1. INTRODUCTION

The Green Paper on Pensions considers the future development of the Irish pensions system with reference to issues of adequacy, sustainability and modernisation. The National Council on Ageing and Older People (NCAOP) welcomes the publication of the Paper and the opportunity to comment on issues critical to the welfare of older people.

2. PENSION ADEQUACY

2.1 Income Replacement Targets

Pension adequacy is about the maintenance of a level of retirement income which is adequately related to pre-retirement income. Within the OECD, for workers on average earnings, the average gross replacement rate from mandatory pensions in 2007 was 58.7 per cent, with the lowest replacement rates for average earners paid in the United Kingdom, Ireland and Japan. For Irish workers on median earnings, the gross replacement rate was 38.2 per cent (OECD, 2007: 32-33). The Pensions Board (PB) has set an income target of 50 per cent of gross-retirement earnings as the appropriate target to secure income adequacy in retirement.

The Council accepts the target replacement rate set by the Pensions Board.

2.2 Poverty and Adequacy

The importance of social transfers including Old Age benefits in the income of older people is evident from SILC data which show that 13.6 per cent of people aged 65+ were at risk of poverty in 2006. Excluding all social transfers, the percentage of older people at risk of poverty rose to 85.9 per cent (CSO, 2007a). The risk of poverty threshold in 2006 was €202.49 per week based on equivalised net disposable income. The percentage of older people in consistent poverty (i.e. at 60 per cent median income level and using basic life-style indicators) in 2006 was 2.1 per cent.
SILC data also show the concentration of older people in the lowest income deciles. Of the population in the lowest income decile with a weekly threshold of €174.32, 5.6 per cent of persons were older; in the second lowest decile with a weekly threshold of €212.73, 19.0 per cent of persons were older and in the third lowest decile with an income threshold of €248.19, 30 per cent of persons were older.

The Council is concerned about older people who are not protected from the risk of poverty, as measured by the risk of poverty threshold, by the State pension system and recommends targeted action to address their needs. The Council also recognises that further information about this ‘at risk’ group of older people is needed to underpin social protection planning in their regard.

The Council is also concerned about older people who are at risk of poverty, and marginally above the risk of poverty threshold, particularly in the context of their lack of entitlement and/or access to a range of home, community and long-term care health and social care services, and housing supports. Many of these services are either (a) available on a discretionary basis or (b) nominally available as an entitlement, but inaccessible through under-resourcing within the public system. Furthermore, co-payment is increasingly a feature of access to such services. The Council notes the fact that the consistent poverty measure does not capture data about significant determinants of income adequacy and well-being for older people, notably their access to core home, community and long-term care health and social care services, and housing supports. The Council recommends that the adequacy of older people’s pension requirements be considered in the context of levels of public provision of health and social care services, and housing supports.

2.3 New Target

The National Pensions Initiative recommended that social welfare pensions should amount to 34 per cent of gross average industrial earnings (GAIE) and the State pension (Contributory) now meets that target. More recently, the Pensions Board has concluded that the most appropriate and practical approach to improving the position of pensioners in Ireland would be the introduction of a hybrid model: that is a combination of an increase in the State pension with a mandatory supplementary system, called Special Savings for Retirement (SSRAs) for those at work who are not making supplementary provision\(^1\). The PB recommended that the State pension (Contributory) be increased to 40 per cent of GAIE over ten years until 2016 and that the real value of pensions be maintained at least at that proportion of GAIE thereafter (PB 2006: 18).

The Council has had a longstanding view that State pensions should be indexed to net average earnings and at such a rate that income poverty for those dependent on State pensions does not become institutionalised. The Council has previously endorsed the 34 per cent of GAIE target established by the National Pensions Initiative. The Council has also previously recommended that differentials between Contributory and Non-Contributory pension rates should be removed and re-states that recommendation on this occasion.

\(^1\) The Pensions Board member nominated by the Minister for Finance believes that the Board’s recommendation does not comprise a workable option.
The advantages (as well as the disadvantages) of increasing the value of State pensions have been cited in the Green Paper and elsewhere. The advantages are that it would be conceptually simple, administratively easy, progressively redistributive, involve low charges to workers and pensioners and carry advantages for workers who do not currently fare well in supplementary pension provision (see below).

In the context of pension reform, the Council supports the target of 40 per cent of gross average industrial earnings for State pensions.

