An Roinn Gnóthaí Fostaíochta
agus Coimirce Sóisialaí
Department of Employment Affairs
and Social Protection

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Policy Options Report on 2012 Rate Bands Issues with the State Pension Contributory

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Executive Summary

This paper examines the issues raised in the context of the State Pension Contributory rate bands, which were changed in 2012, and which have been the subject of some debate following Budget 2018. In particular it is concerned with identifying and assessing options for addressing the situation of people, mainly women, who having commenced employment early in their working life took a break from the workforce to take up caring duties and subsequently found that, because of the averaging approach, their pension, is lower than that of people with the same number of total contributions but no break in their contribution record.

The paper examines the policy context (including the Marriage Bar, the Homemakers Scheme, and anomalies under the current Yearly Averaging system) and looks at outcomes under the current system (both in terms of payments and poverty outcomes). It examines the profile of those impacted by the changes. Outcomes in Ireland are also compared to those across the EU.

The paper sets out some measures which might provide relief for those affected by the 2012 changes, in particular for those people with a gap in their PRSI records, as described above.

The following are the main findings;

- Payments under the State Pension Contributory are largely related to the number of contributions paid or credited over working life, and those with more contributions generally get a higher rate, as is the case with contributory pension systems around the world. Where anomalies arise under the Yearly Average system (i.e. someone with fewer contributions getting a higher rate of pension), they generally are a result of a small number of people who enter the system late in life, and have a full record over the last 10+ years of working life. This anomaly will be removed by the Total Contributions Approach reform, which is scheduled to take effect in 2020, for new pensioners only.
- Any people on reduced rate State Pension Contributory payments as a result of the 2012 changes who do not have additional means such as an occupational pension or rental income would be entitled to get higher payments under the means-tested State Pension

Non-contributory, or an Increase for Qualified Adult payment, which pay up to 95%[1] and 90%[2] of the maximum State Pension Contributory rate respectively.

- A majority of those impacted are women (just under 62%) and over 38% are men.

- While childcare and elder care would be a significant reason for broken PRSI records, some of those in this category would have had other reasons for such gaps. A simple reversal of the 2012 changes would not effectively target benefits to people who took time out from work to provide care at home. An alternative approach, which makes greater allowances for periods spent in caring roles (particularly for periods before 1994), as is planned under the Total Contributions Approach, would be more effective.

- While those State Pension Contributory pensioners affected by the 2012 changes are paid a lower percentage of the maximum rate, the changes themselves have allowed that maximum rate be maintained at a higher level than would otherwise have been possible. As a result, and contrary to what has been widely reported, people affected by the 2012 changes still receive roughly the same pension in real terms that they would have received pre-recession, despite significant pressure on the Exchequer. For example, the maximum State Pension Contributory rate on 1st January 2006 was €179.30, and the rate for someone with around 20 years of contributions was 98%, or €175.80. Inflation adjusted, this is the equivalent of €196.48[3]. Under the current rate bands, a person with a similar PRSI record receives only an 85% rate pension, but this amounts to €202.80, as the maximum rate has been increased very significantly. This is 3% higher in real terms than the pre-recession pension rate, and while this figure will vary depending upon the reference date chosen, it is clear that such pensioners are paid a higher rate of pension, in real terms, than they would have expected for most, if not all, of their working lives, had they calculated their entitlements at other times.

- Poverty outcomes among Irish pensioners are significantly better than those among working age people, and this applies equally to men and women. Under some measures, men have slightly better outcomes, under others women do, but overall the variances are close to or below statistical significance.

[1] This payment is 95% of the maximum State Pension Contributory rate, less the pensioner's (50%) share of household means. Over 70% are paid at the full rate.

[2] This payment is made directly to the Qualified Adult (generally the wife), and is generally 90% of the maximum State Pension Contributory rate, less her personal means (i.e. her husband's means are not included in the calculation). Over 80% are paid at the full rate.

[3] Based on latest CSO CPI calculator, November 2017

- Compared to other EU countries, the Irish State pension system performs well in terms of gender impacts, with a lower pension gap, and a very significantly lower gender poverty gap than exists across the EU28 for those over 65. This is mainly a result of the Irish State pension system having no earnings-related component.

- Average pension payments to women and men (when all State schemes are included) are very close to parity, as are poverty outcomes, and the overall gaps which do exist in pensions largely relate to occupational and private pensions, which are unaffected by State Pension Contributory provisions such as the rate bands and the Homemakers scheme.

- A number of options to provide relief for those home-carers affected by the 2012 have been considered. They all carry a high cost and in most cases run contrary to pensions policy of linking benefit level to contributions. Some changes would result in the creation of new and greater anomalies than those that exist at present.

- It is proposed that the most effective of the options is to allow those pensioners currently qualifying under the post-2012 rate bands to opt-in early to a Total Contribution Scheme in advance of such a scheme being introduced for the population at large.

- It is proposed payments under the scheme for such pensioners will be processed from quarter 1 of January 2019 and backdated to the 30 March 2018 (i.e., the same date that the Budget 2018 changes take effect).

- The Total Contributions Approach will provide for significant Homemaking Credit provisions (not limited to periods from 1994, as under the current scheme). This option targets the benefit at those who had periods caring for children (or for others with a care need), without undermining the contributory nature of the pensions scheme.

Introduction

This paper examines a number of options to address concerns raised about the impact of the State Pension Contributory rate band changes made in 2012.

Background

The State pension system cost approximately €7.3 billion in 2017, and made payments for more than 600,000 people over the age of 66 every week. Demographic change alone will lead to an increase in cost of approximately €200 million per year.

