Green Paper on Pensions
Submission by the Citizens Information Board

1. Introduction

The Citizens Information Board (formerly Comhairle) very much welcomes the publication of the Green Paper on Pensions and the wide-ranging consultation process that has ensued. Users of the nationwide network of Citizens Information Centres (CICs), which are funded and supported by the Board, frequently raise issues about social welfare pension entitlements and over the years many such issues have been highlighted and brought to the attention of the Department of Social and Family Affairs.

The principal functions of the Citizens Information Board are to support the provision of and, where appropriate, provide directly to the public, independent information, advice and advocacy services in relation to social services. The Board is also required to assist and support individuals, particularly those with disabilities in identifying their needs and options and in accessing their entitlements to social services. In this regard, the Citizens Information Act 2007 provides for the introduction by the CIB of a range of advocacy services, including a Personal Advocacy Service aimed at people with a disability. Other functions of the Board are to support, promote and develop: (i) greater accessibility, co-ordination and public awareness of social services; (ii) the dissemination of integrated information in relation to such services by statutory bodies and voluntary bodies and (iii) the provision of information on the effectiveness of current social policy and services and to highlight issues which are of concern to users of those services.

The Board sources, produces and integrates information on social services. It is involved in the development of Citizens Information Services (CIS), the Citizens Information Phone Service (CIPS) and the Citizens Information Website (www.citizensinformation.ie). The citizens information website is administered directly by the CIB while the CISs and CIPs are delivered by independent voluntary bodies. The Board also works in partnership with voluntary and statutory organisations generally in the provision of information advice and advocacy. Currently, the Board funds and supports the provision of advocacy services to people with disabilities by voluntary/community organisations around the country.

The demand for CIS and CIPS services is substantial. In 2007, there were 612,840 CIS users and 133,407 CIPS users. The most recent Survey of Citizens Information Services[1] shows that 39 per cent of queries from the public relate to social welfare with 10 per cent of these relating to state

[1] Citizens Information Board, Forthcoming

pensions (contributory and non-contributory). This means that there are some 40,000 queries annually relating to state pensions.

The Board captures feedback based on the needs and experiences of users of the Citizens Information Services (CISs) and the Citizens Information Phone Service (CIPS) to highlight issues which are of concern to users of social services. CISs and CIPS report queries with a social policy dimension to the Board (Social Policy Records) where they are analysed and used as the basis for policy submissions and reports. In 2007 a total of 1,427 Social Policy Records were returned of which a quarter related to social welfare pensions.

2. Key Factors

In 2006, there were 328,211 people in receipt of social welfare old age or transition pensions (97,404 in receipt of non-contributory pension). The majority of over-65s in Ireland rely solely on the State old age pension. Out of the workforce of two million, an estimated 900,000 people do not have a private or occupational pension to boost their incomes in retirement. Data from a 2005 ESRI study[2] show that 91 per cent of pensioners had an income from public pension schemes and that only 33 per cent of them received any income from a private pension plan. Nearly 60 per cent of the average pensioner's income was provided by the public schemes while around 25 per cent was provided by private plans. Half of all pensioner units in 2000 were completely dependent on the State for an income in retirement. The figure was higher for single pensioners, about 60 per cent, and lower for pensioner couples, about 33 per cent.

The Board has identified the following as key factors which should inform ongoing discussions on pensions:

- In 2006, 13.6% of older population (over 65) were at risk of poverty, a reduction from the 2005 figure of 20%. This is likely to be due to the fact that state pensions have been increasing at a faster rate than either prices and earnings;

- The public pension system continues to be the main source of pensioners' incomes and the private pension system is a minor source of retirement income;

- The flexibility of occupational pensions in allowing for AVCs contrasts sharply with the complete inflexibility of the social insurance system in this respect. The inability of people to make such contributions has led to the introduction of the different pro-rata pensions which are extremely complex;

[2] Hughes, G. and Watson, D. (2005), *Pensioners' Incomes and Replacement Rates in 2000, ESRI Policy research Series, Number 54.*

- The favourable tax arrangements for the private pension system predominantly benefit higher income taxpayers - this is a serious inequity;

