

The background of the entire page is a photograph of a tree with thin, light-colored branches against a pale sky. A semi-transparent teal band runs horizontally across the middle of the image, serving as a backdrop for the chapter title.

CHAPTER 05

THE SOCIAL WELFARE PENSION IN IRELAND

Introduction

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5.1 Social Welfare pensions are flat-rate payments with eligibility based on either achieving a particular level of social insurance contributions over a person's working life or through satisfying a means test. Means-tested payments are funded through taxation. Payments based on social insurance are funded through pay-related contributions made by employers, employees and the self-employed to the Social Insurance Fund. Those who are unable to contribute because of unemployment or illness are, subject to conditions, credited with contributions. Since 1994, arrangements are in place through the Homemaker's Scheme to protect the pension entitlements of those who spend time out of the workforce because of caring duties. There is also a system of voluntary contributions in place with eligibility to contribute subject to certain conditions. Details regarding the history of the Social Welfare pensions system, the qualifying conditions for the various payments and the manner in which these have developed over the years are set out in Appendix B.

5.2 Social Welfare pensions are not related to previous income (though it could be said that non-contributory payments are linked to retirement income as they are means tested) and are intended to cover basic living costs. Additional allowances are paid for dependants, those living alone and those aged over 80 years. In addition, supplements are provided to assist with meeting the costs of electricity, fuel in the winter months, telephone rental and a television licence. These benefits (except the fuel allowance) are available to all aged over 70. Everybody aged 66 and over is entitled to free travel on public transport.

5.3 Expenditure on the main pension schemes amounted to €3,279 million in 2006, or 24.1% of overall Social Welfare expenditure. At January 2007, the personal rate of payment on contributory pension schemes is €209.30 per week and €200⁶⁶ per week for non-contributory payments. The additional payment for a

dependent adult is €173 per week. These are the maximum rates paid, reduced rates are paid to those with incomplete social insurance records or means in excess of certain levels.

5.4 Means-testing remains an important, though declining, feature of pensions provided through the Social Welfare system. Since 1974, several important changes were made to the social insurance system with coverage extended to groups including the self-employed, part-time workers and new public servants. These changes are now feeding into the pensions system with more people qualifying for pensions based on their social insurance record rather than through means testing. Social insurance pensions have the advantages of being paid as of right and independent of any other income/earnings and they are usually paid at a higher rate than the means-tested equivalent.

5.5 As outlined in Appendix B, the Social Welfare pensions system has been improved on an incremental basis over the years. In general, this has involved reductions in the average contribution rate required for minimum pensions⁶⁷ and the introduction of different categories of pension to deal with various perceived anomalies and issues which have arisen from time to time. As a result, contributory payments are available on a much wider basis. That said, the minimum number of paid contributions required for pension purposes has been standardised at 260 from April 2002 and will, under current legislation, increase to 520 contributions in 2012 in line with the recommendations made in the Final Report of National Pensions Board (1993)⁶⁸.

5.6 The system of social insurance coverage for pensions is now comprehensive as a result of the changes which have been made to the qualifying conditions, extensions in the insurability of different classes of employment

⁶⁷ The standard qualifying conditions require that a person commence paying social insurance 10 years before reaching pension age, pay a minimum of 260 contributions at an appropriate rate and achieve a yearly average of at least 10 contributions paid or credited on their record from the time they first join social insurance until they reach pension age. An average of 48 is needed for a full pension.

⁶⁸ National Pensions Board (1993) "Developing the National Pensions System".

⁶⁶ The Government committed as part of the Programme for Government to achieving a rate of €200 per week by 2007 and this was achieved in Budget 2007.

(most notably the self-employed in 1988 and part-time workers in 1991), as well as increased employment participation across all sectors of society. In time, this will translate into a pensions system largely based on social insurance and with almost total coverage. The expanding role of social insurance pensions in the system is already apparent in the decrease of 17% over the last 10 years in the numbers relying on means-tested non-contributory pensions.

