TCA record.
• A significant minority of people qualify for a reduced rate of SPC
- a greater proportion of women than men qualify for a reduced rate.
- Migrants
• More men than women continue working past State Pension age
Data sources:
• DSP analysis
• CSO Labour Force Survey data
• Consultation process
• OECD reports</td><td>• This recommendation will help those without a full social insurance record to qualify for SPC or improve their weekly payment of SPC if they wish to do so.
• Low earners (i.e. less than €352 a week employment income) do not pay PRSI on their earnings.</td></tr>
</table>

<table>
<tr><th>Policy Option</th><th>Gender, Equality and Poverty considerations</th><th>Gender, Equality and Poverty proofing</th></tr>
<tr><td>Flexible Access

Early access to full rate SPC from age 65 for those with long contribution histories (45 years)

(Recommended, as an option)</td><td>Group(s) impacted:
• Women are currently less likely to have longer contribution records so would be less likely to qualify.
• People with disabilities, migrants, and Travellers are less likely to have long contribution records and less likely to qualify.
• Early access would provide some flexibility to people without occupational/ private pensions and are dependent on the State Pension for most of their retirement income and who want to retire early.
• People who work in arduous/hazardous jobs who may not be able to continue working past age 65.
• People with long contribution histories who have to retire at age 65 e.g. due to objectively justifiable reasons such as health and safety considerations.
• Increased costs would need to be met by current workers, increasing intergenerational impact of State Pension system.
Data sources:
• DSP gender analysis of contribution records
• CSO data
• ESRI, IHREC reports
• European Commission, OECD reports
• Consultation process</td><td>• By using the TCA design which takes into account HomeCaring periods, more women can access the early access pension than if access were limited to paid contributions alone.
• Maintaining the age of early access at 65 even if the State Pension age increases would provide a safety net for workers with long contribution histories and wish to retire.
• The Benefit Payment for 65 Year Olds would remain for those without the level of contributions required.
• The introduction of early access to a full rate State Pension at 65 would be a cost measure. This cost will increase if State Pension age increases. However, implementation of this option could work to mitigate the differential impacts of State Pension age increases.</td></tr>
</table>

Policy Option	Gender, Equality and Poverty considerations	Gender, Equality and Poverty proofing
Flexible Access **Early Access – Actuarial Reductions** **(Not recommended)**	**Group(s) impacted:** • Women are more likely to rely on the State Pension for retirement income • Those in lower paid jobs tend not to have supplementary pensions and rely on the State Pension. • DSP analysis • KPMG *Actuarial Review* and further analysis • Consultation process **Data sources:** • CSO Pension Coverage statistics • ESRI/Pensions Council research • Consultation process • Secretariat papers	• There would be an increased poverty risk for those who chose to access an actuarially reduced pension without a supplementary pension. • The State Pension Non-Contributory would remain as a safety net for those without means upon reaching State Pension age. • This option would necessitate the provision of advice to those who wished to avail of it.
Flexible Access **Matrix based on contributions** **(Not recommended)**	**Group(s) impacted:** • Women are less likely to have long contribution records. • People with disabilities, migrants, and Travellers are less likely to have long contribution records. **Data sources:** • CSO Pension Coverage statistics • ESRI/Pensions Council research • Consultation process • Secretariat papers	• This option, where access to SPC would be based primarily on the number of contributions rather than age, would introduce significant complexity to the pension system. • This approach could have negative impacts on the sustainability of the State Pension system.
Increasing SIF Income **Increase Class S PRSI** **(Recommended)**	**Group(s) impacted:** • Self-employed • Men – more likely to be self-employed • People in bogus self-employment • Work incentives and cost of labour **Data sources:** • Distributional impact assessment • CSO *Labour Force Survey* data • KMPG *Actuarial Review* • Reports from ESRI, DFIN, NESC • Consultation process	• The progressive nature of this PRSI option (ESRI SWITCH analysis showed a broadly progressive distributional impact by decile of equivalised disposable income) and no impact on at-risk-of-poverty rates. • An increase in Class S PRSI may reduce bogus self-employment as one of the main incentives – lower PRSI – is removed or reduced. • A gradual increase in the PRSI rate would lessen the impact for the self-employed and for the wider economy.

Increasing SIF Income **Increase Class A PRSI for employees and employers** **(Recommended)**	**Group(s) impacted:** • Low earners (below €352 per week) would not be impacted by this measure women are more likely to be low earners, as are migrants. Also people with disabilities, Travellers. • Impact on work incentives and cost of labour. **Data sources:** • Distributional impact assessment • Reports from ESRI, NESC, DFIN • CSO *Labour Force Survey* data • KMPG *Actuarial Review* • Consultation Process NESC	• ESRI and DSP SWITCH analyses both found that increases in employee PRSI would have a broadly progressive impact with lower proportional impacts on lower income deciles, and no impact on increasing at risk of poverty rates.
Increasing SIF Income **Introduce an employee 0.5% Class A PRSI contribution for low earners** **(Not recommended)**	**Group(s) impacted:** • Low earners - Class A workers who earn €118-€352 weekly • Low-earners and part-time workers are more likely to be women, migrants, people with disabilities **Data sources:** • SWITCH analysis not possible • KPMG *Actuarial Review* • DSP Tax Strategy Group paper	• While it was not possible to carry out a distributional impact assessment using the SWITCH model, it was evident that this measure would reduce the income of low income part-time workers. • The potential yield (estimated at €17.6 million in a full year (2018 figures)) was out weighed by the risk of reducing the income of low income part-time workers, and potential consequent poverty impacts. • On this basis the Commission decided not to proceed with this option.