The system, which is financed on a 'Pay-As-You-Go' basis, is comprised of the following;

- State Pension Contributory, under which people receive a pension as of right based on their PRSI contributions,
- State Pension Non-contributory under which people can qualify for a pension if their household means (income and assets) are within defined limits
- Widows Contributory Pension, and equivalent payments for widowers and surviving civil partners, which are based on the PRSI record of either spouse (generally paid at the maximum pension rate, with a Living Alone allowance).

There are also means-assessed Increases for Qualified Adults payable to the spouses/civil partners of State Pension Contributory pensioners.

Average payments are highest for the Widows Contributory Pension, are lowest for Increases for Qualified Adults, and the average payments for State Pension Contributory and State Pension Non-Contributory are broadly similar. Pensioners with multiple entitlements are paid whatever entitlement has been established as their most beneficial rate.

Entitlement levels under the State Pension Contributory are calculated by means of a 'yearly average'. This approach to State pension entitlement dates from the introduction in 1961 of the then 'Old Age Contributory pension' (now known as State Pension Contributory), which followed the introduction of a comprehensive social insurance system in 1953. Prior to that date, the means-tested Old Age pension (now State Pension Non-Contributory) provided the sole State pension income support in retirement to those who qualified for it.

Yearly Average System

The 'yearly average' approach was used when the State Pension Contributory was introduced because at that time, should 40 years of social insurance stamps been required to qualify for a full rate pension, most people in the following two decades would not have benefited, as they would have qualified for a higher rate of non-contributory pension instead.

The main beneficiaries would have been higher income retirees, with no entitlement to means-tested payments.

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.[1] Entitlement is then banded, with a yearly average of 48 required for a full rate pension. Separate arrangements apply for those who reach pension age while in receipt of a Widows Contributory Pension, which generally results in a maximum rate State Pension Contributory, or Invalidity Pension where this is automatic.

The current rate bands are set out in the table below.

Table 1: Rate bands from 2012 onwards

Yearly Average	Percentage rate
48-52	100%
40-47	98%
30-39	90%
20-29	85%
15-19	65%
10-14	40%

Anomalies in the Yearly Average system

While the yearly average approach allowed people in the 1960s qualify easily for a contributory pension if they had worked most of their adult life, it can result in anomalies, particularly where someone entered the workforce late in life.

Most current pensioners started employment aged 16-18, and so for most people, their contributions are divided by about 48 years, and their Yearly Average is similarly proportionate to the number of their contributions to the Social Insurance Fund. A person

[1] The last partial contribution year, which ends on the day before their birthday, is not included for Yearly Average (YA) purposes, nor are the contributions paid/credited for that partial year, as including it would reduce the YA of most pensioners. For example, take a person, born in March with 2,307 cons over the 48 years up to the end of the year before their 66th birthday, who had a further 13 cons in the final (partial) year, making 2,320 cons. If their YA included the final year, the 2,320 cons would be divided by 49, which is a YA of 47.35, and would attract a 98% pension, whereas by excluding the final year, it is 2,307 divided by only 48, resulting in a YA of 48.1, and a 100% pension.

with 45 years contributions will generally have a yearly average of about 49, whereas someone with 20 years may expect a yearly average of about 22, and be paid at a lower rate. This principle (higher contributory entitlements for those who contribute more frequently into the social insurance fund) is central to contributory pensions around the world.

However, under the Irish system, a late date of entry can result in an unusually low divisor, and an unrepresentatively high Yearly Average. A person with only 520 weekly contributions can qualify for a maximum rate pension if they were paid over the 10 years before pension age[2]. The anomaly brought into focus by the 2012 rate band changes derives from this feature of the system. In effect, people with a relatively low level of total contributions paid over a relatively short period of time (as little as ten years) can qualify for a higher pension that someone with a higher number of contributions paid over a longer period.

Like all contributory schemes across the world, people who fulfil caring roles (as a group) often have longer periods where they made no social insurance contributions, which make it harder for them to get a higher rate of pension. Under the Yearly Average system, this is mitigated by bands, where e.g. a 20 year contribution record results in an 85% pension, which is much more generous than in other countries. However, this mitigation does not just increase payments to people with caring gaps, but also to other groups who also have years of paying no contributions, for a variety of reasons.

The Homemakers Scheme, which allows periods caring for children or people with a caring need to be disregarded (from 1994), 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, and for many current pensioners (born in 1951 or earlier) who had such gaps, this means it has little or no benefit to them, and so for them the rate banding system is their main source of mitigation. Nevertheless, the combination of this, and the fact that the pension is not related to lifetime earnings (unlike most other EU countries), results in much better gender neutral outcomes than contributory pensions in other countries.

The EU measures a Gender Pension Gap, which includes state pension, occupational pension and private pension income. The most recent figures for Ireland (2015) show this

[2] A search of the pensions database indicates that there are 82 such cases who reached state pension age since 1 September 2012, out of a total of 392,000 State Pension Contributory recipients, which is a very small percentage of pensioners, but other less extreme cases can arise, e.g. someone may have moved to Ireland aged 53 and worked 600 weeks between then and State pension age. The very large majority of cases, however, would not be in this category, and among post-2012 cases would either have a 98% or 100% rate pension based on between 37 and 49 years contributions (paid or credited), or a pension of between 40% and 90%, based on between 9 and 36 years contributions.

gap at just under 30% and falling, compared to an EU28 average of over 36%. In Ireland, this is effectively a gender gap in occupational and private pensions, as the gender gap in State pensions is small to non-existent in Ireland. Taking all payments (State Pension Contributory, State Pension Non-Contributory and, for over 66s, Widows Contributory Pension and Increases for Qualified Adults), the average payment to men has been calculated as approximately 1.0% higher than that to women. Data supplied to Member States by the EU Commission indicates that Ireland is one of the few countries with a small (0.8%) gender gap in favour of women over men in State pensions (i.e. according to the data supplied, women are paid slightly higher State pensions than men). Different methodologies (for example whether counting Increases for Qualified Adults as a pension or not) will result in different details, but it is clear that whatever method is employed, the State pension system as a whole results in very similar payments for men and women. Within those figures, the difference in the average rate of payment in State Pension Contributory is falling as

(a) women are paying more contributions into the Social Insurance Fund , and

(b) the impact of the Homemakers Scheme is increasing over the years.