2.4 The Home-Maker’s Scheme

The Council has previously expressed concerns about the current cohort of older women who have been excluded from the Homemaker’s Scheme since it was introduced in 1994. Options for back-dating the Scheme are set out in the Green Paper with the proviso that the scheme cannot deal with the position of public servants who left employment as a result of the marriage bar. The Green Paper points out that back-dating the Scheme to 1953 would be administratively difficult and costly but would potentially benefit a larger proportion of women, including those who are currently over pension age. Back-dating the Scheme to 1973/74 would benefit existing pensioners and those nearing pension age though, the Green Paper acknowledges, to a lesser extent than if the Scheme operated from 1953.

The Equality Authority has previously recommended that the question of extending the Homemaker’s Scheme to older women should be addressed with a view to allowing as many of the women concerned as possible to qualify for pension entitlements in their own right. The Council has previously supported this recommendation and proposes that retrospective backdating to 1953 be actively considered by the Department of Social and Family Affairs.

The Council remains concerned about the situation of public servants who left employment because of the marriage bar and believes that their specific needs should be addressed through a special initiative within the context of pension reform arising from the Green Paper Consultation.

2.5 Pension Adequacy, Coverage And Supplementary Pensions

Pension adequacy issues also arise for people who are not solely reliant on Social Welfare pensions but who have supplementary pensions. The PB has said that most public service pension schemes and the majority of private sector defined benefit (DB) schemes will provide adequate pension cover. However, because of typical contribution levels, commonly about 10 per cent of income, the great majority of defined contribution (DC) scheme members are unlikely to have a retirement income equal to or greater than the 50 per cent target. Levels of contribution to PRSAs and RACs (Retirement Annuity Contracts) are lower than those for Occupational Pension Schemes and issues of pension adequacy will also arise for members of these schemes for this reason (PB, 2005: 6). The Green Paper recognises the main concerns arising from the declining proportion of DB membership as (1) retirement benefits that are too low given contribution rates for...
DC schemes and (2) a change in the allocation of risk from employers to employees.

### 2.6 Data Deficits

In terms of supplementary pension coverage rates, the target proposed by the PB is 70 per cent of the working population between age 30 and 65. Current coverage for this group is 62 per cent. Despite improvements, the PB points that certain groups remain hard to reach through supplementary pensions. These include part-time workers, workers in sectors with traditionally low coverage (e.g. agriculture, construction), women and groups outside the labour market. The PB has also pointed out that there are drawbacks to a single measure of supplementary pension coverage and that the greatest obstacle to a more precise coverage target is the unavailability of pension coverage data by income limit. Sparse data on non-pensions savings and property investment have also been identified as issues (NPR, 2005: 34). Lack of data on pensions savings over the life-course has also been identified as an issue that could be addressed by repeated panel surveys (Whitehouse, 2008).

The Council recommends that the data deficits regarding supplementary pension provision, non-pensions savings and property investment should be addressed by the relevant bodies, including the Office for Older People, under the leadership of the Minister for Social and Family Affairs.

### 2.7 Second Pillar Pension Provision

In the context of second pillar provision for those who are not already making second pillar provision, the PB has considered both mandatory and soft mandatory options. Whether the second pillar option should be established within the public or private system is not spelled out though the indicators are that the private system is favoured.

The PB has pointed out that the design of a mandatory supplementary pension system is extremely complex and that new structures will be required to include contribution collection and supervision mechanisms, compliance monitoring and harmonisation arrangements for existing schemes; as well as a fundamental decision as to how much contributors will be exposed to market investment and its resulting volatility (PB, 2006: 15). The PB has also pointed out that there is a great deal of support in Ireland and worldwide for soft mandatory pension systems i.e. systems where eligible workers are obliged to join, but have the right to opt out and cease contributing if they wish. Issues identified in relation to a soft mandatory system include: unpredictable levels of take-up; smaller numbers of participants; and supervision of compliance. On the other hand, a soft mandatory system would, it is said, be less disruptive of existing occupational pension arrangements than a mandatory supplementary scheme. The Council has not previously taken a view on mandatory or soft mandatory second pillar pension provision.

Regarding voluntary second pillar pension provision, the Council has previously concurred with the view that as many people as possible should be encouraged to make second pillar provision of occupational and private pensions for themselves.
On balance, the Council finds the arguments for a mandatory, rather than soft mandatory, system of second pillar pension provision more convincing in terms of meeting needs for pension coverage and adequacy. The Council recognises the difficulties inherent in a mandatory system but draws attention to the proposal that criteria for once-off opt-outs of a mandatory system might be developed within a social partnership framework (Duncan, 2008).

2.8 Option for Second Pillar Provision

Neither the Pensions Board nor the Department of Social and Family Affairs, as author of the Green Paper, has evaluated the comparative capacity of the public and private pension systems to deliver adequate levels of pension benefit to future pensioners (Hughes and Stewart, 2007: 43; O’Connell, 2008). Issues arising in relation to the private system include: the costs to members of DC schemes; capacity to provide adequate retirement incomes for low-paid workers/hard to reach groups; the exposure of individual employees to higher levels of risk; and the extent to which administration charges reduce the ultimate value of a pension pot.