Policy Option	Gender, Equality and Poverty considerations	Gender, Equality and Poverty proofing
Increasing SIF Income **Increase minimum Class S payment from €500 to €1,500** **(Not recommended)**	**Group(s) impacted:** • Class S earning less than €37,500 per annum would face an increase charge for Class S PRSI – those earning €5,000 would face 30 per cent PRSI rate. • Men are more likely to be self-employed. **Data sources:** • DSP SWITCH analysis • DSP Tax Strategy Group paper • KPMG *Actuarial Review*	• Analysis using the ESRI's SWITCH model found that this measure had a regressive impact, with the strongest effects on those in the lowest income deciles. • On this basis the Commission decided not to proceed with this option.
Increasing SIF Income **Increase the entry threshold for Class A PRSI from €38 to €118** **(Not recommended)**	**Group(s) impacted:** • Class A earners €38-€118 weekly. • Women - low-earners and part-time workers are more likely to be women. • People with disabilities and migrants are also more likely to be lower earners. **Data sources:** • SWITCH analysis not possible • DSP Tax Strategy Group paper	• While it was not possible to carry out a distributional impact assessment using the SWITCH model, it was evident that this measure would reduce social insurance cover for low income workers. • In the context of a full transition to TCA, this measure would require a greater level of work intensity (12 hours compared to less than 4 hours of work a week at minimum wage) in order to gain a PRSI contribution.

Appendix 5C: Packages that Address Fiscal Sustainability

This appendix sets out how the fiscal sustainability packages were compiled. The detailed tables overleaf are all **annual projections**.

SIF Shortfalls: KPMG's *Analysis for the Pensions Commission* provided updated projections of annual Social Insurance Fund (SIF) shortfalls. These figures were provided in 2017 prices to enable comparisons with the 2015 *Actuarial Review* – these were converted to 2019 prices to align with the other figures.

Total Contributions Approach: KMPG carried out additional analysis for the Commission, calculating the shortfalls that would arise with the abolition of the Yearly Average Approach to calculating pension rate entitlement. Comparing the shortfalls arising from the current system (where a person can choose the most beneficial rate between the two calculation methods) and this additional analysis showed the fiscal impact of moving fully to the Total Contributions Approach.

PRSI yields: The Commission recommended specific increases to the Class S contribution rate over time – increase by one percentage point per year (to reach 10 per cent by 2030), then align with the higher employer contribution rate (after 2030). The yields arising from this were calculated by the Department of Social Protection's Investment Analysis Unit, as were yields generated from a one percentage point increase in the Class A PRSI rate for both employers and employees. These were used by the Commission to calculate the yields of the PRSI rate increases in the various packages.

Exchequer contributions: For modelling purposes, the Commission settled on an Exchequer contribution of 10 per cent of State Pension Contributory (SPC) expenditure. These were sourced from the KPMG analysis, which included projections of SPC expenditure out to 2070.

Pension age savings: The Department of Finance (DFIN) provided the Commission with estimates of nominal savings arising from pension age increases. The DFIN savings were reduced in 2030 to reflect that the recommended pension age by the Commission is 66.75 in 2030 rather than 68 as previously legislated.

These elements were put together in the various packages of options that the Commission considered. Each of the Packages 1 to 4 inclusive meets the projected SIF shortfalls out to 2070. The Class A PRSI contribution rates for employees and employers varied across the packages. As Class S is linked to the higher rate of employer PRSI after 2030, increases in Class A PRSI were reflected in the Class S rate. The yield/savings from the other measures are the same across the packages.

Detailed Tables: Packages that address annual SIF shortfalls to 2070

Table 5C.1: Package 1 – PRSI contributions

Measure	Units	2021	2030	2040	2050	2070
Baseline: SIF Shortfall	€ billion		2.36	8.56	13.35	21.10
Full move to Total Contributions	€ billion		-	0.44	1.11	2.00
Class S increases	p.p.		6.0	3.25	1.1	0
Class A increases (each - EE & ER)	p.p.	-	0.6	1.6	1.1	0.6
Class S projected additional yield	€ billion	-	1.20	2.78	3.11	4.38
Class A projected additional yield	€ billion	-	1.20	5.28	9.24	14.82
Total Savings/Yield	€ billion		2.40	8.49	13.46	21.20
Total Savings/Yield as % of Shortfall	Percent		102%	100%	101%	100%
Class S rate	**Percent**	**4.00%**	**10.00%**	**13.25%**	**14.35%**	**14.95%**
Class A rate – employee	Percent	4.00%	4.60%	6.20%	7.30%	7.90%
Class A rate – employer lower	Percent	8.80%	9.40%	11.0%	12.10%	12.70%
Class A rate – employer higher	Percent	11.05%	11.65%	13.25%	14.35%	14.95%
Class A combined (EE & higher ER)	**Percent**	**15.05%**	**16.25%**	**19.45%**	**21.65%**	**22.85%**

Table 5C.2: Package 2: PRSI contributions and State Pension age increases

Measure	Units	2021	2030	2040	2050	2070
Baseline: SIF Shortfall	€ billion		2.36	8.56	13.35	21.10
Full move to Total Contributions	€ billion		-	0.44	1.11	2.00
Pension age increase (66.75 in 2030, 68 in 2039)	€ billion		0.56	2.51	3.81	8.33
Class S increases	p.p.	-	6.0	2.95	1.1	0
Class A increases (each - EE & ER)	p.p.	-	0.3	1.6	0.15	0
Class S projected additional yield	€ billion	-	1.20	1.79	2.73	3.64
Class A projected additional yield	€ billion	-	0.60	3.80	5.74	7.79
Total (incl. pension age and TCA)	€ billion		2.36	8.54	13.39	21.76
Total Savings/Yield as % of Shortfall	Percent		100%	100%	100%	103%
Class S rate	**Percent**	**4.00%**	**10.00%**	**12.95%**	**13.10%**	**13.10%**
Class A rate – employee	Percent	4.00%	4.30%	5.90%	6.05%	6.05%
Class A rate – employer lower	Percent	8.80%	9.10%	10.70%	10.85%	10.85%
Class A rate – employer higher	Percent	11.05%	11.35%	12.95%	13.10%	13.10%
Class A combined (EE & higher ER)	**Percent**	**15.05%**	**15.65%**	**18.85%**	**19.15%**	**19.15%**