- A central question is what value for money is being received for the substantial tax reliefs the State is providing to support and develop the private pension system;

- The increases in recent years in the tax incentive for occupational and personal pensions have not resulted in any marked increase in private pension coverage;

- An early, substantial improvement in the state pension has the potential to address poverty among current pensioners. This approach would eliminate the risk of poverty for people who are already retired and for the increasing number of people who will retire before they could benefit from more recently introduced private pension supports and incentives;

- The coverage rate of occupational schemes has fallen in recent years - although the number of members of occupational schemes has increased, the decline in the coverage rate means that membership of occupational pension schemes has not kept pace with the growth in the numbers at work.

3. Focus on State Pensions

The Citizens Information Board takes the view that expansion of the State pension system is the logical strategy to adopt at this juncture in the evolution of the Irish pension system. Pension policy reform should be based on the premise that an expanded state pension system has the capacity to help provide a more equitable, comprehensive structure of pensions in the future. State pensions also have the capacity to adapt in the future to changing economic and demographic trends. Also, unlike PRSAs or the proposed mandatory private system, the state system is already nationally established and politically accountable, and has both public credibility and legitimacy.

Social insurance should continue to have a central role in pensions provision because of the acknowledged problems of ‘market failure’ - private insurance cannot provide guaranteed indexation against future inflation (a pre-requisite for an adequate pension). This would mean having a greater reliance on a mandatory public component of the pension system rather than on the private pension system.

4. Tax Allowances and Pension Contributions: Basic Inequities

The cost to the Exchequer of subsidies for the private pension system is significant (almost as much as the cost of direct expenditure on social insurance pensions[3]). Also, social insurance pensions currently get *no* exchequer subsidy. Initially, employers, employees and the State contributed to the Social Insurance Fund but the State has not contributed for a number of years.

As only about half of the labour force is covered by the private pension system (in contrast to almost the whole labour force covered by the social insurance system), the Exchequer is providing far more support, on average, for workers who are covered by private pension plans than it is for those who are covered by the public pension system. This inequity is compounded by the fact that Exchequer support for private pensions accrues predominantly to higher income taxpayers. For example, in 1999/2000 over three quarters of the tax relief on private pension contributions by the self-employed accrued to the top quintile and less than one half of a per cent went to the bottom quintile of self employed. The pattern is similar for employees. Around two-thirds of the tax relief on employee contributions accrued to the highest paid employees in the top quintile while only one per cent went to the lowest paid employees in the bottom quintile

More attention needs to be given to the issue of inequity in tax subsidisation of personal/private pensions. For example, if a person pays tax at the higher rate of 41% s/he will be entitled to tax relief on pension contributions of up to 47% (41% plus relief at up to 4% on PRSI and 2% on the Health Levy). In such an instance, a €1,000 contribution will cost only €530. For a person who pays tax at a top rate of 20% because his/her income is lower, the same contribution will cost €740 to €800 depending on the person's PRSI/Health levy payment. Again the less a person earns, the more expensive the contribution will be. For someone who is working but earns less again and is not liable to tax the same contribution will cost €1,000. In effect, the lowest earner is paying almost twice as much as the highest earner for the same pension cover and paying a significantly higher proportion of his/her income. It could be argued that the scale of the disparity in relief for those on low income is an active *disincentive* to make pension contributions.

Workers who pay no tax and those on the standard rate should be a target group in any pension incentivisation. This can be argued as a matter of social justice, of policy (progressive rather than regressive taxation) or practicality as these groups are less likely to have savings or assets in retirement and more likely to depend upon a pension payment. Key questions to be addressed in this regard are what is the appropriate balance between Exchequer support for public and private pensions and what options are available for making the tax arrangements for the private pension system fairer. Some options that might be considered are:

- lowering the cap on tax deductible contributions from pensionable earnings of €254,000 per annum to a reasonable multiple of gross

[3] TASC/TCD Pension Policy Research Group (2007), *Submission to Government on Proposed Green Paper on Pensions*

average industrial earnings;

- giving the tax relief as a refundable tax credit at the standard rather than the marginal rate of tax;

- a reduction in the size of pension fund allowable for tax purposes and taxing returns on pension investments.