The parity in state pension payments is reflected in CSO data from SILC[4], where the latest data is shown below.

2016	All Persons	Aged 66yrs +	Men aged 66yrs+	Women aged 66yrs+
	%	%	%	%
At Risk of Poverty Rate	16.5	8.77	9.69	7.98
Consistent Poverty	8.3	1.56	1.79	1.36

At an EU level, the gender gap among over 65s in the "At Risk of Poverty and Social Exclusion (AROPE)" indicator is 2.0% in Ireland compared to 5.6% in EU28. This greater disparity across the EU is largely a result of most countries having State pensions related to lifetime earnings, unlike Ireland, where the relatively small weekly PRSI contributions paid by a minimum wage part-time worker accrue the same State pension benefits as the far more substantial deductions from the salary of a highly paid CEO.

Appendix Two has further EU tables on the above comparative figures.

[4] At Risk of Poverty is a measure of income relative to median income, and Consistent Poverty is where someone at risk of poverty experiences Deprivation, as measured under the survey.

Reduced Rate bands

Reduced rates are payable for those with lower average contribution levels, and as these are reduced rates are not set pro-rata with contribution levels they moderate the reduction substantially. For example, someone with a yearly average of 20 contributions (38% of the maximum of 52 weeks) receives a personal rate of €202.80 (85% of the maximum rate of €238.30).

These rate bands have been varied on a number of occasions through the years. Up to 1991, a person with a yearly average of less than 20 did not qualify for a contributory pension at any rate, whereas someone with 20-23 qualified at a 92% rate. The most recent change in the percentage rates before 2012 occurred in 2000, when three bands (20-23, paying 92%, 24-35, paying 94%, and 36-47, paying 97%) were amalgamated into a higher paying rate of 98%. This weakened the contributory principle for such pensions.

During the recession the core rate of pension payment was not just maintained, but increased by 3.1% (€7) in 2009, a year that saw deflation in prices of 4.5%, and wages fall by 2.7%[3]. In the following years the maximum rate was maintained through further deflationary periods, and increased ahead of inflation (and wage growth) once the economy began to recover.

In line with the long term policy intent to link the level of pension entitlement more closely to working lives and in response to the pressures on State finances it was decided to align pension entitlements for new pensioners after 2012 more closely with the number of social insurance contributions made. This was achieved by introducing additional rate bands.

The Marriage Bar

The Marriage Bar, which was a rule in most of the Civil & Public Service and some other employments, until accession to the EEC in 1973, has been cited as a reason why some women do not receive a maximum rate State Pension Contributory. However, such employees did not, before 1995, pay full PRSI, and were not covered for State Pension Contributory or the other contributory benefits. The pension rights paid for by their superannuation which they lost from this rule, and in respect of which significant 'Pension

[3] Wages are 1.0% lower now (2017-Q3) than they were at the end of 2008 (Q4), however the maximum rate of the State pension is 6.3% higher – in relative terms a net improvement of 7.3%, or €16.30. This does not include the €5 rate increase announced for March 2018.

Gratuity' payments were made, were Public Service Pensions, which are unaffected by any of the rate band or homemaking provisions concerning the State Pension Contributory.

It was open to former public servants affected by the marriage bar to seek re-employment in the private sector, and commence (or recommence in some cases) building up a contribution record that would qualify them for State Pension Contributory, and many did so. For example, even post-2012, if such women had 36-37 years of reckonable contributions outside the public service (aged 16-65), they could generally expect a 98% pension, and if they had 44 years of such contributions, they would expect to qualify for a 100% pension.

The very large majority of women affected by the marriage bar retired a number of years ago, and in most cases their State Pension Contributory entitlements were calculated under pre-2012 rate bands. Given median age of marriage for women at that time was 25 very few of those reaching pension age now are affected.

The Homemakers scheme

The Homemakers scheme was introduced in 1994. Up to that date, years taken out of employment to care for children were treated as periods out of the social insurance system similar to any other, and resulted in gaps in a person's record. From the introduction of the scheme, such periods of up to 20 years could be taken (up to the age of 12 for a child, no age limit for a person with a caring need) and they would not be counted for pension purposes (they are still gaps for the purposes of non-pension benefits).

This scheme had no immediate cost to the Exchequer, nor any benefit for the first pensioners in the year after its introduction (as they would not have had any post-1994 gaps), however it was always understood that it would grow in impact over time.

The first pensioners under the current rate bands were born on 1 September 1947. They were 47 when the homemakers' scheme became effective. If they had their youngest child aged 36 (in 1983) they would have the benefit of a single year under the scheme, in that child's 12th year.   A similar person reaching pension age in 2017 was born in 1951, and if they also had their youngest child aged 36 (in 1987) they would have the benefit of five years[4] under the scheme.