Table 5C.3 – Package 3 – PRSI contributions and Exchequer contributions

Measure	Units	2021	2030	2040	2050	2070
Baseline: SIF Shortfall	€ billion		2.36	8.56	13.35	21.10
Full move to Total Contributions	€ billion		-	0.44	1.11	2.00
Exchequer contribution - % SPC expenditure	€ billion		0.79	1.29	1.98	2.97
Percentage	Percent		10%	10%	10%	10%
Class S increases	p.p.	-	6.0	2.8	0.9	0.5
Class A increases (each - EE & ER)	p.p.	-	0.2	1.55	0.9	0.5
Class S projected additional yield	€ billion	-	1.20	2.64	2.91	4.08
Class A projected additional yield	€ billion	-	0.40	4.20	7.42	11.97
Total (Exchequer, PRSI and TCA)	€ billion		2.39	8.57	13.42	21.02
Total Savings/Yield as % of Shortfall	Percent		102%	100%	101%	100%
Class S rate	**Percent**	**4.00%**	**10.00%**	**12.80%**	**13.70%**	**14.20%**
Class A rate – employee	Percent	4.00%	4.20%	5.75%	6.65%	7.15%
Class A rate – employer lower	Percent	8.80%	9.00%	10.55%	11.45%	11.95%
Class A rate – employer higher	Percent	11.05%	11.25%	12.80%	13.70%	14.20%
Class A combined (EE & higher ER)	**Percent**	**15.05%**	**15.45%**	**18.55%**	**20.35%**	**21.35%**

Table 5C.4 – Package 4: PRSI contributions, Exchequer contributions and State Pension age increase

Measure	Units	2021	2030	2040	2050	2070
Baseline: SIF Shortfall	€ billion		2.36	8.56	13.35	21.10
Full move to Total Contributions	€ billion		-	0.44	1.11	2.00
Exchequer contribution **-** % SPC expenditure	€ billion		0.79	1.29	1.98	2.97
Percentage	Percent		10%	10%	10%	10%
Pension age increase (66.75 in 2030, 68 by 2039)	€ billion		0.56	2.51	3.81	8.33
Class S increases	p.p.	-	6.0	2.4	0.1	0.0
Class A increases (each - EE & ER)	p.p.	-	0.0*	1.35	0.1	0.0
Class S projected additional yield	€ billion	-	1.20	1.68	2.55	3.40
Class A projected additional yield	€ billion	-	0.00	2.70	4.06	5.51
Total (including pension age savings)	€ billion		2.55	8.62	13.51	22.21
Total Savings/Yield as % of Shortfall	Percent		108%	101%	101%	105%
Class S rate	**Percent**	**4.00%**	**10.00%**	**12.40%**	**12.50%**	**12.50%**
Class A rate – employee	Percent	4.00%	4.00%	5.35%	5.45%	5.45%
Class A rate – employer lower	Percent	8.80%	8.80%	10.15%	10.25%	10.25%
Class A rate – employer higher	Percent	11.05%	11.05%	12.40%	12.50%	12.50%
Class A combined (EE & higher ER)	**Percent**	**15.05%**	**15.05%**	**17.75%**	**17.95%**	**17.95%**

*For context. the introduction of the automatic enrolment savings system will require 6% of earnings contributions being made by employers and employees on a gradual phased basis over a 10 year period from mid-2020s to mid-2030s.

Appendix 8A: TCA and Yearly Average Approach

Table 8A.1: Yearly Average Calculations – Illustrative Scenarios

YA Anomaly - Scenarios		
Emily	**Matt**	**Comment**
Emily has 20 years of Class A PRSI contributions.The number of years between entering insurable employment (date of first paid reckonable PRSI Contribution) and the last full year prior to pension age being reached is 20. 52 weeks X 20 years = 1,040 The total number of contributions paid/credited at State Pension age is divided by the number of years between entering insurable employment and the last full year prior to pension age being reached. 1,040 ÷ 20 = AVERAGE of 52 Emily is entitled to 100% of the maximum personal rate of €248.30.	Matt has 20 years of Class A PRSI contributions.The number of years between entering insurable employment and the last full year prior to pension age being reached is 40. 20 Years PRSI Contributions = 52 X 20 = 1,040 The total number of contributions paid/credited at pension age is divided by the number of years between entering insurable employment and the last full year prior to pension age being reached. 1, 040 ÷ 40 = AVERAGE of 26 Matt is entitled to a weekly payment rate of €211.40.	Emily and Matt have paid PRSI Class A Contributions for 20 years, but due to differences in the duration between entering insurable employment and the last full year prior to State Pension Age, they receive different payment rates under a Yearly Average approach.

Table 8A.2: Yearly Average Calculations – Adjusted with Homemaking Disregards – Illustrative Scenarios

Yearly Average	Adjusted with Homemaking Disregards	Comment
Mary has 10 years of paid years of PRSI Class A Contributions and 10 years of Credits. The number of years between entering insurable employment and the last full year prior to pension age being reached is 40 years. 10 Years PRSI Contributions and + 10 Years Credits = 20 52 X 20 = 1,040 The total number of contributions paid/credited at pension age is divided by the number of years between entering insurable employment and the last full year prior to pension age being reached. 1,040 ÷ 40 = AVERAGE of 26 Mary would be entitled to €211.40 payment rate (85% of maximum rate).	If Mary is eligible for 20 years of disregards under The Homemaker's Scheme, the calculation would be adjusted as follows: 10 Years PRSI Contributions and + 10 Years Credits = 20 52 X 20 = 1,040 The total number of contributions paid/credited at pension age is divided by the number of years between entering insurable employment and the last full year prior to pension age being reached with 20 Years Homemakers Disregarded. Homemakers Disregard Calculation 40 – 20 = 20 1,040 ÷ 20 = AVERAGE of 52	With the adjustments for Homemaker's Disregards, Mary is now entitled to 100% of the maximum personal rate of €248.30.

Table 8A.3: Difference between Yearly Average and Interim TCA – Illustrative Scenario

Yearly Average	Interim TCA	Comment
Pearse has 30 years of paid reckonable PRSI contributions. The number of years between entering insurable employment (date of first paid reckonable PRSI Contribution) and the last full year prior to pension age being reached is 30. 30 X 52 weeks =1,560 The total number of contributions / credited at pension age is divided by the number of years between entering insurable employment and the last full yar prior to pension age being reached. 1,560 ÷ 30 = AVERAGE 52 Under Yearly Average, Pearse would be entitled to 100% of the maximum personal rate of €248.30 per week.	Under the Interim TCA method his entitlement would be 75% of maximum personal payment rate of State Pension (Contributory), and so lower than Yearly Average. 30 Years of PRSI Contributions Divided by 40: 30 ÷ 40 = 75% 75% X €248.30 = €186.23 Under Interim TCA method, Pearse's payment rate is calculated at €186.23.	Since April 2019 all new State Pension (Contributory) applications are assessed under all possible rate calculation methods, including the Yearly Average and Interim TCA, with the most beneficial rate paid to the person. Therefore, under Yearly Average Pearse receives €248.30 personal pension rate per week.