TASC and the TCD Pension Policy Research Group have recommended that the State pension should be increased to a level that will eliminate the risk of poverty in retirement and the provision of an additional component for those without supplementary cover. Their recommendation regarding this additional component is that: “The existing social welfare system should be examined to assess 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. Such a solution should also be accompanied by a reduction in tax reliefs, and greater flexibility in the choice of retirement age so that those who wish to may increase pension payments by increasing the contribution period” (Hughes and Stewart, 2007: 46).

In the case of financing of long-term care of older people, the Council has previously recommended a funding system based on social insurance and underlying principles of risk pooling and inter-generational solidarity. In keeping with those principles, the Council endorses the recommendation that the existing State system should be examined to assess the feasibility and costs of a mandatory earnings related second tier state pension.

3. SUSTAINABILITY

3.1 Concern about First Pillar Provision

Ireland’s social protection expenditure on old age and survivors represented 3.8 per cent of GDP in 2004 compared with an EU average of 12 per cent of GDP (CSO, 2007b: 41). Other European countries are currently sustaining levels of social protection expenditure that, the Green Paper says, will be unsustainable for Ireland in 2050. Nonetheless, the increasing costs of first pillar pension provision have been identified as a concern in the Green Paper. The underlying cause of increasing first pillar costs is that the ratio of those at work to those aged over 65 is projected to change from 4.3 people at work for each person aged over 65 in 2006 to 2.7 for each 1 in 2026 and 1.4 for each one in 2056 (PB, 2005: 7).
3.2 Options

Projections about the size of the working age population are highly sensitive to fertility and migration assumptions and projections about the future costs of first pillar provision are also sensitive to assumptions about economic growth. However, working with the assumptions set out in the Green Paper, a range of adjustments to the existing policy mix have been proposed in response to the increasing costs of first pillar pension provision.

These include:

- increasing Exchequer savings (through raising taxes or reducing spending elsewhere) and/or private savings;
- easing upward spending pressures;
- raising the retirement age;
- increasing the share of the population at work; and
- improving the economy’s productive capacity and overall competitiveness.

With regard to increasing Exchequer and/or individual savings, the Council re-states:

- support for the maintenance of the principle of adequacy in the case of first pillar pension provision;
- concern for groups who have already been hard to reach in terms of supplementary pension cover, since many of those in question are on lower incomes and/or absent from the labour force for family care reasons, and significant pension saving is unlikely to be a realistic option in their circumstances;
- and concern about the adequacy of pensions ultimately available to individuals contributing to DC pension savings schemes.

3.3 Tax Incentives

The Green Paper includes a welcome review of the current regime of incentives for supplementary pension provision. The total estimated cost of tax and PRSI (including Health levy) relief for private pension provision in 2006 was €2.9 billion (DoSFA, 2007a). Social welfare expenditure on payments for older people (Social Insurance State Pension, Contributory and Transition and Social Assistance Pension, Non-Contributory and Pre-Retirement Allowance) in 2006 was €3.3 billion (DoSFA, 2007b).

Inequities in the current system of tax reliefs for private pension provision which benefit a smaller proportion of the labour force – unlike the State system – and higher income earners have been discussed by many commentators (Whitehouse, 2008). It has been pointed out that more than three quarters of the tax relief on private pension contributions by the self-employed goes to the top quintile and less
than one half of a per cent goes to the bottom quintile of self-employed. With regard to employees, around two thirds of the tax relief on employee contributions goes to the highest paid employees in the top quintile while only one per cent goes to the lowest paid employees in the bottom quintile (Hughes and Stewart, 2007: 86).

The Council’s recommendation is that, in the interests of equity and the appropriate use of public resources, the current system of tax incentives for supplementary private provision should be reviewed and re-orientated to benefit lower income groups.

3.4 Retirement Age

The PB has stated that, if the age from which first pillar pensions are paid was raised for all, there would be a reduction of approximately 5 per cent of the total cost each year by which the retirement age was raised.

The PB has recommended that retirees should be offered the option of deferring their first pillar pension in exchange for a larger pension at a later date. The Council has previously stated that the right to work and the right to pensions must co-exist. The Council is open to consideration of the PB proposal and other proposals of a similar nature with the proviso that further research and analysis is needed to determine how best to implement such a recommendation as an option so that it aligns with the needs and preferences of older people.