Calculating the cost of backdating the homemaker's scheme to periods before 1994 is difficult for a number of reasons. First, Child Benefit records from before 1984 are not computerised. Similarly, older PRSI records, particularly pre-1979 are not held in computerised format. Most importantly, there would be inflows into the State Pension

[4] The person qualifying for a pension in 2017 is a year older than the one in 2012, as a result of the State Pension Transition (SPT) abolition in 2014.

Contributory scheme from people in receipt of the non-contributory pension. Many people with a reduced rate State Pension Contributory entitlement are instead paid at a higher rate through a State Pension Non-Contributory pension or through Increase for Qualified Adult payments. If the homemakers scheme was backdated, many such women on those other schemes would be expected to make claims to State Pension Contributory instead. There might also, as happened with previous pension changes, be additional claims made by Irish citizens living abroad who might achieve the yearly average required for a pension under EU regulations or bilateral agreements. Finally, the take up by men who had caring roles would be difficult to predict.

The Green Paper on Pensions (2007), using the data available at that time, tentatively estimated that the cost of backdating the scheme would be €160m per annum among existing State Pension Contributory claims, but that inflows could increase this to some €267m. At that time, this amounted to 5.3% of the pension budget.

A number of factors since then would be expected to have had an upward pressure on this cost;

- The rate of the State Pension Contributory is 14% higher now (and will be 16% higher from March 2018);
- Between Census 2006 and Census 2016, the number of over 65s resident in the state increased by over 36%;
- Prior to the 2012 rate band changes, people with a Yearly Average of 20 (for example) could only increase their rate of payment by 2% as a result of such a change (i.e. from 98% to 100%), whereas post-2012 a person in this position might see a rate increase from 85% to 100%, an increase that is over seven times as expensive; and
- The current pensioner cohort is more likely to have PRSI coverage following reforms over the decades, and so a person would be more likely to have been insured over the years, and in a better position to take advantage of the Homemaker scheme.

A more recent estimate of the cost was made in 2017, based on available data and assumptions about likely uptake, and this arrived at a tentative cost of some €290m per annum, which is just under 4% of the current State pension budget. While further analysis of the claim base (or altered assumptions about uptake) might result in this estimate going up or down, it is very unlikely that there is potential for it to move so much as for it to become a feasible option in the current budgetary context.

2012 Rateband Changes

Following the long term policy intent it was decided to align pension entitlements for new pensioners after 2012 more closely with the number of social insurance contributions made. This was achieved by introducing additional rate bands.

As part of this approach the core/maximum rates for all pensions were maintained and there were no reductions for Widows Contributory Pension or State Pension Non-Contributory pensioners (most of whom are women and include the most vulnerable pensioners). The advantages of maintaining core rates but changing the rate bands for averaging purposes were:

- Existing pensioners would not see their pension payments reduce
- The changes would not impact widows/widowers, who generally live alone and are dependent upon a single state pension payment coming into their household, 85% of whom are women.
- The changes would not impact non-contributory pensioners, many of whom have little or no additional means (or full-rate State Pension Contributory pensioners, many of whom have no additional means). 62% of State Pension Non-Contributory pensioners are women, and they would be more disadvantaged than those affected by the rateband change.
- The changes would not impact former Invalidity pensioners who had transferred to State Pension Contributory at the full rate.
- The changes would not impact people who had contributed into the Social Insurance Fund all of their life.
- The changes made such payments more closely aligned with contributory histories, in keeping with commitments to move towards a Total Contributions Approach.
- The changes would mainly impact upon pensioners who had additional means[5] (as they were not claiming the State Pension Non-Contributory, which is paid at 95% of the maximum State Pension Contributory rate, and generous disregards mean that the large majority of State Pension Non-Contributory pensioners are paid at that rate).
- There would still be a very significant cross-subsidy of these pensioners from other contributors, as, for example, someone with about 20 years contributions over 50 years would have an 85% pension.

[5] Appendix 1 sets out the degree to which such pensioners have additional means.

- The reduced rates are still comparable to the rates paid at the height of the economic boom. For example, maximum rate on 1st January 2006 was €179.30, and the rate for someone with a Yearly Average of 20 was 98%, or €175.80, which, inflation adjusted[6], is the equivalent of €196.48. Now, a person with a yearly average of 20 receives an 85% rate pension of €202.80. Given the Exchequer context, this was significantly better than the outcomes in many other areas.
- The safety net of the State Pension Non-Contributory means that a pensioner living alone with no other income is still guaranteed an annual state pension income of nearly €13,478[7] (an average of €259.19 weekly). A couple living on State Pension Non-Contributory with no additional income could expect annual state pension income of nearly €25,000 (an average of €480.75 weekly). If anyone receives a lower state pension payment, the reduction in State Pension Non-Contributory rate is less than the additional income/means they have on top of the state pension (i.e. they are relatively better off than someone solely dependent upon these payments).

It has been estimated that reverting to the 2000-2012 rate bands in 2018 would cost over €73 million extra. This includes an estimate for inflows. However it could be higher, depending on the degree of movement from other schemes (such as the State Pension Non-Contributory and Increases for Qualified Adults). This annual cost would also increase by some €10 to €12 million extra per annum thereafter (e.g. it would be approximately €85 million in 2019, €97 million in 2020, and so on).

Impact of the rate band changes

All those qualifying for State Pension Contributory at a reduced rate since 2012 are being paid according to the 2012 rate bands. An estimated 42,000 people have been affected by the new rate bands. It is expected that the number of those on the new rates will reach 50,000 in 2018.

The numbers in receipt of the older pre-2012 rates will decline over time, but they will remain the majority of pensioners for some years. This is common with pension reforms in other

[6] CSO CPI calculator, latest figures from November 2017.