Table 8A.4: Difference Between YA and Interim TCA – Credits - Illustrative Scenario

Yearly Average	Interim TCA	Comment
Tom has 10 years of paid reckonable PRSI contributions and 20 years of credits. The number of years between entering insurable employment (date of first paid reckonable PRSI Contribution) and the last full year prior to pension age being reached is 30. Tom has 30 years of combined PRSI Contributions and Credits 30 x 52 weeks = 1,560 The total number of contributions / credited at pension age is divided by the number of years between entering insurable employment and the last full year prior to pension age being reached. 1,560 ÷ 30 = AVERAGE 52 Under Yearly Average, Tom is entitled to 100% of the maximum personal which is €248.30.	Under Interim TCA, Tom's entitlement is 50%, and so lower than Yearly Average. There is a cap of 10 years PRSI Credits so the calculation is: 10 years of paid PRSI contributions + 10 years of PRSI credits = 20 years 20 ÷ 40 = 50% 50% X €248.30 = €124.15	Since April 2019 all new State Pension (Contributory) applications are assessed under all possible rate calculation methods, including the Yearly Average and Interim TCA, with the most beneficial rate paid to the person. Therefore, under Yearly Average, Tom receives €248.30 personal pension rate per week.

Table 8A.5: Difference Between Yearly Average and Interim TCA – HomeCaring Periods - Scenario

Yearly Average	Interim TCA	Comment
Anne has 30 years of paid reckonable PRSI contributions. The number of years between entering insurable employment (date of first paid reckonable PRSI Contribution) and the last full year prior to pension age being reached is 50. 30 X 52 weeks =1,560 The total number of contributions / credited at pension age is divided by the number of years between entering insurable employment and the last full year prior to State Pension age being reached. 1,560 ÷ 50 = AVERAGE 32 Under Yearly Average, Anne is entitled to 90% of the maximum personal rate which is €223.20.	Under Interim TCA, Anne's entitlement is 100% of maximum payment rate, and so higher than Yearly Average calculation. 30 Years of PRSI Contributions + 10 Years of HomeCaring periods Divided by 40: 40/40 = 100% Under Interim TCA, Anne's payment rate is calculated to be the maximum weekly personal rate of €248.30.	Since April 2019 all new State (Contributory) Pension applications are assessed under all possible rate calculation methods, including Yearly Average and Interim TCA, with the most beneficial rate paid to the person. Therefore, under Interim TCA, Anne receives €248.30 personal pension rate per week.

Table 8A.6: Total Contributions Approach

Yearly Average	Interim TCA	Comment
Ivan has 10 years of paid reckonable PRSI contributions and 20 years of credits. The number of years between entering insurable employment (date of first paid reckonable PRSI Contribution) and the last full year prior to pension age being reached is 30. 30 Years of PRSI Contributions and Credits 30 X52 weeks = 1,560 The total number of contributions / credited at pension age is divided by the number of years between entering insurable employment and the last full yar prior to pension age being reached. 1,560/30= AVERAGE 52 Under Yearly Average, Ivan is entitled to 100% of the maximum personal rate of €248.30.	Ivan's entitlement would be 50%, and so lower than Yearly Average payment rate. There is a cap of 10 years PRSI Credits so the calculation is: 10 years of paid PRSI contributions + 10 years of PRSI credits = 20 years 20 ÷ 40 = 50% 50% X €248.30 = €124.15	Under the Total Contributions Approach only system, Ivan is entitled to €124.15. It should be noted that Ivan may qualify for the means-tested State Pension (Non-Contributory), the maximum rate of which is over 95% that of the maximum rate of the State Pension (Contributory). Alternatively, if his spouse is a State Pensioner and s/he have significant household means, their most beneficial payment may be an Increase for a Qualified Adult, based on their personal means, and amounting up to 90% of a full contributory pension.

Yearly Average	Total Contributions Approach	Comment
Hilda has 30 years of paid reckonable PRSI contributions. The number of years between entering insurable employment (date of first paid reckonable PRSI Contribution) and the last full year prior to pension age being reached is 50. She also has 10 years of HomeCaring periods from time spent caring after 1994. 30 X 52 weeks =1,560 The total number of contributions / credited at pension age is divided by the number of years between entering insurable employment and the last full year prior to pension age being reached. 1,560 ÷ 50 = AVERAGE 32 Under Yearly Average, Hilda is entitled to 90% of the maximum personal rate for State Pension (Contributory) giving a weekly payment rate of €223.20.	Hilda's entitlement would be 100% of maximum payment rate, and therefore higher than Yearly Average. 30 Years of PRSI Contributions + 10 Years of HomeCaring periods Divided by 40: 40/40 = 100% Under the Total Contributions Approach, Hilda is entitled to a personal weekly payment rate of €248.30.	Under the Total Contributions Approach only system, Hilda is entitled to the maximum personal weekly payment rate.

Appendix 9A: Carer Social Welfare Payments

The primary objective of the social welfare payments for carers is to provide an income support to carers whose earning capacity is substantially reduced as a consequence of their caring responsibilities, and in so doing to support the ongoing care of the person in respect of whom care is being provided. The social welfare payment is not intended to be a compensatory payment for the full value of earnings.

A carer's needs depend on their individual circumstances, as well as the needs of those for whom they are caring. Cash support payments for carers are one piece of the infrastructure providing a comprehensive package of supports to carers. In this regard, the *Programme for Government* commits to, "Deliver a 'Carers Guarantee' proposal that will provide a core basket of services to carers across the country, regardless of where they live."

Income supports for carers came in to being firstly in the form of the prescribed relative allowance in the 1970s, which subsequently evolved into the modern package of carers income supports. Currently, social welfare payments for carers include the following four schemes: Carer's Allowance, Carer's Benefit, Domiciliary Care Allowance and the Carer's Support Grant:

Carer's Allowance

The Carer's Allowance is the largest carers social welfare scheme in terms of recipients and expenditure. This is a means-tested social assistance payment payable to an individual who is providing care to a person who is so incapacitated as to require full-time care and attention To apply for this payment a doctor's medical report is required that is also signed by the person who will be cared for. The person must meet the necessary means and habitual residence conditions. The means test for carer's allowance is the least onerous of all means tests for social assistance schemes.