In addition, consideration ought to be given to whether the revenue saved by making the private pension system fairer could be used to pay for some of the projected increase in cost of the State pension system.

5. Contributory Pensions

5.1 The 'Contributory Principle'

The Board accepts that "those qualifying for a pension should have contributed towards that pension to the maximum extent possible" (Green Paper p.82). The maintenance of the contributory principle, which guarantees that people who make a minimum number of contributions to the Social Insurance Fund will receive a pension regardless of their income or household status, is paramount. The next stage in the Review of Pensions process should maintain "the overt link between contributions and benefits" (Report of the Commission on Social Welfare 1986 p.221). The social insurance system provides a guarantee that benefits will be paid as of right in return for contributions, which form the basis of such a right. While the system is not actuarially based in that the benefits paid are not directly linked to the level of contributions made, it has the key elements of an insurance-based system. Therefore, the system should continue to be operated on the basis of a requirement for a minimum number of paid contributions for minimum pension entitlement. This approach should be clearly based on the premise that the Old Age Contributory Pension (OACP) is an insurance-based system rather than on any consideration of the question of need, which is the domain of Non-Contributory Old Age Pension provisions. The fact remains, of course, that there is a significant redistributive aspect to the system as it currently operates in that the value for money is significantly better for the lower income levels.

5.2 Yearly Average Test: Merits of Total Contributions Approach

The yearly average qualifying condition is extremely complex and any changes introduced should be designed to reduce this complexity. The Board supports the conclusion of the Review of Qualifying Conditions for Old Age Contributory and Retirement Pensions that "the adoption of a system whereby title to pension would be determined by the total number of contributions paid and credited during a person's working life, would seem to deliver transparency and fairness". Any changes would, of course, have to ensure that the entitlements of existing contributors were protected.

5.3 Pro-rata Pensions

Since there are already 3 main types of pro-rata pensions in existence with different rules governing each resulting in complex assessment and calculation procedures, the approach from here on must be aimed at maximum rationalisation of provision and a consequent exclusion of any additional add on provisions.

Some of the problems which arise in Ireland in respect of qualifying conditions and pro-rata pensions should be considered in the context of approaches in other countries. Particular reference should be made to the U.K. system which takes a person's working life as beginning in the tax year he/she becomes 16 and ending in the tax year prior to reaching pension age. Reduced pensions are broadly proportional to the contributions paid – if a person has half the required number of years' contributions s/he gets half the pension. The aim should be to get to a somewhat similar situation in Ireland by taking a person's working life as beginning somewhere in the 18 –22 years age range.

5.4 Level of Pension

People who pay the full level of contributions are treated relatively inequitably in that their benefits are only marginally better than those of people with relatively few contributions.

The level of pension paid should be more clearly related to the number of contributions made than is currently the case. This would make the system more equitable and easier to understand. At present, there is virtually no incentive for people to have the maximum level of contributions as the difference between a reduced pension and the maximum level is relatively small.

The current rates and levels of pensions need to be revised. For example, there is only a difference of €4.40 between the rate for an average of 20 contributions and the maximum required average of 48. Also, the difference (€47) between a contribution average of 20 which entitles a person to 98 per cent of pension and an average of 19 which entitles a person to only 75 per cent of a pension is too great. The rates and levels of pensions should have a proportionate relationship to the number of contributions paid.

5.5 Pension Rates and Median Income

In setting targets for pension rates, consideration should be given to relating targets to median income rather than gross average industrial earnings. Annual data on median income are available from the CSO EU Survey of Income and Living Conditions which, it can be argued, provides a better measure of living standards in the community as a whole than the survey of industrial earnings given that the latter now covers only a proportion of the workforce.

5.6 Aggregating Number of Contributions: Equity of Approaches

It is anomalous that self-employed people are regarded as having 52 contributions in any year in which they pay the contribution on the maximum level of earnings and employees may also have a contribution on the maximum level of earnings but be regarded as having much fewer contributions. The National Pensions Board (1993) recommended that the existing system of recording PRSI contributions should be replaced in the case of pension benefits by one based on annual earnings as applies in the case of the self-employed.