[7] This includes State Pension Contributory payments (including Living Alone increase) at current rates, Fuel Allowance for 26 weeks, and €35 per month Household Benefit in respect of Gas/Electricity (which can be a cash payment or a reduction in bills). It assumes Christmas bonus at 85% rate.

countries, such as the UK, where a majority of current pensioners may have qualified for their pension under earlier, more generous arrangements.

According to the latest figures, almost 62% of those in affected bands are women and over 38% are men. It is believed that many of the women affected had significant homemaking periods, prior to the introduction of the Homemakers scheme in 1994. Most of these, where affected, would be married to people with State Pension Contributory at full rate and an occupational pension on top of their pension, and/or a second property (as otherwise the person would qualify for a 95% State Pension Non-Contributory). The person, if in the 85% band or lower, would also have private means themselves (such as income or a private or occupational pension) as they would otherwise be in a position to receive a 90% payment as an Increase for Qualified Adult on their spouse's State Pension Contributory (unless he/she is not in receipt of State Pension Contributory, e.g. he/she was a retired public servant).

Any of those affected could claim a State Pension Non-Contributory (based on household means), or, if their spouse is a State Pension Contributory pensioner, an Increase for Qualified Adult payment based on their personal means. Over 70% and 80% respectively of those payments are at the full rate.

Options

The following options are examined below.

1. **Reversal of rate bands for post-2012 pensioners to the 2000-2012 rate band percentages**
2. **Increase the rates of the reduced rate pensions for post-2012 pensioners**
3. **Disregard years up to a certain age (e.g. 25), if there is at least a certain number of years gaps (e.g. 10) in the insurance record**
4. **Means-test related measures to target greater benefits to those with limited additional means**
5. **Enhanced Homemakers provisions**
6. **Allow post 2012 pensioners choose between their current rate and that introduced under Total Contributions Approach.**

1. Reversal of rate bands for post-2012 pensioners to the 2000-2012 rate band percentages

This option has been costed at over €73 million extra for 2018 (including inflows from other payments such as State Pension Non-Contributory and Increases for Qualified Adults), and rising at a rate of €10m-€12m extra per annum. The weekly increase in payments[8] for those affected would vary between €19.40 and €30.80, with an average in the region of €24. The main issues with this approach are -

- The increase would not be targeted at those who took up caring duties and are now affected by the 2012 changes.
- The main beneficiaries would be pensioners, who have income and means in addition to the state pension, such as occupational pensions/second homes. These households are already being cross-subsidised by people who contributed on a more frequent basis, who in many cases will be less well off;
- It would make contributory pensions less proportionate to contributions made, dis-incentivise longer working and run counter to the policy of introducing a Total Contributions Approach.

[8] The amount will be less for pro-rata pensions, e.g. those co-ordinated under EU Regulations.

2. Increase the rates of the reduced rate pensions for post-2012 pensioners

This option would, effectively, be a partial introduction of option 1. An example of such an approach would be if a decision was taken to increase the rates payable for the rate bands below a yearly average of 40. For example, if each such rate band was increased by 5 percentage points (i.e. 30-39 Yearly Average to 95% of maximum rate, 20-29 to 90%, 15-19 to 70% and 10-14 to 45%), each would gain approximately €12 per week (i.e. 5% of the maximum rate). The cost (if set at that level) could be expected to be roughly half that of complete reversal (i.e. this would be in the region of €35m extra per annum, including inflows from other payments such as State Pension Non-Contributory and Increases for Qualified Adults, and rising at €5m-€6m extra per annum).

The difficulties with this approach would be similar to those of option 1, namely -

- The main beneficiaries would be pensioners who have additional income and means, such as occupational pensions/second homes. These households are already being cross-subsidised by more frequent contributors, who in many cases may have lesser incomes;
- It would not be targeted at homemakers; and
- It would make contributory pensions less proportionate to contributions made, dis-incentivising longer working, although to a lesser extent than in option 1. This would, in turn, make the Total Contributions Approach less attractive, as the relative drop in payment rates for people with lower contribution records and no homemaker periods (but significant means) would be greater.

3. Disregard years up to a certain age (e.g. 25), if there is at least a certain number of years gaps (e.g. 10 years) in the contribution record

Under this approach a person who had a short period of contributions prior to exiting the workforce would have their average contributions calculated from the time they re-entered employment. In principle this would resolve the issue of people with short contribution histories at a young age being disadvantaged by the averaging rule. Following analysis, it seems that –

- It would have an annual cost in the region of €60 million[5] extra in 2018, and rising at €11million extra per year. Rises thereafter would depend upon when Total Contributions Approach was introduced. This assumes it would only apply to post September 2012 pensioners. If applied to all pensioners, the cost would be more significant, although harder to estimate. A tentative estimate would be that it could treble, although significant work would be required to obtain a more precise figure;
- Two “cliffs” would be created by this provision. One would centre on the age up to which disregards could be introduced (e.g. 25 in this example), and the other regarding the extent of gaps that qualified someone for this provision (e.g. a minimum of 10 years gaps as in this example, or 20 years, etc.). In both cases, this cliff is the difference between fully benefiting (in some cases going from 40% to 100% payment) or not benefiting at all (despite having paid more contributions than those who benefit). The former, in particular, would appear particularly arbitrary, as 25 would have been the median age for people to marry during the applicable decades, and so a great many would be one side or other of the threshold by a very small margin;
- It does not appear possible to move these cliffs without creation of similar anomalies elsewhere. The impact of the measure could be minimised by reducing the cut-off age, e.g. 22 rather than 25. However, this could be expected to make the provision much less effective. Increasing the size of the gaps required to qualify would mean that those caring, who returned to work earlier, would not benefit, arguably punishing them for making greater contributions than those who benefited and who would be paid a higher rate; and

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[5] This costing was based on the 2016 intake for State Pension Contributory. In this model, it was assumed that the cut-off age was the 26th birthday, that 10 year gaps were required, and when calculating the new Yearly Average, only the divisor was reduced (i.e. not the earlier contributions disregarded for date of entry requirements).