A person is regarded as requiring full-time care and attention when:

- They are so incapacitated as to need continual supervision to avoid danger to themselves **or**
- they need continual supervision and frequent assistance throughout the day in connection with normal bodily functions **and**
- they are likely to require full-time care and attention for at least 12 months.
- If the person being cared for goes into a nursing home on a full-time basis, payment of the allowance may continue for a period of 12 weeks. A letter from the nursing home confirming date of admittance should be submitted to the Department of Social Protection.[37]

Where a carer is under the age of 66, the maximum weekly rate of payment is €219 if caring for one person. Where a carer is aged 66 and over, the maximum weekly rate of payment is €257 if caring for one person. If the carer is caring for more than one person, these rates are multiplied by 1.5 (i.e. €328.50 per week for a carer under the age of 66 and €385.50 per week for carers aged 66 and over). An Increase for a Qualified Adult is not payable with carer's allowance, though an Increase for a Qualified Child is payable.

Under the single payment per person rule only one weekly social welfare payment is generally payable to an individual. Persons qualifying for two social welfare payments receive the higher payment for which they are eligible. In September 2007, a new Half-rate Carer's Allowance was introduced for certain people with another social welfare entitlement. The half-rate carer's payment is available to people who are in receipt of other welfare payments, including State Pensions, but are also engaged in a full-time caring role.[38]

A person is in receipt of Carer's Allowance can work or participate in training or education for up to 18.5 hours a week.

[37] Citizens Information: If you are single, €332.50 of your gross weekly income is not taken into account (or disregarded). If you are married, in a civil partnership or cohabiting the first €665 of your combined gross weekly income is disregarded. PRSI, union dues, superannuation (pension contributions including additional voluntary contributions) and travel expenses are also deducted. For a couple, their combined gross weekly income (less any disregards) is then halved to give the carer's weekly means.
[38] Further information on the Carer's Allowance is available at gov.ie - Carer's Allowance (www.gov.ie)

Carer's Benefit

This is a social insurance payment paid through the Social Insurance Fund that supports individuals to temporarily leave employment in order to care for another person for a maximum of two years. The duration aligns with the statutory Carer's Leave. To apply for this payment a doctor's medical report is required that is also signed by the person who will be cared for. A person is regarded as requiring full-time care and attention for this social welfare payment when:

- They need continual supervision to avoid danger to themselves

  or

- They need continual supervision and frequent assistance throughout the day in connection with normal bodily functions, **and**
- they are likely to require full-time care and attention.

A Carer's Benefit payment rate is €220 a week for one care recipient. If a person is caring for two or more people, they may receive a higher rate of €330 a week. If a person has a child/children, they may be entitled to apply for an Increase for a Qualified Child.[39]

A person in receipt of Carer's Benefit can work or participate in training or education for up to 18.5 hours a week. The maximum amount of earnings permitted is €332.50 per week (net of tax, PRSI, pension contributions, and some other permissible deductions).

Domiciliary Care Allowance

This is a monthly payment paid to a parent/guardian with a child under the age of 16 with a severe disability, who requires ongoing care and attention, substantially over and above the care and attention usually required by a child of the same age. It is not a means-tested payment and is paid at a rate of €309.50 per month. A family doctor or medical specialist is required to complete parts of the application form and to include any other reports on the child's disability and how it affects their care. To qualify for the payment:

- the child must be under 16
- the mental or physical disability must be severe
- the disability must be likely to last for at least one year
- the child must need ongoing care and attention substantially over and above the care and attention usually required by a child of the same age
- the child must be resident in the Irish State
- the child must live at home with the person claiming the allowance for five or more days a week

[39] Further information on the Carer's Benefit is available at: gov.ie - Carer's Benefit (www.gov.ie)

It is possible to claim Domiciliary Care Allowance in respect of each child who qualifies for it. However, there is no requirement that the person claiming the allowance provides full-time care to the child i.e. there are no restrictions in terms of employment, education and/or training.[40]

Carer's Support Grant

Previously known as the Respite Care Grant, this payment is an annual grant paid to carers in the first week of June. This is not available for any other group nor is there an equivalent payment for carers in any other country in Europe. The Grant is paid automatically to people in receipt of Carer's Allowance (including those who are in receipt of Half-rate Carer's Allowance), Carer's Benefit or Domiciliary Care Allowance. Other people who are not in receipt of a social welfare payment for carers but who are providing full time care and attention are also eligible and can apply for a 'standalone' grant.[41] To apply for this social welfare payment a doctor must complete a medical report.

To qualify a carer must:

- Be 16 years of age or over
- Ordinarily reside in the State; and
- Care for the person full time for a continuous period of at least six months and this must include the first Thursday in June of the year.
- During the 6 month caring period a person cannot:
  - Get Jobseeker's Benefit or Allowance;
  - Sign on for credited contributions; and
  - Work or attend an education or training course for more than 18.5 hours a week.

In June 2021, the value of the Carer's Support Grant was €1,850. It is not a taxable benefit, and it is paid in respect of each person that is cared for.

Statistics Carer Social Welfare Payments

The tables below show significant increases over the last decade in the number of recipients and the expenditure for carer social welfare payments.

Table 9A.1: Recipients of Carer's Payments 2011 - 2020

Scheme	Beneficiary Type	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Carer's Allowance	Recipients	51,666	52,209	57,136	59,380	63,003	70,459	75,264	79,914	84,028	88,906
Domiciliary Care Allowance	Recipients	24,101	24,669	25,510	27,268	29,305	31,963	35,584	39,007	41,939	44,279
Carer's Benefit	Recipients	1,637	1,638	1,598	1,769	2,240	2,710	2,762	2,750	3,177	3,698

Source: Department of Social Protection (2021) Statistical Information on Social Welfare Services 2020, Extract from Table F2, p. 57.

