

Social Welfare Pensions - Key Questions for the Seminar

1. What do you think the purpose of the social welfare pension is for – a minimum income to prevent poverty or income replacement?
2. It is expected that, in time, almost everyone will qualify for a contributory pension. In these circumstances, would maintaining the status quo be a reasonable approach – no further changes necessary?
3. If maintaining the status quo is not acceptable should everyone be entitled to a social welfare pension (universal pension), even if they have not paid PRSI or cannot satisfy a means test? On what basis should this pension be paid?
4. If paying a pension to everyone is not the correct approach, are there particular groups not getting pensions at the moment who should be selected for special attention – e.g. older women who do not qualify for a pension because they left work to care for children?
5. The cost of social welfare pensions will increase significantly in the decades ahead. How can these additional costs be met without overburdening future generations with increased PRSI and taxes – e.g. increase working age?
6. What other issues relating to social welfare pensions should be addressed?
7. Should measures be put in place to encourage people to retire later and defer their pension? What can the Government, employers and employees do?
8. Should the Government set a higher pension age (for social welfare, occupational pensions or both?)

Social Welfare Pensions

1. Introduction

The purpose of this workshop is to consider issues related to social welfare pensions. In addition, the question of longer working and raising retirement age could be considered.

The objective of this workshop is to discuss these issues and feed these views back to the plenary. In particular, the workshop should identify three or four priority issues which it would like the plenary group to consider.

The length of the workshop will be approximately 1 hour and 15 minutes and the aim is to devote the first hour to general discussion and the final 15 minutes to identifying and agreeing the key priorities and issues to be reported back to the closing plenary session.

While not all issues raised in the workshop can be reported back to the plenary, please be assured that the full discussion will be reflected in an overall report of the consultation process, which will be prepared by the Department of Social Protection to inform the development of future pensions policy.

2. **State Pensions and social insurance, past and future developments**

The present system of social insurance was introduced in 1953. However, when it was introduced the system was less than comprehensive, with people excluded from the system by virtue of their level of earnings, or the nature of their employment.

Through a series of reforms spanning a period of 20 years from about 1973, these exclusions were eliminated with the result that the system is now very comprehensive covering almost all those in employment or self-employment. In addition, the Homemakers Scheme was introduced from 1994 to cover periods people spend out of the workforce on caring duties.

The result of these reforms, together with the higher levels of workforce participation we see today across all sectors of society, is that, in the future, most people will qualify for a contributory pension in their own right. This trend is already very apparent as the proportion of older people relying on the means tested State Pension (non-contributory) has been falling over the last decade, while the proportion receiving contributory payments is rising.

3. **Issues in relation to social welfare pensions**

In the main, the issues in relation to social welfare pensions arise because of the limited coverage of the social insurance system up until the late 1980s and early 1990s, and societal norms, including the Marriage Bar, that 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

Overall it is estimated that there are about 47,000 people currently not being supported through the social welfare pension system in their own right, or as a qualified adult on the pension of their spouse or partner, including about 30,000 women. It is thought that the people involved are, in the main, retired self-employed and public servants together with their spouses and partners.

4. **Suggestions for the future of social welfare pensions**

The Green Paper sets out a range of options for consideration in relation to the development of social welfare pensions as follows:

- Maintain the status quo.
- The introduction of Universal Pensions.
- Reforming and back-dating the Homemakers Scheme.
- Replace the average contributions test with total contributions paid or credited.
- More use of allowances such as the Living Alone Increase
- A formal system for indexing or increasing pensions.

Longer Working / Raising Effective Retirement Age

Background and key issues

The Green Paper on Pensions discusses the issue of extending working lives. It states that more flexibility may be needed in the Social Welfare pension system so that people may be facilitated to work longer. It discusses other barriers (including employer and employee attitudes) to working longer. It also examines the issue of raising retirement age.

With people living longer and fitter lives, the costs of pensions increasing, and younger workers seeking to increase their current living standards, growing numbers of people want to work, or feel a need to work, beyond the State pension age. In addition, in order to ensure that our pension system is sustainable, this may mean that the idea of increasing retirement age could play a role in our pensions strategy.

Government policy is to facilitate those who wish to extend their working lives. The average age of people leaving the labour force was 64.1 years in 2005, compared to an EU average of 60.9 years. The current employment rate for older people under statutory retirement age (55-64 years) is over 53%.

There are several key issues set out in the Green Paper:

Overcoming barriers to working longer

A key objective for Government and the social partners is to maximise the opportunities for older people to participate in education, employment and other aspects of social life. This may require a cultural mindset change among both employers and employees to encourage older workers to remain in employment.

Deferring the Social Welfare pension

Allowing people to postpone retirement and to improve their Social Welfare benefits through further employment would be in keeping with EU policy in this area. Through postponing their retirement, a person may then receive a higher weekly pension once they eventually retire. The objective of such a system is to link the overall cost of pension, the length of time over which the pension is claimed, and estimated life expectancy.

Raising the Retirement Age

The National Pensions Review (2006) considered the question of an increase in the State retirement age. While the primary argument in favour of increasing retirement age is financial sustainability, there are also arguments made on the basis of inter-generational equity – the principle whereby each generation should enjoy the same proportion of adult life spent contributing taxes to support social welfare pensions and that spent receiving social welfare pensions. Given that people are now living longer, so they should retire later.

Recently, the UK's Pensions Act 2007 restored the link between State pension increases and earnings (in 2012). However, in order to assist in paying for this, the Act also included an incremental increase in retirement age to 68 years, beginning in 2024.

The recent Actuarial Review of the Social Insurance Fund presents a number of methods for phasing in retirement age increases. It is clear from this that increasing the retirement age has the potential to contain, to some degree, the projected rise in expenditure.

Appendix

State Pension Schemes

There are generally two types of payment made under the social welfare system, means tested payments and payments where entitlement is based on the payment of Pay Related Social Insurance (PRSI) contributions.

The Department provides three main schemes for older people;

- State Pension (non-contributory)
- State Pension (transition)
- State Pension (contributory)

The State Pension (non-contributory) is a means tested payment with the level of payment being based on the income and assets already available to a household. At present a full pension of €212 per week is paid where a person's means is less than €30 per week with reduced payments made where the means are up to €237.50 per week.

Qualification for **State Pension (transition) and State Pension (contributory)** is based on payment of PRSI contributions at an appropriate rate (usually Class A contributions). The qualifying conditions are;

- Commence paying social insurance at least 10 years before pension age,
- Pay a minimum of 260 contributions at an appropriate rate,
- Achieve a yearly average of at least 10 contributions, paid or credited, on their social insurance record from when they first pay social insurance until they reach pension age. An average of 24 is required for State Pension (transition).
- In addition, for State Pension (transition), a person must be retired.

There is provision under the **Homemakers Scheme** to disregard up to 20 years spent out of the workforce caring for children or sick/disabled adults when a person's social insurance record is being averaged for pension purposes. However, the scheme only covers periods from 1994.

There are also arrangements in place to provide pro-rata pensions for people with social insurance contributions at different classes or where they have insurance from other EU countries or countries with which Ireland has bi-lateral social security agreements. These pro-rata pensions are designed to recognise the proportion of full-rate Irish contributions contained in a person's overall social insurance records.