Current issues in relation to Social Welfare Pensions

5.7 The current issues in relation to Social Welfare pensions can be categorised under a number of broad headings:

- (i) Legacy issues arising from the structure of the system of social insurance which applied up until the late 1980s and early 1990s.
- (ii) Issues for older people's incomes as a result of societal norms which applied until the 1970s which meant that many women, particularly in the public service, were required to leave employment when they married.
- (iii) The manner in which the qualifying conditions for pensions are structured which can give rise to anomalies and create difficulties for people with less than complete insurance records, particularly where large gaps arise after a person first enters insurance.
- (iv) The relationship between the respective rates at which the contributory and non-contributory pensions are paid. A related issue is the extent to which the rates currently being paid achieve objectives in the area of poverty relief.
- (v) The appropriateness of the system of means testing for Qualified Adult payments.

These issues are discussed in more detail in the following sections.

The Social Insurance System from 1953 and its impact on pensions

5.8 The unified system of social insurance was introduced in 1953 and eligibility to contribute was, in some cases (mainly for non-manual workers), based on income. In 1953, the income limit was the equivalent of €761 per annum and this was increased over the years until the limit was abolished in 1974. Some categories, such as the self-employed and part-time workers, were excluded from social insurance altogether. Where a person exceeded the income limit it was open to them to become voluntary contributors.

5.9 Not everyone was insured at full rates with some, mostly public sector workers, contributing at modified rates. It was considered that their conditions of employment, providing for sickness and retirement, made full coverage under the Social Welfare system unnecessary in their case.

5.10 There was little change in the coverage of the social insurance system until 1974 when, as already indicated, the insurable income limit for non-manual workers was abolished. Further expansion of the system occurred over the following 20 years as follows:

- 1979: pay-related social insurance contributions introduced;
- 1988: the self-employed became compulsorily insured;
- 1991: part-time workers were brought into the system;
- 1994: Homemaker's Scheme introduced to protect Social Welfare pension rights of those leaving the paid workforce for caring duties
- 1995: public service workers recruited after 6 April 1995 became fully insured for Social Welfare purposes, including pensions. At the same time, their occupational pensions were adjusted to integrate them with Social Welfare pensions to arrive at the overall pension promised.

5.11 Generally speaking, changes to insurability have operated from the date new measures

were introduced⁶⁹. While this matters little to someone who became insured for the first time as a result of these changes, pension entitlements can be affected where people moved in and out of insurance. For instance, a person who first became insured in say, 1955, paid insurance until 1957, exceeded the income limit and was not insured again until 1974 when the income limit was abolished, will have the period from 1957 to 1974 counted when their insurance record is being averaged. If only the years in which insurance was paid were counted the person would, assuming no gaps in these years, end up with a yearly average of 52 contributions in 2006. If the years of non-insurance are included in the equation, the average decreases to 32. In monetary terms, the impact on the level of pension received is relatively small at these levels (€4.10 per week at 2007 rates) but once the yearly average drops below 20 the impact can be very significant with differences in rate bands of €48 per week.

- 5.12** With few exceptions⁷⁰, the average contribution rate is calculated using the period from the first day a person becomes insured until the end of the last contribution year before they reach pension age. As indicated, this will impact on pension entitlements where there are significant gaps in a person's insurance record and can result in a reduced payment, or worse, no pension being paid. The only way in which this particular problem could be addressed in the context of the existing arrangements would be to disregard certain years e.g. years of exclusion from social insurance, caring or spent abroad. Alternatively, a cap could be placed on the years used for averaging e.g. use a person's 30 best years of insurance. However, as will be seen in the following chapter, the total number of contributions with which people are qualifying for pensions is already quite low and, accordingly, measures such as this might be seen as undermining the contributory principle underlying entitlement and could make it difficult to set a reasonable benchmark for future entitlements in the context of a change

to a system based on total contributions paid or credited (see Chapter 6).