[40] Further information on the Domiciliary Care Allowance is available at: gov.ie - Domiciliary Care Allowance (www.gov.ie)
[41] Further information on the Carer's Support Grant is available at: gov.ie - Carer's Support Grant (www.gov.ie)

Table 9A.2: Half-Rate Carer's Allowance by Number of Carees 2018-2020

	2018			2019			2020		
Primary Payment	**1 Caree**	**2 Carees**	**Total**	**1 Caree**	**2 Carees**	**Total**	**1 Caree**	**2 Carees**	**Total**
State Pension (Non-Contributory)	2,431	158	2,589	2,499	160	2,659	2,579	158	2,737
State Pension (Non-Contributory) Increase for a Qualified Adult	475	0	475	501	0	501	524	0	524
State Pension (Contributory)	5,483	200	5,683	6,039	214	6,253	6,432	236	6,668
State Pension (Contributory) Increase for a Qualified Adult	2,133	80	2,213	2,220	68	2,288	2,248	76	2,324
Widow's / Widower's (Contributory) Pension	1,498	196	1,694	1,575	188	1,763	1,619	230	1,849
Jobseeker's Allowance Increase for a Qualified Adult	2,208	46	2,254	2,097	50	2,147	2,118	38	2,156
One-Parent Family Payment	5,405	1,220	6,625	5,859	1,448	7,307	6,199	1,900	8,099
Widow's / Widower's (Non-Contributory) Pension	119	8	127	122	12	134	129	12	141
Farm Assist	161	12	173	168	10	178	172	6	178
Farm Assist Increase for a Qualified Adult	114	2	116	111	2	113	114	4	118
Jobseeker's Benefit Increase for a Qualified Adult	213	6	219	199	6	205	213	6	219
Deserted Wife's Benefit	255	24	279	254	22	276	254	14	268
Disability Allowance	2,450	404	2,854	2,746	516	3,262	3,145	640	3,785
Disability Allowance Increase for a Qualified Adult	3,169	64	3,233	3,437	78	3,515	3,680	82	3,762
Invalidity Pension	1,550	206	1,756	1,703	236	1,939	1,857	298	2,155
Invalidity Pension Increase for a Qualified Adult	1,796	16	1,812	1,849	18	1,867	1,892	22	1,914
Illness Benefit	1,160	162	1,322	1,199	166	1,365	1,248	166	1,414
Illness Benefit Increase for a Qualified Adult	490	6	496	472	6	478	467	4	471
Other	1,807	70	1,877	1,606	230	1,836	1,460	200	1,660
Total	32,917	2,880	35,797	34,656	3,430	38,086	36,350	4,092	40,442

Source: Department of Employment Affairs and Social Protection (2021) Statistical Information on Social Welfare Services 2020, Table F7, p.64.

Table 9A.3: Expenditure on Carer's Allowance, Domiciliary Care Allowance, Carer's Support Grant and Carer's Benefit (€million) 2011-2020

Scheme	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Carer's Allowance	507.19	509.67	554.80	559.33	611.14	653.67	729.45	795.36	862.56	926.35
Domiciliary Care Allowance	99.92	102.24	104.27	110.67	120.88	133.08	151.91	168.42	182.49	193.10
Carer's Support Grant	130.39	136.35	119.95	118.50	125.14	172.32	192.92	203.96	219.54	227.54
Carer's Benefit	24.47	24.50	22.44	23.65	30.12	32.75	36.38	38.64	43.29	49.34

Source - Department of Social Protection (2021) Statistical Information on Social Welfare Services 2020, Extract from Table F1, p. 56.

Table 9A.4: Half-Rate and Full-Rate carer's recipients by age and gender, February 2020

Half-Rate and Full-Rate carer's recipients by age and gender						
	No of Recipients of Carer's Allowance at Half Rate			No of Recipients of Carer's Allowance at Full Rate		
Age Bands	Female	Male	Total	Female	Male	Total
under 20	13	0	13	47	21	68
20-24	328	23	351	382	207	589
25-29	1,273	70	1,343	984	342	1,326
30-34	2,537	119	2,656	2,500	601	3,101
35-39	3,351	225	3,576	4,565	894	5,459
40-44	3,363	453	3,816	6,046	1,413	7,459
45-49	3,164	551	3,715	6,448	2,011	8,459
50-54	2,563	671	3,234	6,163	2,218	8,381
55-59	2,503	610	3,113	4,813	2,024	6,837
60-64	2,503	715	3,218	3,024	1,592	4,616
65-69	3,611	1,598	5,209	892	484	1,376
70-74	3,386	1,613	4,999	428	143	571
75-79	2,169	1,116	3,285	247	85	332
80-84	939	594	1,533	163	70	233
85-89	272	192	464	55	26	81
90 or over	37	37	74	6	4	10
Total	**32,012**	**8,587**	**40,599**	**36,763**	**12,135**	**48,898**

Source: Statistics Unit, Department of Social Protection

Table 9A.5: Carer Support Grant, Grants and Expenditure by year: 2014 to 2020

Year	Carers	Grants paid (in the year)	Expenditure (€million)
2014	75,262	86,182	118.500
2015	79,739	91,013	125.143
2016	90,212	101,365	172.321
2017	97,679	113,485	192.924
2018	104,136	119,975	203.958
2019	110,272	129,138	219.535
2020	116,838	129,862	227.54

Source: Department of Social Protection, Internal Statistics

Appendix 11A: Recognition of Arduous and/or Hazardous Jobs in Europe

Definition of arduous work

There is no single definition of what constitutes "arduous and/or hazardous work" (European Trade Union Confederation, 2014:6). The ESPN (a network of country teams of independent academic experts on social policies) defines "arduous and hazardous jobs" as, "Occupations involving the exposure of the worker over a period of time to one or several factors leading to professional situations susceptible to leave long-lasting and irreversible effects on his/her health; these factors are related to physical constraints, psychosocial risks, an aggressive physical environment, working organisation and working rhythms, including shift work". (Natali, et al, 2016:4).

Recognition of arduous work in Europe

As can be seen from Table 11A.1 below there are three general approaches to workers in arduous and/or hazardous jobs in Europe. Please note that Table 11A.1 below does not relate specifically to the pensions system in each country – specific pension information is in Table 11A.2 below. Jobs recognised as arduous or hazardous may, in addition to enhanced pension rights, be eligible for enhanced occupational injury/disease benefits, and/or be subject to higher health and safety standards (Vukorepa, 2017:5). However, unless WAHJ are formally recognised by a country then it may not be possible to introduce specific pension arrangements for WAHJ. Ireland falls into the third category of countries which do not recognise arduous and hazardous work conditions in statutory rules (Natali, et al, 2016:11).

