State Pension Contributory New Total Contributions Approach with HomeCaring Credit

Detailed Questions and Answers: 23rd January 2018

Q1. What is the State Pension (Contributory)?

The state pension (contributory) is Ireland's contributory pension for people over 66, based on a person's social insurance contributions. All developed countries have a contributory pension, although most base payment levels on lifetime earnings, which results in people who had lower earnings during their working lives getting a lower rate of pension.

Q2. How is the State Pension Contributory Currently Calculated?

Instead of a link to lifetime earnings, Ireland bases entitlement to state pension (contributory) on the annual average number of social insurance contributions, recorded over the duration of a person's working life. This is called the "yearly average" and is calculated by adding together the social insurance contributions paid and credited by a person over their working life, and dividing that number by the number of years between when a person first paid social insurance, and the last full contribution year before reaching pension age.

Q3. Why is a Yearly Average approach used?

Historically, when reckonable social insurance (PRSI) was introduced in 1953, no-one would have had the required 30 to 40 years of contributions necessary to be paid a full pension under a total contribution approach. However, a "yearly average" approach would allow many people to qualify for a full pension quickly. With the extension of PRSI over the years, notably to self-employed and farmers, a total contributions approach can be used from the 2020s without disadvantaging people in those sectors. The final TCA model, to be agreed, will be designed to ensure all sectors will be in a position to qualify under that system.

Yearly averages are grouped into rate bands and each band has a corresponding rate of payment. The yearly average method has been used to calculate entitlement to state pension (contributory) in Ireland since 1961

Q4. What are the "anomalies" arising from the yearly averaging system?

The main anomaly within the yearly average approach is that it is possible for people to start paying social insurance later in their working life and yet qualify for a pension at maximum rate. Entitlement to a full pension can in some cases be achieved from as little as ten years of social insurance contributions.

An anomaly also arises where a person has a gap in their social insurance contribution record, possibly from periods spent caring for family, and qualifies for a lower pension entitlement than a person with the same number of social insurance contributions. This occurs as their yearly average is calculated over the person's entire 'working life'.

For pension entitlement calculation purposes, a “working life” is currently taken from the date a person begins paying social insurance contributions until the last full contribution year before they reach pension age.

Q5. What are rate bands and how do they determine the level of the pension payment?

When state pension (contributory) was introduced in 1961, yearly averages were grouped into bands to avoid having too many different rates of payment. Each band is directly linked to a specific weekly rate of pension entitlement.

The number of bands and corresponding payment rates has changed several times since state pension (contributory) was introduced in 1961.

Until the 1970s, a person with a yearly average of less than 24 had no state pension (contributory) entitlement. Up to 1989, a person with a yearly average of less than 20 contributions did not qualify.

A significant change in the rate band structure took place in 2000, when three bands (20-23, paying 92% of maximum pension, 24-35, paying 94% of maximum pension, and 36-47, paying 97% of maximum pension) were amalgamated into a single 20-27 rate band, paying 98% of the maximum state pension (contributory) rate.

This change weakened the “contributory” principle that applies to state pension entitlement by providing higher rates of pension entitlement to those with lower levels of social insurance contribution.

Q6. What Rate Band changes were introduced in 2012? What are the impacts of these changes?

From September 2012, the rates of state pension (contributory) paid to those who had a yearly average of less than 40 contributions was lowered, as a step towards a fairer Total Contributions Approach to pension entitlement. The change did not impact on those who qualified for a maximum rate of pension.

The 2012 rate bands more closely reflect the social insurance contribution history of a person than those in place between 2000 and 2012.

State pension (contributory), post 2012, still provides pension payments which are better than entitlement proportionate to levels of social insurance contributions. For example, a person with only 20 years of social insurance contributions over a working life of almost 50 years will still get an 85% pension rate, which compares favourably with contributory pensions in other EU countries.

The table below shows the current State Pension (contributory) rates payable, and the change in pension rates paid versus the year 2000 rate bands are shown in the table below.

Post Sept 2012 Rate band	Change in Rate band 2012 v 2000	Current State Pension Contributory Personal rate per week, €
48 or greater yearly average =100% pension	No Change	238.30 (max rate)
40-47 yearly average =98% of max rate pension	No Change	233.60
30-39 yearly average = 90% of max rate pension	8% less than 2000 equivalent Rate band	214.20
20-29 yearly average = 85% of max rate pension	13% less than 2000 equivalent Rate band	202.80
15-19 yearly average = 65% of max rate pension	10% less than 2000 equivalent Rate band	155.20
10-14 rate band =40% of max rate pension	10% less than 2000 equivalent Rate band	95.20 (min rate)

Q7. Is there any other reason for payments below the maximum rate?

Reduced pro-rata pensions may be payable, where a person has insufficient Irish social insurance contributions and relies on foreign social insurance contributions to qualify for pension.

People who have a lower rate band State pension (contributory) entitlement can apply for and may qualify for a higher State pension (non-contributory) of up to 95% of the maximum contributory rate (this is a means-tested payment, but over 70% qualify at the maximum rate due to generous income disregards). In the current scheme, people have both calculations applied and are paid the pension payment that works out best for them.