- Ultimately, such a model would involve moving a number of people, lucky enough to be on the right side of a cut-off point, from the general rule (where contributions are divided by about 48) to the anomalous situation (where perhaps only 10 years are required to qualify for a full pension).

4. Means-test related measures to target greater benefits to those with limited additional means

Those post-2012 State Pension Contributory pensioners on lower reduced rate payments are largely pensioners with other sources of income, as if they were not they would qualify for a higher rate of State Pension Non-Contributory, which is paid at 95% of the maximum State Pension Contributory rate. A number of options have been considered in this context, notably;

4 (a) - Increasing the (all) income disregard for the State Pension Non-Contributory, from €30[6] to a higher amount

The main issues with this option are that:

- It is estimated that the cost of doubling this would be in the region of more than €40 million per annum;
- It would be of most benefit to those who have an occupational (or private) pension; and
- It would only assist those on a reduced rate State Pension Contributory payment, if their means were such that State Pension Non-Contributory would now become their more advantageous payment.

4 (b) - Allowing those post-2012 pensioners who satisfy a personal means test (similar to that used for the Increases for Qualified Adults under State Pension Contributory) to be paid at the pre-2012 rates.

The main issues with this option are that:

- A somewhat similar option is effectively open for most of those with amounts in the 85%, 65% and 40% bands, as a large majority of those have living spouses of pension age and so can claim Increase for Qualified Adult. If those pensioners are still on State Pension Contributory (rather than moved to Increases for Qualified Adults payments or

[6] There is also a €200 disregard for wages from employment, but this doesn't apply to all income.

State Pension Non-Contributory), it means that they do not satisfy the Increase for Qualified Adult means test, and would not benefit from this measure;

- This would, in the main, mean that those with 40%-85% underlying entitlements to State Pension Contributory, who would benefit, are currently receiving State Pension Non-Contributory or Increase for Qualified Adult payment instead, at a higher rate. If they have no additional household means, they would receive State Pension Non-Contributory, whereas if they had significant household means, they would probably receive an Increase for Qualified Adult payment;
- There would be a minority of 85/65/40% claimants where their spouse does not have a significant State Pension Contributory themselves (notably the spouses of retired public servants) and so they do not have the Increase for Qualified Adult option. However, less than 20% of the workforce are in the public service, and so the cost from these would only be expected to be about a fifth of the cost of a blanket reversal;
- While it is difficult to make a precise estimate as it would largely involve people moving scheme, it would appear that the cost of such a provision could be in the region of €25 million per annum. This is, however, a very tentative estimate;
- The operational challenges would be very significant. There would be an immediate and substantial body of work involved in re-assessing up to 48,000 existing pensioners, and the ongoing additional work in assessing claims and in conducting means reviews would require very substantial increases in staff numbers, and would be expected to increase processing times, thereby creating backlogs for all pensioners.
- Furthermore, it would incentivise couples to transfer assets currently in their joint names, or in the name of the wife, into the husband's sole name.

5. Enhanced Homemakers provisions

A key policy challenge in contributory pensions, and one which drew additional focus in Ireland as a result of the 2012 changes, is the gender dimension to homemaking. Backdating the Homemakers scheme to periods prior to 1994 could cost €290 million per annum if introduced in 2018 and would rise each year at a faster rate than general pension expenditure. The biggest beneficiaries would be households with incomes greater than that of the state pension. Conversely, the most vulnerable pensioners (e.g., widowed persons living on one pension and other pensioners with no non-state pension income) would have no benefit from this additional spending.

Two approaches have been given consideration.

A. Allow the award of up to a certain number of years (for example, five) Homemakers credits

- This would mean, for example, a person with a 48 years working duration, 23 years contributions, and a 10 years homemakers period from 1989-1999 would see their Yearly Average rise from 27.8 to 33.9, increasing payment rate from 85% to 90%[9]. Alternatively, had the same person 20 years contributions (and the same details otherwise) they would see their Yearly Average rise from 21.8 to 27.8, but their payment stay in the 85% rate band;
- The cost of this depends on (a) whether it was restricted to post 2012 pensioners, and (b) the average level of take up. It is assumed for the purposes of this costing that it would apply to post-2012 pensioners only, the justification being that pre-2012 pensioners receive alternative relief in the form of the previous rate bands which were introduced in 2000;
- An average take up of 4 years would result in a 2018 cost of €40m extra, estimated to rise to €46 million extra in 2019. Additional costs could also be expected from inflows; and
- This would have the advantage that it would not be time limited, and could benefit some people who left employment prior to 1973.

B. Backdating the Homemakers scheme to an earlier date

- The likely cost (for updating to any period) has been estimated at €290m;
- While the scheme could be backdated in phases, this would still (eventually) result in a significant increase in the cost of the pensions system, without any benefit being felt by the broad base of pensioners.

[9] While in practice this could see 25 years either disregarded or credited, in practice this would rarely if ever happen among current pensioners, as even the youngest of these reached pension age 23 years after the introduction of the Homemakers scheme, and few if any would have been a homemaker for the 2 decades before retirement – those who were carers during that time may qualify for Carers Credits.