The Green Paper states that Government policy is to facilitate those who wish to extend their working lives. The average exit age from the labour market in Ireland was 64.1 years in 2005, compared to the average EU25 age of 60.9 years. The current employment rate for older people (55-64 years) is over 53 per cent. The PB has considered the recommendation that members of Occupational Pension Schemes (OPS) should have the option of remaining in employment beyond the retirement age of their OPS and accrue additional pension entitlements. This proposal is intended to affect only those who wish to remain in employment and would be implemented by prohibiting the imposition of mandatory retirement, or by prohibiting mandatory retirement before ages of 68 to 70, except for a small number of occupations.

In principle, the Council believes that mandatory retirement ages are inherently ageist and favours their removal. In the Council’s view, older people should have the option, but not the compulsion, to work beyond the current norm of 65 years. The Council also recognises the need for further research and analysis with reference to the implementation of this recommendation and the possible exclusion of certain groups and categories from the option of working in later years.

Findings from research previously commissioned by the Council have shown that there is a strong preference for gradual retirement among older workers (i.e. gradually reduce the number of hours or days worked before stopping completely) (Fahey and Russell, 2001).
The Council affirms its longstanding recommendation that policy on pensions and retirement ages be amended to accommodate the provision of gradual and flexible retirement.

3.5 Ill-Health And Disability

Almost a third of respondents in the Fahey and Russell study cited ill-health and disability as a reason for retirement. Among those who had already retired, a quarter of respondents agreed or strongly agreed that they would have continued working if their employers had been more accommodating.

The Council is conscious that ill-health or onset of disability may trigger unnecessarily early exit from the labour force with adverse implications for individuals and for social protection systems. In this context, the Council affirms its earlier recommendation that greater attention be paid to policies relating to the employment circumstances of all older workers, including those who have poor health, and that more flexibility be introduced into employment practices to meet employees’ changing needs.

3.6 Discrimination

The Council has previously highlighted perceived discrimination (direct and indirect) in the workplace and stated that, as yet, there is no clear understanding about how age discrimination operates in the workplace.

The Council affirms its earlier recommendation that a dual strategy for tackling age discrimination should be adopted whereby older people are informed about their rights as workers and employers are made aware of their legal obligations in relation to discrimination in the workplace.

4. MODERNISATION

4.1 A Holistic Approach To Public Policy

Any modern pension system must take account of societal care needs. The care of children, of people with disabilities and of older people who have become frail and ill is a concern not alone for their individual relatives – most often female – but for society as a whole. Increased fertility rates would, for example, modify current Pensioner Support Ratio projections and alter the picture as presented in the Green Paper regarding the future sustainability of the Irish pension system. Interestingly, the Pensions Board has not given any significant consideration to the gender dimensions of pensions policy. Too often debates about (a) childcare facilities and female labour force participation, (b) the provision of care as a societal “good” rather than an individualised and private arrangement, and (c) pensions policy are conducted separately from each other rather than as inter-related strands of public policy.

The reality is that today’s older Irish women have been penalised for fulfilling societal roles as mothers and carers in the past. This is all the more worrying since women form a majority of the older population and are most disproportionately
represented amongst the ‘oldest old’. Furthermore, the younger women (and men) of today who take time out of the labour force to care for young children will continue to be penalised in terms of their pensions unless pension systems are designed to take account of societal care needs.

The National Women’s Council has engaged with these issues and introduced a welcome gender perspective into the debate on pensions policy. The NWCI has put forward the view that: “No reform can be complete without the development of a care contingency that enables care work to be facilitated and respected, and that enables women to have pension cover and maintain pension contribution records during key stages of care” (NWCI, 2008: 4).

The Council recommends that proposals for pension reform should integrate measures to promote pension adequacy and coverage with measures to address the social protection needs of individuals who are meeting societal care needs.

4.2 Charges, Costs And Returns

As noted above, concerns are frequently expressed about the scale of the administration charges associated with private pensions and about the uncertain returns on DC pensions relative to costs to individuals. These concerns raise issues in terms of the inherent complexity of pensions information, the transparency or otherwise of information made available by providers and the “financial literacy” of beneficiaries i.e. their capacity to understand and evaluate the information that is provided to them about the charges, costs and returns associated with diverse pension plans and providers.

The Council recommends that, as part of the pension reform process, a named body should be charged with promoting financial literacy. This body should provide information to the public about the types of charges associated with voluntary pensions and about high and low cost pension funds. League tables should also be made available to enable beneficiaries to compare and contrast costs associated with different funds.

5. FINAL COMMENT

The Council has outlined a number of issues for consideration by the Department of Social and Family Affairs. Should the Department require a more detailed presentation of any of the issues raised in this Submission, the Council would be pleased to assist in this regard.
REFERENCES