Caring and Pension Entitlements

- 5.13** The Homemaker's Scheme, introduced in 1994, is designed to protect the pension entitlements of those who leave the workforce to care for children under 12 years of age or an incapacitated child or adult who needs full-time care and attention. The scheme operates by disregarding up to 20 years spent caring when a person's social insurance record is being averaged for pension purposes. However, the scheme will not of itself qualify a person for a pension as the standard qualifying conditions in relation to paid contributions must also be satisfied.

- 5.14** In common with most changes to social insurance, the scheme, when introduced, operated from a current date [1994]. Accordingly, the scheme is not yet a factor in deciding pension applications, as those who will benefit from the scheme are generally some way off pension age.

- 5.15** Recipients of Carer's Allowance and Carer's Benefit may be entitled to receive credited contributions if their last PRSI contribution was made within two years of claiming the allowance or benefit. The credit is awarded at the same class as the last paid contribution.

- 5.16** The main criticism of the Homemaker's Scheme is that it fails to recognise periods spent caring prior to 1994. This can result in very significant gaps in social insurance records that will reduce a person's average contribution rate and may also affect the rate at which their pension is paid. This can have implications for women returning to employment after many years out of the workforce as well as those who never returned. More than likely, the latter will not qualify for any payment in their own right but they will receive support as a qualified adult on the pension of their spouse or partner. Couples can, since 2002, arrange to have the qualified adult allowance paid directly to the spouse or partner and, since September 2007, a separate

69 In the case of the self-employed earlier insurance contributions can be ignored in the case of a person who entered insurance in April 1988 under the new arrangements introduced at that time.

70 A person's insurance record can be averaged from 1979 but only to qualify for a full rate pension.

payment to a spouse or partner will be the default arrangement for new claims to pension.

5.17 The scheme's practice of disregarding years rather than awarding credits has been criticised. Firstly, the use of the term 'disregard' is considered inappropriate because it is considered that it does not adequately reflect and recognise the contribution which full-time carers of children and incapacitated people make to society. Secondly, awarding credits can be more advantageous than a disregard when averaging for pension purposes. The extent of this advantage will depend on the nature of the individual's contribution record (see below).

Disregards vs Credits in the Homemaker's Scheme

For example: Person A was born in 1960. She entered social insurance in 1978 at age 18. She will reach age 66 (qualifying age for State Pension (Contributory)) in 2026. This is a "working life" of 48 years. Assume she paid 520 contributions (10 years) and spent 20 years homemaking. The following outlines her entitlement to State Pension (Contributory) in 3 different scenarios

Scenario (a) - no homemaker credits or disregards. The yearly average is 10.8 (520/48) and gives entitlement to a 50% pension.

Scenario (b) - 20 years homemaker disregard. The yearly average is 18.57 (520/28) and gives entitlement to a 75% pension.

Scenario (c) - 20 years homemaker credits. The yearly average is 32.5 [(520+1040)/48] giving entitlement to 98% pension.

5.18 One of the main issues raised in relation to the scheme is the position of women who left employment on marriage through the operation of the marriage bar in the public service or voluntarily as a result of the societal norms which applied at the time. This group consider that they were denied the opportunity to establish their own pension rights. Under

the present system, people in that situation may consider that:

- there is no formal recognition of their work in the home;
- they do not receive a payment in their own right;
- they were not afforded the opportunity to contribute towards a pension in their own right because many were forced to leave employment. In this context, however, those in the public service did not, and would not have been contributing to a social insurance old age pension even if they had been allowed to remain in employment. Accordingly, it could be argued that the issue in relation to the marriage bar is one that is more appropriately dealt with in the context of public service occupational pensions and employment policies;
- the application, from 1994 only, of Homemaker arrangements is of no benefit to older homemakers. In addition, the current system only benefits those who have paid full rate PRSI at some stage. In this regard, it is worth stating that it has always been possible for a full rate PRSI contributor to maintain his or her record through voluntary contributions. Changes in the way in which qualified adult allowances are paid will benefit many in this position where their spouse qualifies for a contributory pension.