Q8. What is a 'Total Contributions Approach" (TCA)?

Under the "Total Contributions Approach", a set total of social insurance contributions paid and credited will be required to qualify for a maximum rate state pension (contributory), and people with less than this set total will receive a pro-rata entitlement.

The Government plans to put in place a Total Contributions Approach for all new pensioners from 2020.

Q9 How does a "Total Contributions Approach" deal with the current Yearly Average anomalies?

A total contributions approach resolves many of the anomalies arising from "Yearly Average" calculation model as the year a person commenced paying social insurance contributions will no longer be a key determining factor for pension entitlement rate calculation. Instead the totality of social insurance contributions paid and credited will be.

This is an equitable approach as pension outcomes are more in line with the total number of contributions paid and credited.

Q10. What is the "HomeCaring Credit" announced under this new TCA calculation model?

Under the new TCA calculation model, in addition to paid social insurance contributions, new HomeCaring credited contributions will be available for a period/s of up to 20 years of homemaking and caring duties. Caring periods for children up to age 12, and for a person of any age who requires full time care and attention, may be included in this calculation, under similar rules to the Homemaker's Scheme (although without the post-1994 restriction of that scheme).

Up to 10 years credited contributions are also available for other reasons. There will be a cap of 20 years on the overall number of credited contributions that may be used in calculating a person's State Pension (contributory) entitlement.

The HomeCaring credited contributions may assist many of those with lower State pension (contributory).

Q11. Who will benefit from the TCA option?

The option to avail of a TCA calculation will be for those getting paid under the changed post-2012 rate bands, i.e. people reaching pension age on or after 1st of September 2012. It is not possible, prior to people making their claims, to determine how many will be in the category. This number will rise as new people reach pension age and their most beneficial rate of state pension (contributory) is based on the TCA model.

In the main, people with homemaking/caring periods pre-1994 (not covered by the current homemakers scheme) are expected to gain the most from the introduction of the HomeCaring Credits with TCA.

Those who are less likely to benefit from the TCA model are people with lower numbers of paid social insurance contributions, who have no significant homemaking/caring periods.

Q12. What will my rate of payment be under the Total Contributions Approach?

This will depend on your paid contributions, your HomeCaring credits, and any other credited contributions you have (e.g. from periods in receipt of Jobseekers benefit).

40 years contributions are required for a maximum rate pension entitlement, however these do not all have to be paid contributions.

You may use up to 20 years of HomeCaring Credits, and up to 10 years of non-HomeCaring credits (although the combined total of credits may not exceed 20 years). This total is added to your paid contributions, to give your Total Contributions. If these amount to or exceed 40 (e.g. 20 years paid contributions, 12 years HomeCaring credits and 8 years Jobseekers Credits), you qualify for a maximum rate pension (currently €238.30).

If however you have a lesser record, you would get a pro-rata amount. For example, if you had 36 years (e.g. composed of 16 years paid contributions, 10 years HomeCaring credits, 10 years Jobseekers credits), your pro-rata entitlement would be 36 divided by 40, i.e. 90%. Whether this would be a greater or less amount than under the current system would depend on a number of factors, but whichever is the greater payment will be the one paid to you.

Q13. Will anyone be worse off under the TCA change?

No existing pensioner will see their pension reduced by this change, if their rate is improved by the TCA calculation option they will benefit, but if their TCA calculation entitlement is lower, they will remain on their existing rate. Everyone on reduced rates will also continue to have access to the State pension (non-contributory), which provides a pension of up to 95% of the maximum contributory pension rate and includes generous income disregards.

Q14. Will these changes-the Total Contributions Approach and HomeCaring Credit see everyone assessed under the 2012 rate band changes move to a full rate pension?

No, the introduction of the TCA will not bring all pensions up to the maximum rate of State pension (contributory). Increases in State Pension (contributory) payments are likely for pensioners who have substantial homemaking/caring periods for which they can now claim up to 20 years of HomeCaring credits.

Q15. How much will the early introductions of the Total Contributions Approach and HomeCaring Credit changes cost?

The precise costing has yet to be finalised, and it is complicated by the fact that some people currently receiving payments other than the reduced rate State pension contributory will be entitled to apply for a review of their entitlement to State pension contributory (for example people who are currently paid a non-contributory pension, but who will now qualify for a higher rate under the State pension contributory).

Q16. How do I apply to be assessed under the new TCA calculation option and how do I apply for the HomeCaring contribution credits?

Pensioners who have been awarded State Pension (contributory) since September 2012 and whose rate may increase using the TCA calculation model will be contacted by the Department of Employment Affairs and Social Protection, from Autumn 2018 onward, and invited to apply for a review.

Application forms will be made available at that stage and will request the information required to enable pensioners to make an appropriate claim for HomeCaring credits. It will take some time to develop the necessary forms, systems and processes to administer this new option.

Q17. When are the increased pension rates under the TCA and Homemakers Credit effective from? When will I be paid the new rate? Will increases be backdated?