6. Allow post 2012 pensioners to choose between their current rate and that rate calculated under the draft Total Contributions Approach

- Under this proposal people would receive a pension payment proportionate to their total rather than their average contribution with a carer/homemaker credit of up to 20 years.
- This option, would target significant relief at people who were homemaking or performing other caring duties;
- This option would also increase the proportion of women qualifying for a payment based on their own contributions (through a combination of PRSI paid and homemaking/caring periods) rather than based on (a) an Increase for Qualified Adult on their husbands' claims, or (b) based on their household means. It would also ensure that the contributory principle of the State Pension Contributory was maintained; and
- This option would support, rather than undermine, the move to a Total Contributions Approach.
- The estimated cost of this approach is c €40m p.a., although this is subject to further analysis and is dependent on the actual take-up.

Conclusion

There is no option which can provide significant relief (in the form of higher payments to a significant number of pensioners) which does not also result in a significant cost to the State.

From a policy perspective, the option of bringing forward the Total Contributions Approach model, with strong Homemaker/Caring credit provisions, appears to best align such additional resources with the desired outcomes, notably in the context of enhanced gender equality, broader equity and the reduction of anomalies.

It is recommended that if additional financial resources are to be made available to deal with this matter, then Option 6 (Total Contributions Approach choice) should be the preferred solution.

It is proposed that

(i) Pensioners affected by the 2012 rate band changes should be allowed to opt-in early to an interim Total Contributions Scheme based on the strawman model that will be published for consultation shortly as part of the Pensions Reform Roadmap; the key features of which are:

- Pensioners will receive a payment proportionate to their total contributions with the maximum payment payable at 40 years contributions.
- Homemaker/Carer credits will be available for up to 20 years – this means that people who leave the workforce to take up caring duties could qualify for a maximum pension with just 20 years contributions.
- This scheme will address the anomaly whereby people with a low number of contributions paid early in their working lives, followed by a break to perform caring or homemaking duties, are disadvantaged by the averaging rule.

(ii) The effective payment date for the Total Contributions option will be set at 30 March 2018 and will be paid from Q1 2019.

(iii) The actual payment date will depend on the implementation of IT systems and administrative processes and the level of take-up. It is anticipated that actual payments will commence from Q1 2019 and backdated to 30 March 2018.

(iv) The final design of a general Total Contributions Approach, following consultation, is expected to be completed in 2019 for implementation in 2020. If the final design is more favourable than the interim or strawman model described above those pensioners who opt-in to the interim model will be allowed to transfer to the final scheme in 2020 from that date.

Appendix 1

The economic position of people affected by the 2012 changes

Of the 391,998 State Pension Contributory recipients awarded at the end of October 2017, an estimated 42,278[10] (26,598 Female, 15,680 Male) have been affected by the revised rate band structure. These include applicants who were awarded under the 30-39 and lower rate bands. It will be several years before the majority of pensioners will have qualified under the existing bands.

Pensioners being paid a lower rate of State Pension Contributory as a result of the changes to rate bands in 2012 have additional income or means, as they would otherwise be in receipt of a 95% State Pension Non-Contributory (based on household means) or a 90% Increase for Qualified Adult (based on their personal means, if their spouse has a full-rate State Pension Contributory). In cases where their record is reduced as a result of leaving work to raise a family, and where they are not better off on State Pension Non-Contributory, they will generally have a spouse who qualified for a State pension at the full rate (either through PRSI paid, credited contributions, or transfer from Invalidity Pension). The main exceptions to this rule are largely either the spouses of public servants, or of some people who were self-employed before 1988 (but were not for the period between then and state pension age).

If a person is on a reduced rate State Pension Contributory, and this is more beneficial than the rate they would receive under State Pension Non-Contributory, it would be expected that the following would be the combined income/means of the couple (excluding Household Benefits, and any other secondary benefits).

[10] This is the number of people affected who are on reduced rate bands. There are additional people affected who are, as a consequence, paid State Pension Non-Contributory or Increase for Qualified Adult at a higher rate than their State Pension Contributory entitlement.

Minimum income that can be inferred from a married pensioner's[11] rate of State Pension Contributory

YA	State Pension Contributory rate	Minimum *personal* means + income, as not on Increases for Qualified Adults*	Minimum combined *household* means + income, as not on State Pension Non-Contributory*
48+	€238.30	€238.30	€476.60
40-47	€233.60	€233.60	€471.90
30-39	€214.20	€214.20	€537.50
20-29	€202.80	€302.80	€546.10
15-19	€155.20	€315.20	€593.50
10-14	€95.20	€315.20	€653.50
*** In case where spouse has max rate State Pension Contributory. Income does not include €35 monthly Household benefits (€8.08 p.w.), Fuel Allowance (€22.50 p.w. X 26 weeks), Over-80 Allowance (€10 p.w.) or Rent Supplement (varies).**			

It should be noted that these are minimum levels, and most people on reduced rate bands with additional income will have more than the precise amount that puts them over the thresholds in this table, rather than exactly on it. By contrast, many maximum rate State Pension Contributory pensioners will have no income above their State Pension Contributory itself, and so will be on the threshold in the table. It might also be noted that waged income up to €200 per week is not included in the State Pension Non-Contributory means-test.

[11] Relates to pensioners co-habiting with a spouse in receipt of maximum rate State Pension Contributory. If spouse is instead in receipt of State Pension Non-Contributory, the household will be entitled to income of over €480 per week. Single pensioners will be in receipt of Living Alone Allowance of €9 weekly.