Consideration should be given to developing a system of assessing the number of contributions by employees by using a formula which takes into account the level of contributions based on earnings and the actual number of weeks of insurable employment along lines recommended by the National Pensions Board. (In adopting such an approach it will be important to distinguish between taking earnings into account as a means of deciding eligibility for a pension and taking them into account in order to decide the level of the pension, which is a separate issue).

5.7 Voluntary Contributions

Consideration should be given to some modification of the conditions for becoming a voluntary contributor (currently 260) with application to be made within 12 months after the end of the tax year during which contributions were paid or credits given). This may enable more people to be brought into the insurance system.

6. Anomalies

Despite the various measures introduced over the years, there are a number of ongoing anomalies in the system which need to be addressed:

6.1 Unfair Advantage to Late First-time Entrants

While the number of people who can now enter the PRSI system for the first time late in life is now quite small (mainly people who come from abroad), under current arrangements such people have an unfair advantage. At present, a person entering the system for the first time at age 55 can get a full OACP pension whereas a person with 10 years paid contributions earlier in his/her working life may only get half the rate of pension. This situation will not change with the current provision for a requirement of 520 paid contributions from April 2012.

If the system, referred to already, of taking a person's working life from a defined age rather than from the actual date of entry to the insurance-based system were adopted, it would remove this unfair advantage.

6.2 Length of Working Life- Whether Start is in Ireland or Elsewhere

The level of entitlement to OACP for some people varies depending on where they started their working life. This point can be illustrated by the following examples:

CASE A

The person works for 2 years in Ireland, goes to England (or other EU country) and works 32 years there. He/she then returns to Ireland before the age of 55 and works here until the age of 66. The length of working life is taken from the date he/she worked first in Ireland, i.e. 45 years (if it is after the *year 1953). The amount of Irish contributions is only 13 full years (=676). This is divided by 45 to give an average of 15 contributions and entitlement to a pro-rata pension of 75 per cent of OACP.*

CASE B
The person has worked outside of Ireland for most of his/her working life, comes to Ireland at age 55 and enters the social insurance system for the first time. Once he/she has over 10 years paid contributions and an average of 48 contributions for these 11 years there is entitlement to a full OACP.

7. Information Provision

The provision of information that is accurate, comprehensive and palatable is a basic requirement in terms of equity of access. Because of the complexity of current provisions in respect of OACP, it is very difficult for citizens in some situations to understand their entitlement. It is also very difficult for information workers and statutory officials to understand and explain the system clearly and accurately.

Pro-active information provision by statutory officials is of paramount importance in terms of ensuring that people are fully aware of both their entitlements and of ways of maximising these entitlements. The need for people to be fully informed of the possibility of getting PRSI credits in a range of circumstances has been referred to already. Other aspects of information provision in respect of OACP contributions are identified below.

7.1 Contribution Conditions

Because of the complexity of the contribution conditions for OACP, particularly the yearly average qualifying condition, extra care is required to ensure that the relevant officials in the Department are fully apprised of the complexity and details of the various provisions. While there is a lot of written information available, frequently people are unable to decipher the system as it applies to their own situation and need ‘hands on’ assistance in this regard.

7.2 PRSI Credits

Credits are an important and integral part of the insurance-based system. More clarity is required, however, in relation to the operation of credits. As a general principle all of the rules in respect of credits should be enshrined in legislation and should be consistent across all benefits.

More detailed and comprehensive information should be available in respect of the need for people to continue signing for credits in instances where they are no longer eligible for payment. This information should be provided generally and, also, targeted at individuals in particular situations.

7.3 Self-employed Persons and Voluntary Contributions

Self-employed people who are informed by the Revenue Commissioners that they are not required to make tax returns because their income is so low should be informed as a matter of routine about the option of becoming voluntary PRSI contributors and the possible implications of not doing so.

7.4 Farm Assist Recipients
Special provision should be made to ensure that all Farm Assist recipients are informed of the option of making voluntary contributions provided they have sufficient paid contributions to make them eligible.