The new Total Contribution Approach Scheme and the new HomeCaring Credit will come into effect at the same time as the Budget 2018 changes to weekly social welfare payments- for State Pension (contributory) that date will be the 30th March 2018. As it will take several months to put the IT and other resourcing arrangements in place, increased payments will not begin to issue until early 2019. Any arrears of payments due back to the 30th March 2018 or pension age, if later, will be made.

Q18. How will the Minister fund this solution, for 2018, considering it was not provided for in Budget 2018?"

The Minister has been in consultation with her colleague the Minister for Finance on this matter. The majority of the costs are expected to arise in 2019. Today's decision authorises the Department to proceed on the basis of the funding becoming available.

Q19. Why did the Government not simply reverse the 2012 rate band changes?

Reversing the 2012 rate band changes would have been the wrong policy decision. Many of those on lower rate bands have never been homemakers or a carer (some 40% of them are men), and their gaps are for reasons unrelated to such tasks. Some were in other countries, some were in college, some worked in the informal economy, some were self-employed when PRSI was not compulsory for them, and some retired early on a private pension.

The net effect of reversal would have been to cement inequality and unfair outcomes in the contributory pension system by affording a group with very low levels of contribution a 98% pension (despite many having far more means than the average pensioner- otherwise they could qualify for a SPNC), while continuing to pay a lower rate pension to people, who had worked many more years than them, but who had contribution gaps from raising children or caring duties pre-1994.

A total contribution approach provides much fairer and more equitable pension system for all and better reflects the contributions- paid or credited- of those who receive it. The answer to the anomalies that yearly averaging currently brings, is to move to a Total Contributions Approach with combined PRSI credits, appropriately targeted at homemakers and carers.

Q20. Will you remove the requirement to have 520 contributions paid to qualify for a contributory pension?

There are no plans to remove this requirement, as it is considered a reasonable threshold above which to require people who seek a contributory pension to have made at least 10 years paid contributions into the system, over the nearly 50 years of working age life. Those who do not satisfy this requirement may qualify for a State Pension Non-Contributory at up to 95% of the State Pension Contributory rate (based on their share of household means).

Q21. What other income supports are available to State Pension Contributory recipients?

In addition to a person’s weekly State Pension Contributory payment, they may, depending on their circumstances be entitled to:

- A living alone allowance if they are living alone, of €9 per week

- An Increase for a qualified adult for an adult dependant which is a means tested payment based on the means of the adult dependant.
- An Over 80 allowance of €10 per week extra on reaching 80 years of age.
- A Fuel Allowance of €22.50 per week. This is a means tested payment based on household means, payable during the winter months.
- The Household Benefits Package (this package is available to everyone aged over 70 and to people under age 70 in certain circumstances) and a Fuel Allowance benefit

Q22. What is the risk of poverty for Irish pensioners?

Data consistently shows that Pensioners are the group at least risk of poverty compared to the Irish population as a whole at 8.77% compared to 16.5%.

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

Source: CSO

Q23. What is the timeline for the introduction of the overall Total Contribution Approach, and when will it be known how many years will be required under the new system for a maximum rate pension?

Officials in the Department have been working on the introduction of a Total Contributions Approach since 2015. The recent Actuarial Review of the Social Insurance Fund has been used to explore the costs of various options and to inform the design of the Total Contributions Approach.

This Review was recently completed and published, and the costings produced are being considered, with a view to progressing to the next stage, which will include a consultation process. The final structure of the model, which will include the number of years required for a maximum rate of pension, and the treatment of credited contributions and homemaking periods, will be submitted to Government later this year.

Subsequent to this, legislative proposals will be introduced to the Oireachtas. This is a very significant reform with considerable legal, administrative, and technical components to be put in place prior its implementation.

Q24. What is Auto-Enrolment?

While the State pension system is very effective at ensuring people avoid consistent poverty, for many middle earners it still represents an income drop. This is lessened where someone has an occupational pension, but coverage for such pensions is not as high as the Government would wish. Most people are not experts in pensions, and it can be difficult for them to make decisions on supplementary pension choices without support and advice. Accordingly, the Government is looking to introduce a system of auto-enrolment, where workers would be enrolled automatically in a pension scheme, when their income reaches a certain level. The details have yet to be finalised, but the purpose of this pension is entirely as a supplement to the State pension, not as a replacement.

Q25. What reliefs are currently available to Homemakers?

The homemaker's scheme makes qualification for a higher rate of State pension contributory easier for those who had taken time out of the workforce for caring duties. The scheme, which took effect for periods from 1994, allows up to 20 years spent caring for children under 12 years of age, or caring for incapacitated people over that age, to be disregarded when calculating a person’s yearly average for pension purposes. This has the effect of increasing the yearly average of the pensioner, which detriments the rate of his or her pension.

Q26. What was the Marriage Bar?

The marriage bar was a rule in most public sector employments, and some private sector ones, which required women to leave employment upon marriage. In the public service, they had not built up any state pension entitlement - as they had no pension related PRSI deducted from their wages - but in recognition of superannuation they had paid towards a public service pension, were paid a "Marriage Gratuity" when they left. On joining the EEC in January 1973, the rule was abolished, as it would have been a breach of European law.

ENDS

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