Table 11A.1: Recognition of WAHJ in national legislation

Formal recognition of WAHJ		WAHJ not formally recognised
Arduousness and hazardousness of work enshrined in national legislation	**Recognition of one or two categories of arduous and hazardous occupations in pension statutory rules****	
Austria, Belgium*, Bulgaria, Estonia, Greece, Spain, Finland, France, Croatia, Italy, Lithuania, Latvia, Luxembourg*, Liechtenstein, North Macedonia, Poland, Portugal, Romania, Serbia, Slovenia, Slovakia, Turkey	Czech Republic, Cyprus, Denmark, Hungary, Iceland, Norway	Switzerland, Denmark, Ireland, Malta, Netherlands, Sweden,

*BE and LU: statutory rules on night and shift work conditions.
**DE and NO: statutory rules only for miners and seafarers; CZ and CY: statutory rules only for miners; IS: statutory rules only for seafarers; HU: since 2015, only miners and ballet dancers are recognised.
Source: (Natali, et al, 2016:11)

Pension schemes for WAHJ

Table 11A.2 below shows that some countries operate pension rules within the general State Pension system and some operate special schemes for WAHJ. The majority of WAHJ pension schemes (i.e. the first and second columns in the table below) are part of first pillar PAYG schemes. However, some countries (Portugal, Croatia, Bulgaria, and Slovenia) also have some form of funded second pillar pension for WAHJ (Natali, et al, 2016:23-24).

Special pension schemes are typically narrower in scope than the separate pension rules within the general pension system (and often provide low incomes which act as “bridging benefits” until the worker is eligible for the statutory old-age pension) (Natali, et al, 2016:22).

Table 11A.2: Pension rules for workers in WAHJ: general and special scheme rules

Separate pension rules for WAHJ within the general scheme	Special pension schemes for WAHJ	Absence of special pension provisions tailored to WAHJ
Czech Republic*, Cyprus*, Estonia, Greece, Spain, Croatia, Hungary**, Italy, North Macedonia, Portugal, Romania, Serbia, Slovenia, Slovakia**, Turkey	Austria, Bulgaria, Germany*, Spain, France, Finland, Iceland*, Norway*, Poland, Slovenia	Belgium*, Switzerland, Denmark, Ireland, Liechtenstein, Lithuania**, Luxembourg**, Latvia**, Malta, Netherlands, Sweden, UK

*Schemes with a narrow scope (only miners and/or seafarers; BE and LU only night and shift workers).
**LT and LV have separate pension rules within the general pension scheme only for a tiny number of workers employed in arduous or hazardous jobs before 1995 (LT) and 1996 (LV); HU: the whole WAHJ system has been phased out since the 31st December 2014 (except for miners and ballet dancers). SK provides separate pension rules only for WAHJ employed before 2000.
Source: Natali, et al, 2016:20

WAHJ rules

The operation of pension policies for WAHJ is complex and varies widely between European countries. Even within a country there may be different retirement ages for WAHJ depending on their occupation or gender. WAHJ pension schemes are separate from invalidity or disability pensions which also operate in countries with WAHJ pension provisions.

On average, in countries with WAHJ rules a can benefit from a pension five to six years before the State Pension age (the main determinants are the WAHJ occupation categories, the contributory period, and gender). WAJH may be higher, lower, or the same as average benefits from the general State Pension scheme. However, higher benefits are often linked to higher social insurance contributions. In some countries WAHJ benefits are lower than the average State Pension due to some form of actuarially reduced pension (Natali, et al, 2016:32).

Countries with a broad definition of WAHJ

Several European countries recognise the arduousness and hazardousness of work for a broad category of workers, namely through lists of either work or environment conditions, or job types, or both. This is the case for Austria, Belgium, Bulgaria, Croatia, Estonia, Finland, France, Greece, Italy, Liechtenstein, Lithuania, Luxembourg, Latvia, North Macedonia, Poland, Portugal, Romania, Serbia, Slovenia, Slovakia, Spain, and Turkey (Natali, et al, 2016:11).

An example of how recognition of arduousness and hazardousness of work for a broad category of workers can be seen in the Austrian example below. The complexity of the system is not unique to Austria but seems to be a feature of WAHJ systems.

Austria

Austria has two pension schemes for WAHJ: one for "heavy night work" and one for "heavy labour". The heavy night work pension had 1,566 recipients in December 2015 and the heavy labour pension had 10,860 recipients in March 2016. Both pension schemes are part of the first pillar of the statutory old-age pension system. In Austria, through collective agreements, WAHJ receive a supplement in their hourly wages - trade unions have proposed compensation in the form of leisure time instead of financial benefits for arduous work (Fink, 2016).

Heavy labour is defined as activities carried out under conditions that are particularly stressful either physically or mentally. There are numerous measures of what constitutes heavy labour depending on the job, including:

- Night work of at least six hours between for at least six days in a month.
- Regularly working in hot (30°C or more) or cold conditions (minus 21°C)
- If respirators must be worn either regularly or for at least four hours of the working time (or diving equipment for two hours).
- Heavy physical work, defined as work-related consumption of at least 2,000 calories for men or at least 1,400 calories for women in an 8-hour working period – there are over 150 jobs in this category.
- Professional care of sick or disabled people with special care needs.

For access to the 'heavy labour pension' the following requirements must be met:

- A minimum age of 60
- At least 45 years of social insurance contributions
- 10 years of heavy labour within the last 20 years.

The full pension amount for the heavy labour pension is reduced by 1.8 per cent per year of early retirement (i.e. for every year before age 65). However, the maximum deduction may not exceed 15 per cent of the original benefit (European Commission, 2021a). Therefore, if a person retires on their 60th birthday, then their annual heavy labour pension will be 9 per cent lower than for a person who retires at age 65.

The other main form of early retirement pension is a "corridor pension" which can be claimed at age of 62 if a person has paid 40 years of contributions but the pension is reduced by 5.1 per cent per annum for every year under pension age. Unlike the heavy labour pension, the corridor pension early retirement deduction can exceed 15 per cent (e.g. a 15.3 per cent reduction for a person who retires at age 62). If a person starts work again then early retirement pension payments are suspended.