7.5 Employed Family Members
One of the groups currently excluded from the PRSI system is family members who are employed by other family members. CIB has in the past regularly highlighted the inequity of their exclusion from PRSI – this should be addressed as matter of urgency.

7.6 Farm Partnerships
A new scheme is being prepared whereby certain farm partnership situations may be recognised retrospectively. This will enable spouses (mostly women) working on farms to claim a State Pension (Contributory) in their own right. It is important that the retrospection element is flexible enough to cater for the reality of a variety of farm situations where each partner makes a significant contribution to the running of the farm partnership, even if there is not a written partnership agreement.

8. Changes to Present Social Welfare Pensions System

8.1 Deferred Pension
The possibility should be explored of introducing provision for people to have their pension deferred and to continue making contributions after age 66 in order to either qualify for a pension or receive an increased pension. The latter operates in the U.K. and in other European countries when certain conditions are met.

8.2 Buying Additional Contributions
The feasibility of allowing people to retrospectively buy some contributions to social insurance should be explored further. This could be arranged, for example, for people who take career breaks or who job share and, because of the pattern of work, inadvertently pay a reduced number of contributions.

8.3 Transition Pension: Retirement Condition
There has been some discussion in recent years about removing the retirement requirement for recipients of Transition Pension which is welcome. Further exploration is needed as to how older people can be encouraged, where they so wish, to extend their working lives without financial penalty.

The Board believes that the retirement condition attached to the Transition Pension should be abolished in order to facilitate older people to stay in or return to the workforce.

8.4 Additional Components to State Pension
An additional component is needed for those without supplementary cover. The feasibility and costs of a second tier state pension based on some measure of earnings, for example earnings over the last three years of work,

should be explored. Such a solution could also be accompanied by a greater flexibility in the choice of retirement age so that those who wish to may increase pension payments by increasing the contribution period.

8.5 Older Women

Older women who were excluded from the labour force and consequently from the social insurance system continue to have problems in qualifying for pensions. There is a strong case for extending homemakers credits to people who were carers before 1994. This case has been accepted by a number of reports but no action has yet been taken. The Board recommends that this be addressed – if necessary gradually – over the next few years.

8.6 Living Alone Allowance

Older people living alone are most reliant on social welfare pensions, accounting for more than 70% of their total income. The EU Survey on Income and Living Conditions (2006) found that people living on their own are among the groups most at risk of poverty (25% compared to 17% for the population as a whole). Census 2006 shows that almost 29% of older people lived alone and this figure is projected to increase[4].

The Living Alone Allowance is a supplementary payment for people on social welfare pensions who are living alone. The rate per week for people aged 66 or over is €7.70. This allowance was rounded up from €7.62 to €7.70 in 2002 but has not been increased in effect since 1995.

The Living Alone Allowance should be increased in line with cost of living increases.

8.7 Qualified Adult Allowance

The repeated commitment by Government to work towards increasing the level of Qualified Adult Allowance for pensioner spouses to the level of the State Pension (Non Contributory) should be progressed, particularly for dependent spouses of people on Non Contributory Old State Pension to take full acount of increased wage levels and to remove work disincentives.

8.8 Homemakers Scheme: Disregards

The use of 'disregards' rather than awarding credits disadvantages some people, as pointed in the Green Paper. "It is generally thought that credits would be a more appropriate way of recognising periods of caring …. They are also more beneficial to a person than a system of disregards … Credits also will keep a record alive, complete and transparent during periods of mobility between the paid workforce and work in the home" (p.92). The Citizens Information Board strongly supports this view.

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[4] National Council on Ageing and Older People (2004), *Population Ageing in Ireland: Projections 2002-2021*.

8.9 Contributory Pensions: Change in Qualifying Conditions

A mechanism should be introduced which would ensure that full-time carers availing of the Homemakers Scheme will not be disadvantaged by changing qualifying conditions for retirement and contributory pensions which are due to come into effect in 2012 when 520 paid contributions will be needed to qualify for a contributory pension (compared to 260 at present).

8.10 Care in the Home Funding

The Mercer Report (2002) included a proposal for a social insurance approach with universal provision that would provide for a single, integrated benefit payment for home care.