Appendix 2- Data provided by EU Commission to Member States regarding Gender Gap

It might be noted that many of the countries with a very low rating on the gender pension gap indicator still have among the highest gender poverty gaps for over-65s. This illustrates that systems which do not address economic inequality will generally impact negatively on the most vulnerable pensioners, the majority of whom, without well designed pension system, will be women.

Gender gap in pensions (Pillars 1,2 & 3 combined)

Member State	Pensioners aged 65+		
	2013	**2014**	**2015**
Estonia	5.40	4.40	3.10
Slovakia	5.10	7.30	7.30
Denmark	12.70	14.20	11.70
Czech. Rep	12.50	12.80	12.70
Hungary	14.50	13.20	14.90
Latvia	17.10	17.60	16.80
Lithuania	16.80	14.50	13.30
Slovenia	23.90	20.10	21.20
Poland	22.30	21.90	19.50
Finland	23.10	24.00	22.50
Croatia	23.20	22.20	22.70
Romania	25.20	34.00	55.10
Belgium	32.80	29.70	34.10
Bulgaria	30.70	23.80	29.40
Greece	26.30	26.50	28.90
Sweden	27.70	30.30	29.30
Ireland	**33.30**	**32.00**	**29.98**
Portugal	31.60	32.10	32.40
Italy	33.10	33.40	32.17
Spain	35.40	34.10	33.80
France	35.80	35.80	34.10
Luxembourg	41.70	39.50	34.24
UK	36.10	39.10	38.00
EU28	38.90	39.10	38.30
Austria	38.10	39.00	39.00
Germany	47.70	47.60	45.70
Netherlands	41.70	39.90	39.50
Malta	27.00	27.20	31.30
Cyprus	44.80	45.60	44.80

Source: Eurostat. EU-SILC

At-risk-of-poverty or social exclusion rate of over 65s

(2015)

Member State	Male	Female	Gap
Estonia	27.4	48.6	*21.2*
Lithuania	26.2	43.1	*16.9*
Bulgaria	36.5	52.3	*15.8*
Latvia	33.5	47.8	*14.3*
Slovenia	12.9	25.0	*12.1*
Romania	27.0	38.7	*11.7*
Sweden	11.3	21.9	*10.6*
Czech Republic	5.1	13.7	*8.6*
Finland	9.0	17.3	*8.3*
Poland	11.7	19.0	*7.3*
Croatia	28.0	35.0	*7.0*
Cyprus	19.5	25.8	*6.3*
Austria	10.2	16.4	*6.2*
Italy	20.6	26.4	*5.8*
EU 28	15.1	20.7	*5.6*
Greece	19.0	24.4	*5.4*
UK	15.1	20.4	*5.3*
Germany	15.6	20.8	*5.2*
Hungary	11.8	17.0	*5.2*
Portugal	18.9	24.0	*5.1*
Luxembourg	6.9	11.0	*4.1*
France	8.2	11.4	*3.2*
Slovakia	10.3	13.5	*3.2*
Malta	24.6	27.5	*2.9*
Denmark	8.1	10.2	*2.1*
Ireland	**15.4**	**17.4**	***2.0***
Spain	13.8	14.9	*1.1*
Belgium	16.0	16.8	*0.8*
Netherlands	9.7	10.2	*0.5*

Source: Eurostat. EU-SILC

SHARE Data – supplied by EU Commission to Member States

Coverage rate by gender and Gender Gap in Coverage (M-W in pp) by the Pension System, by pillar, persons aged 65+

Share	Pillar 1	Pillar 1	Pillar 1	Pillar 2	Pillar 2	Pillar 2	Pillar 3	Pillar 3	Pillar 3
65+	Men	Women	Gender Gap	Men	Women	Gender Gap	Men	Women	Gender Gap
SE	92.2	92.5	-0.3	86.8	80.9	5.9	26.1	22.9	3.3
DK	98.5	99.3	-0.8	44.9	36.0	8.9	23.6	15.1	8.5
NL*	99.6	98.2	1.4	83.6	49.8	33.8	14.2	5.5	8.7
DE	99.1	97.5	1.6	31.9	17.5	14.4	5.9	4.3	1.6
BE	98.8	83.1	15.7	2.4	1.5	0.9	3.3	1.5	1.8
LU	96.4	92.0	4.4	9.5	1.6	8.0	4.2	1.7	2.4
FR	98.9	97.1	1.8	1.3	0.9	0.4	5.3	3.8	1.5
CH	98.4	99.4	-1.0	62.3	36.1	26.2	9.9	7.7	2.2
AT	97.0	88.6	8.5	9.1	3.8	5.3	1.9	2.0	0.0
ES	95.1	69.3	25.8	1.4	0.4	1.0	0.6	0.4	0.2
IT	90.2	80.1	10.1	1.3	0.2	1.2	0.2	0.2	0.0
GR	84.7	68.4	16.4	0.7	0.8	-0.2	0.2	0.5	-0.3
PT	87.2	78.8	8.4	37.3	34.8	2.5	0.8	1.0	-0.2
CZ	98.6	99.3	-0.6	0.2	0.2	0.1	0.7	0.7	0.0
PL	97.2	94.9	2.3	0.0	0.0	0.0	0.3	0.7	-0.4
SI	90.2	87.6	2.6	1.1	0.7	0.3	1.8	2.1	-0.3
EE	99.3	99.6	-0.3	0.7	0.2	0.5	0.9	0.4	0.5
HR	82.8	80.7	2.1	1.0	0.9	0.0	0.7	0.5	0.1
HU*	94.8	94.0	0.8	0.0	0.2	-0.2	0.1	0.0	0.1
IE*	83.6	84.4	-0.8	34.2	21.1	13.1	4.7	2.2	2.6