5.19 A review of qualifying conditions for Old Age Contributory and Retirement Pensions⁷¹ published in 2000 suggested that, in principle, the Homemaker's Scheme should be backdated and that the disregard system should be replaced with one based on the award of credits although, as will be outlined later, there are equity issues to be considered vis-a-vis the position of other categories excluded from social insurance over the years.

The Operation of the Average Contributions Test

5.20 The average contribution test is a major element of the qualifying conditions for

71 Now State Pension (contributory) and State Pension (Transition)

Table 5.1: Total Contributions paid or credited v average contribution rate achieved (%)

Average* Contributions	156 to 259	260 to 519	520 to 1,039	1,040 to 1,559	1,560 to 2,079	>2,079
10 to 14	0.04	3.86	7.71			
15 to 19		0.55	9.90			
20/24 to 47	0.07	2.40	12.36	11.90	4.40	0.91
48 or over		0.18	22.50	16.67	2.44	4.11
Total	0.11	6.99	52.47	28.57	6.84	5.02

*Average contributions required for different rates of pension. Average 10 gives a 50% pension while 48+ gives a full rate.

contributory pensions. This requires that a person achieve a yearly average of at least 10 contributions on his/her social insurance record for a minimum pension⁷², with an average of 48 contributions for a maximum rate pension.

5.21 There are two main issues in relation to the average contributions test. The first relates to the impact it can have on entitlements when there are significant gaps in a person's record and this has already been illustrated at paragraph 5.11 in the context of changes to the PRSI system. The second issue relates to a lack of consistency in the relationship between contributions made and pensions awarded.

5.22 The operation of the average contributions test can give rise to anomalous situations, as the level of payment achieved may not reflect the total number of contributions a person has accumulated over their working life. For example, a person with 500 contributions may receive a higher rate of payment than a person with 1,000 contributions, depending on when each person first entered social insurance. As can be seen from the following table relating to claims to State Pension (Contributory) from May 2006, people are qualifying for maximum rate pension with the equivalent of 10 years of contributions while others can have in excess of the equivalent of 40 years of contributions. For example, 52.47% of people have the equivalent of between 10 and 20 years' contributions (520-1,039). However, 22.5% of those qualifying for the contributory pension receive a full-rate pension for this amount of contributions while 7.71% of those with the same level of contributions receive a 50% pension due to a reduced average.

5.23 The qualifying conditions for contributory pensions largely date from 1961 when the Old Age Contributory Pension was first introduced. While changes have been introduced over the years to make qualification easier and to provide for situations where people have different classes of social insurance contributions or contributions in other countries, the basic principles introduced in 1961 still apply. These were designed at the time to ensure that people could qualify for a pension from the outset rather than having a long lead in time before pensions started to be paid. They were also designed to suit a social insurance system that was less than comprehensive, and involved some people moving in and out of coverage, depending on their income.

5.24 The National Pensions Board, in its final report, summarised the situation as follows:

"On the one hand, certain categories of insured persons can qualify for a rate of pension which is much higher than the period of insurance completed justifies. On the other hand insured persons fail to qualify for any pension payment despite having contributed for significant periods".

5.25 It has been suggested that switching to a total contributions approach would be a more transparent and equitable way of assessing eligibility for pensions. However, as will be seen later, this may not be feasible in the short to medium term because of the inconsistent nature of the contribution records of those qualifying for pension today as a result of the continuing impact that previous gaps in social insurance coverage are still having on the records of older workers.