The Board believes that the general principle of introducing a Long-term Care Benefit based on a social insurance approach should be examined further in the context of future pensions policy.

9. Main Considerations Going Forward

In order to ensure that older people can live with independence and dignity in their own homes, in accordance with Government policy and with the wishes of the vast majority of older people, the Board identifies the following as key considerations for pensions policy going forward:

- The policy of increasing social welfare pensions by more than the rate of inflation should be continued;
- The Living Alone Allowance should be substantially increased because of the greater risk of poverty among this group;
- The feasibility of allowing people (who have a reduced number of contributions) to retrospectively buy some contributions to social insurance should be examined;
- There is a need to ensure full social insurance coverage and to address any anomalies whereby people, e.g. family members who are employed by other family members or farm spouses, are excluded;
- The possibility of introducing provision for people to have an option of working beyond the age of 66 should be proactively explored and a number of changes should be introduced, including:
    - allowing workers who continue to work on to draw down some of their pension once they reach 65;
    - allowing workers the option of deferring their pensions and then receiving an enhanced pension (based on actuarial advice) when they opt to draw it down;
    - amendments to the current State Pension (Transition) payment which prevents people remaining on in their existing

employment between the ages of 65 and 66;

- allowing those who work beyond 65 to pay PRSI, thereby contributing towards qualification for a full state pension (this would benefit workers who had broken service (especially women who have taken time out from paid employment to raise their family) and do not currently qualify for a full pension at 65.

11. Maintaining a Strong Social Welfare Insurance-Based Pensions System

The case for greater reliance on the mandatory public pension system is reinforced by changes which are occurring in the private pension system which are likely to reduce the benefits it can provide in the future. Defined benefit pension plans are in decline while defined contribution plans are growing. However, lower average contributions to defined contribution plans than to defined benefit plans means that people may not be have sufficient contributions to provide for adequate replacement income unless they start to make additional contributions.

The Citizens Information Board is of the view that expansion of the State pension system is the logical way forward for the following reasons:

- It is already a comprehensive system, both in coverage and in the significance of the pension in the overall incomes of pensioners;

- An insurance based system is based on a certain probability that payments will be made;

- Expenditure at around 2.5% of GNP- (low by international standards) is sustainable;

- The increases in recent years in the tax incentive for occupational and personal pensions have not resulted in any marked increase in private pension coverage;

- The benefits of the extensive state supports to supplementary pensions accrue largely to those on higher incomes;

- An early, substantial improvement in the state pension has the potential to address poverty among current pensioners;

- Universal pension insurance can reduce risk to individuals because risk is shared across individuals and through time -a public pension system can incorporate risk sharing in ways not possible for private pension provision;

- Social insurance is an efficient solution to some problems of future pension provision because of risk and uncertainty relating to events that may occur in the future;

- If a substantial part of individual pension funds is swallowed up by administrative charges, it would mean that much of the Government subsidy would end up supporting pension providers rather than helping individuals to provide an adequate income in retirement;

The Board suggests that as well as improving the level of the state contributory pension, attention be given to the following points:

- The age differentiation in the pension payment (at present an extra payment for those over 80) could be re-designed to reflect age–related declines in other sources of income;

- The question of the level of the non-contributory pension of which there were 97,404 recipients in 2006 needs to be addressed;

- Because of the central role of the social insurance based pensions, and if future policy is predicated on access to these pensions, (as a it should be), it may be necessary to ensure that in future the entire retired population is included in insurance-based pensions.

The Board believes that the most effective way of meeting the challenge of increasing pension benefits and containing pension costs as the population ages would be to rely on the existing mandatory public system rather than increasing pension tax reliefs or introducing a mandatory private system. In doing so, there is a need to critically compare the cost and distribution of Exchequer support for the public and private pension systems and, in particular:

- whether it is appropriate that the Exchequer should be providing the same support through tax expenditure on private pensions as through direct expenditure on social insurance pensions; and

- whether the benefits of the tax expenditure should accrue predominantly to higher income earners.

The reality is that the State will continue to have to address issues of pensioner poverty and inadequate retirement incomes in future years.
A mandatory pension system in the private sector would not be a solution for many of the problems of the current pension system.