Countries without arrangements for WAHJ

Ireland does not recognise WAHJ in statutory rules (neither do Switzerland, Denmark, Malta, the Netherlands, Sweden, and the UK) (Natali, et al, 2016:11). The only recognition in Ireland of such jobs is through collective agreements in occupational pension schemes within the public service (such as the Gardaí, and firefighters).

Countries without specific WAHJ arrangements provide a mix of policy instruments which are formally targeted at all workers but are more likely to be used by WAHJ including early retirement and disability pensions, sickness and occupational injury benefits, and unemployment schemes. The ESPN reports notes that in Ireland workers with hard working conditions are likely to use illness benefits and invalidity pensions to exit the labour market (Natali, et al, 2016:30).

Trends in WAHJ

The ESPN national experts' reports roughly estimate that WAHJ represent between less than 1 per cent and 4 per cent of the total workforce in European countries but, in many countries, there has been a decrease in the number of WAHJ over the past decade (Natali, et al, 2016:13).

The ESPN report has noted that, "The main reform trend in all countries during the past decade has been towards introducing stricter conditions for favourable pension and other social security benefits." (Natali, et al, 2016:16). The ESPN has identified three main trends in how countries are addressing the arduousness and hazardousness of work:

(a) narrowing access to special schemes targeted at WAHJ by introducing stricter conditions on age and contributory periods;

(b) individual assessments of work conditions and work ability for the purpose of granting pensions and disability, sickness and unemployment benefits; and

(c) redesigning specific rules and schemes with a view to increasing efficiency and sustainability through means-testing, introducing contributory rates and mandatory insurance, and shifting schemes from the pension system to other social security budget regimes (Natali, et al, 2016:7).

Stricter retirement conditions for WAHJ is leading to the individualisation of old age risk, i.e. workers are required to maintain their employability and progressively bear the responsibility for their old-age income adequacy. In the area of pensions this implies the requirement for longer contribution records and therefore longer careers (Natali, et al, 2016:7).

An example of recent reforms to a WAHJ system can be seen in the Finnish example below.

Finland

In Finland there has been a process of harmonising the occupational pension provisions for WAHJ (Kangas et al., 2016). The WAHJ rules were reformed in 2017 and a specific years-of-service scheme for WAHJ was implemented. Eligibility for WAHJ early retirement requires 38 years of contributions and a decline in working capacity.

Both physically and mentally strenuous work will be taken into account. The claimant has to have reduced work capacity as evaluated by the occupational health care doctor and fulfil at least one of the following criteria to be eligible for the years-of-service pension:

For physically arduous work:

- Work movements that require large muscle strength or that strain the muscles for a lengthy period of time.
- Heavy strain on the respiratory or the blood circulatory system.
- Stressful or difficult working positions.
- Repetitive work movements that require strength or great speed, or work movements that involve using strength while clasping and rotating the hands at the same time.

For mentally strenuous work:

- Interactive work that is particularly demanding and exceptionally mentally strenuous.
- Work tasks that require constant watching out or being particularly vigilant, and in which the risk for occupational or other accidents, or the threat of violence, is high. In addition, the following factors will be taken into account when evaluating the strenuous nature of the work:
  - The exceptional physical demands of the work
  - The use of protection equipment which adds to the burden
  - Shift work that includes repeated night work or that is otherwise strenuous
  - Repeated long working shifts
  - For the self-employed, taking care of farm animals around the clock

The early old-age pension is permanently lower than the old-age pension that a person would have received at age 65. Pension payments are reduced by 0.4 per cent for each month they are brought forward – if an early retirement pension is taken at 63 years, the pension will be permanently reduced by 9.6 per cent (Social Insurance Institute of Finland, 2019). Apparently the years-of-service pension remains unpopular because access to benefits is complicated and uncertain and it is smaller than the disability pension (Valkonen, 2020).

Conclusion

The OECD has argued that, "... in general there is a weak case for either maintaining or introducing special pension schemes for workers in hazardous or arduous jobs. The continuance of these schemes owes more to institutional resistance to change than their usefulness as a supplementary public pension scheme." (Zaidi, et al., 2009:4).

The OECD further argues that, in cases where such work related health risks are recognised, they can be better dealt with some well targeted conventional social policies, such as unemployment benefits and disability pensions or work-related sickness benefits, on case-by-case bases (Zaidi, et al., 2009:28). In other words, social welfare benefits (including the possibility of a flexible retirement age) should be open to all regardless of their occupation even if WAHJ may be more likely to avail of invalidity, disability, or early retirement options.

As the ESPN report noted there are also a range of methods that have been adopted by European countries to assist WAHJ including, "...improvements in in-work conditions through an approach which builds on work ability schemes comprising health and safety at work measures, rehabilitation and targeted activation policies." (Natali, et al, 2016:7).

Appendix 13A: 2016 Survey of the Self-Employed

In August 2016, a survey of self-employed Class S contributors was conducted to understand how the Pay Related Social Insurance (PRSI) system is perceived by individual self-employed workers. The people surveyed were a representative random sample of all those people who depended on Class S PRSI for their social insurance contributions in 2014. Over 20,000 surveys were issued to self-employed people in August 2016 and nearly 3,200 responses were received. The full survey is available at: https://assets.gov.ie/37347/9da24ee6c9354a75a139daf7cdf07007.pdf

The main findings of the survey were:

- Respondents rated cover for long-term illness, short-term illness and unemployment as the most important extra benefits to them. 82 per cent ranked long-term illness in their top three of preferred additional benefits (this was extended to the self-employed in 2017).
- The current headline rate of PRSI for self-employed people is 4 per cent. An overwhelming majority of respondents – 88 per cent – said they would be willing to pay a higher headline rate of PRSI in return for at least one additional social insurance benefit.
- A smaller majority – 74 per cent – would welcome an option to keep paying the current headline PRSI rate but also pay additional voluntary contributions in return for extra benefit coverage.
- Respondents reported low levels of coverage from private insurance, such as income continuance cover. Just 28 per cent are covered for long-term illness and only 2 per cent for unemployment.

Respondents were dissatisfied with the range of social insurance benefits available to them. Over 80 per cent of respondents rated both the range of benefits and the value for money as ‘poor’ or ‘very poor’ (the survey predates the changes announced in Budget 2017).

An Coimisiún Pinsean
The Pensions Commission