72 50% of maximum rate

Differential between contributory and non-contributory payment rates

- 5.26** Another relevant issue relates to the rate of payment of contributory and non-contributory pensions. Traditionally, contributory pensions are paid at a higher rate than their non-contributory equivalents in recognition of the contribution such people have made to the social insurance system over their working lives.
- 5.27** The counter argument is that if the function of the Social Welfare pensions system is to provide for basic living costs so that people do not live in poverty, then the rates should be aligned at a level which will ensure that everyone (particularly those relying solely on Social Welfare pensions) will be above that level. On the other hand, this does not necessarily rule out a premium on social insurance rates provided the non-contributory equivalent is set at a level which will provide an income that is above poverty thresholds, though some may view this as an unnecessary additional overhead on overall pension costs.
- 5.28** In relation to poverty thresholds there are, of course, differing views on the appropriateness of various poverty measures. In Ireland, Government policy is to use consistent poverty. The 2005 SILC report published by the CSO estimates that the level of consistent poverty among older people in 2005 was 3.7% compared to 7% generally. However, the standard used at EU level is 60% of median equivalised income and the rates at which pensions were paid over a number of years have not been sufficient to ensure that the EU poverty thresholds are cleared for all pensioners. However, the 2005 EU SILC survey also shows an improvement in this area with the poverty risk based on relative incomes falling from 27% in 2004 to just over 20% in 2005. There is a view that a formal indexing arrangement for pensions is required to ensure that payments keep pace with movements in income generally. On the other hand, setting payment rates from Budget to Budget allows Government the flexibility to respond quickly to general economic conditions and, as is evident from the significant pension

increases granted in recent years, this can also be beneficial for pensioners. Different indexing arrangements are discussed in more detail in Chapter 6.

- 5.29** There have been differing views over the years on the relationship between contributory and non-contributory pensions. The Commission on Social Welfare (1986) recommended that a uniform differential of the order of 10% should be maintained between social insurance and social assistance payments. The Commission saw this as being necessary *“to preserve the acceptability of the social insurance concept”*. In arriving at its conclusion, the Commission considered arguments that the most important principle which should underlie payments is adequacy in relation to need. On the other hand, the National Pensions Board (1993) in its report considered that *“the fact that contributors are entitled under social insurance to pensions on a non-means tested basis provides sufficient recognition of the contributory principle underlying social insurance.”*
- 5.30** The differential between the contributory and non-contributory schemes currently stands at less than 5% but it has been in decline for the last 10 years. In 1996, contributory pensioners received a premium of about 14% on their pensions. The full year cost of equalising the contributory and non-contributory rates (with means testing maintained) is estimated at €46 million, based on 2007 rates.

Means Testing of Increases for Qualified Adults

- 5.31** All contributory pensions include, where appropriate, an increase for a dependent spouse or partner. However, this increase is means-tested with a full increase payable where a spouse's income is less than €100 per week, with reduced rates payable until income exceeds €250 per week. Unlike the means test for non-contributory payments, a household means test does not apply, i.e. a decision is made on the basis of the income enjoyed by the qualified adult only. However, where capital or property (other than the family home) is jointly owned, then the qualified adult will be assessed

with 50% of any actual/notional income or capital value deriving from that asset.

5.32 Issues have been raised in relation to the appropriateness of this approach, particularly by the farming community, though representations have also been received from couples owning second houses or bank accounts in joint names. The farming community have also raised the question of the insurability of spouses who assist with the operation of a farm and this issue also has relevance for self-employed people in general where both of a couple are involved in running a business. This question is discussed in Chapter 6.

5.33 This system of means testing has its origins in the implementation of the EU Directive (79/7/EEC) which dealt with equality of treatment between men and women in matters of social security. At that time, married women were discriminated against in a number of ways by the Social Welfare system. In certain circumstances, they received lower rates of payment, the duration of benefits was shorter than those applying to men, they were effectively debarred from applying for assistance and they could only receive an increase for a dependent husband where he was invalided (a man qualified for the allowance no matter what the income/employment status of his wife). There were also difficulties in relation to the payment of increases for child dependants.

5.34 It was considered at the time that: *"If equal treatment were applied by simply giving married women exactly the same rights married men now have, it would lead to ludicrous results.... Simply to extend to women the present conditions which men enjoy would mean that a wasteful and inequitable payment of adult and child dependant increases, even in respect of spouses at work in well-paid employment would be expanded enormously..."* Accordingly, it was decided to redefine dependency in economic terms rather than basing it on gender or marital status ... *"one spouse will be regarded as dependent on the other spouse only if he or she is being wholly maintained by that spouse"*⁷³.

5.35 When introduced, the Qualified Adult Increase was payable in full where income was below a certain threshold and withdrawn completely once income exceeded the threshold. In 1997, the income threshold was €76.18. This created a poverty trap which was highlighted in various reports including the Report of the Review Group on the Treatment of Households in the Social Welfare Code (1991), the Second Commission on the Status of Women (1993) and the Expert Working Group on the Integration of the Tax and Social Welfare Systems (1996). Partnership 2000, a social partnership agreement which ran for three years from 1997, also provided for measures to alleviate this poverty trap.

5.36 Budget 1997 provided for the introduction of a tapered withdrawal of the Qualified Adult Increase with full payment being made where the income of the spouse or partner was up to €76.18 per week and reduced rates payable until income exceeded €114.28. Initially the tapered withdrawal was only introduced for a range of short-term benefits such as Disability Benefit (now Illness Benefit) and Unemployment Benefit (now Jobseeker's Benefit) and their non-contributory equivalents. The arrangements were extended to contributory pensions in 2000.

5.37 It has been argued that means testing has no place in a social insurance type scheme. The purpose of the social insurance system is to provide income in the event of a person experiencing certain contingencies and it could be said that the existence of a spouse in a household who is "wholly or mainly maintained" by the insured person is part of the contingency covered.

5.38 In a pensions context, the means testing of qualified adult increases gives rise to particular difficulties. As already indicated, representations in this area have generally come from organisations representing farmers, and centre on cases where property is in joint ownership. Where such arrangements exist, half the actual income or capital value of the property is assessed against the qualified adult and may, depending on the income assessed, result in no payment being made in respect of the spouse or partner.

73 Dáil Éireann – Volume 359 – 25th June 1985. Social Welfare (Amendment) (No. 2) Bill, 1984. Minister for Social Welfare (Mr B Desmond).

- 5.39** These arrangements have been criticised because, on the one hand, in the context of paying social insurance, they do not recognise the shared ownership and divide the income for the purposes of assessing social insurance contributions while, on the other hand, when a person reaches pension age an income is attributed to them for the purposes of deciding on their entitlement to a qualified adult increase.
- 5.40** Where couples are concerned, the general view is that the preferred arrangement is for property and capital generally to be in joint ownership. It could be argued that the arrangements for payment of qualified adult increases militate against this.
- 5.41** Government policy is for people to maximise the income they can have in retirement and to allow as many people as possible to receive a personal payment. In the circumstances, some adjustments to the manner in which means are assessed in these cases might be appropriate. Another option might be a significant increase in the income levels at which the qualified adult increase continues to be paid to ensure that only those at higher income levels do not receive the payment.⁷⁴ However, any changes in the arrangements for pensioners would need to have regard to similar arrangements which are also currently in place for qualified adults in other social insurance schemes. Obviously, the cost of any improvement would depend on the extent of reform introduced but the maximum potential cost is approximately €36 million in a full year.

The Social Welfare Pension in Ireland

This chapter identifies and discusses the main issues which have arisen in relation to the Social Welfare pension system. In the main, the issues identified have arisen because of the limited coverage of the social insurance system up until the late 1980s and early 1990s, and societal norms which applied until the early 1970s. The manner in which the qualifying conditions for pensions are designed, particularly the average contribution test, can give rise to difficulties and there are also issues in relation to the use of means testing in relation to contributory payments. The appropriateness of the rates of payment, vis-à-vis the objectives of the Social Welfare system, is also an area which could be looked at. Possible approaches to the future development of the system are set out in the next chapter.

⁷⁴ There is a commitment in the Programme for Government to increase the income limits to enable more people to qualify.

