REVIEW

OF THE

QUALIFYING CONDITIONS

FOR THE

OLD AGE (CONTRIBUTORY)

AND

RETIREMENT PENSIONS

PHASE I

DEPARTMENT OF SOCIAL
COMMUNITY AND FAMILY AFFAIRS

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EXECUTIVE SUMMARY

Introduction (Chapter 1)
At the heart of the debate on the future of social welfare contributory pensions is the principle that where people have made a ‘reasonable’ contribution over their employment career to the Social Insurance Fund, then they should have ‘some’ entitlement in their own right. It is important that all such contributors know that they are guaranteed a pension regardless of their income or household (income) status. Ultimately, any such arrangement should enjoy widespread customer credibility.

This is the Report on Phase I of a Review of the qualifying conditions for the Old Age (Contributory) and Retirement Pensions (OACP/RP). Since the introduction of these schemes (in 1961 and 1970 respectively) many issues concerning the entitlement conditions have been raised. Some of these have been addressed over the years but a number remain to be considered and are, accordingly, addressed in this Review.

The Review has also been undertaken in the context of Government commitments in the pensions area – specifically, to ensure the broadest possible contributory pension cover to as many categories of people as possible. In line with this commitment, the Minister for Social, Community and Family Affairs announced, in his Budget 1999 speech, that the Department would carry out a comprehensive review of the qualifying conditions for the OACP/RP which would pay “particular attention to the operation of the yearly average qualifying condition, including the possibility of using contributions paid prior to 1953 and to the commitment given in our Action Programme to provide a mechanism to allow women who take time out for family reasons to continue contributions for pension purposes”.

Development of the OACP/RP schemes and Issues Arising (Chapter 2)
Sections 2.1 to 2.8 outline the background to and major developments in the two pensions schemes while section 2.9 covers the legislative provisions relating to each. Section 2.10 lists the current qualifying conditions, the improvements to which are catalogued in section 2.11. These improvements over the years have, as a package, provided significant benefit to various groups of pensioners/contributors in that the end result has been an increasing flexibility in the qualifying conditions.

However, while it is clear that the thrust of the OACP/RP schemes accord fully with the Department’s objectives and policy which is to “promote social well-being through income and other supports which enable people to participate in society in a positive way”, a number of issues remain to be addressed. In identifying these, the
Department was also informed by Parliamentary Questions (PQs), representations from Oireachtas members and the Department’s customers as well as a consultation process with advocacy groups representing the interests of older people – sections 2.12 to 2.20. The National Council on Ageing and Older People and the Combat Poverty Agency also contributed to the feedback process – copies of their submissions are contained in Appendix II. In summary, the following major issues were identified:

- the operation of the yearly average test to determine entitlement;
- the pensions entitlements of homemakers;
- the use of pre-1953 contributions paid under the National Health Insurance Acts; and
- information issues

**Demographic, Statistical and International Backdrop (Chapter 3)**

Considerable demographic changes have been projected within the structure of the Irish population over the next 60 years. It has, for example, been projected that the number of people aged 65 and over will increase from 11% of the population (in 1997) to 19% in 2026 and to 27% in 2056 (section 3.2).

While this has clear implications for the future financing of Social Welfare pensions (an issue outside the remit of this Review), it also highlights the increasing role of contributory (PRSI-related) pensions. Sections 3.3 to 3.5 profile the recipients of Social Welfare old age pension payments and the growth in OACP/RP awards - it is, for example, projected that by 2016, 86% of recipients of old age pensions will be in receipt of a contributory-based payment.

In expenditure terms, old age pension payments account for 23.6% of the total Social Welfare budget (sections 3.6 and 3.7). The redistributive/Value for Money (VFM) aspects of the contributory pensions schemes are highlighted in section 3.8.

A recurring theme at both EU Commission and Member State level is the future viability of public pension systems in view of demographic predictions. Current EU thinking is explored further in sections 3.9 to 3.11 while Appendix III contains some examples of reform initiatives underway in other EU Member States. Irish developments are described in sections 3.12 to 3.16.

**Issues and Proposals (Chapter 4)**

Chapter 2 outlined the key issues arising in the context of any proposed OACP/RP reform and these are discussed in detail in Chapter 4.

Sections 4.2 to 4.9 examine the guiding principles which contributed to the review process. Sections 4.10 to 4.14 illustrate the various issues and difficulties which arise in the context of the **Yearly Average Test**. While, clearly, the impact of any new method of calculating and deciding pensions entitlement will, ultimately, have to be examined in detail by way of costings, impact statement etc, sections 4.15 to 4.32
discuss the proposed switch towards a **Total Contributions Approach**. What is envisaged here is an approach which relates entitlement for the retirement/old age pension to the total number of contributions over a lifetime, while maintaining a reasonable link between contributions and benefit levels. The Review proposes that the Department accept this approach, in principle, and that the necessary work be carried out in Phase 2 to determine how such a switch should best be achieved.

In line with the move towards a Total Contributions Approach, the Review also proposes **rationalisation of the existing OACP/RP rates bands** which would have the added benefit of simplifying the payments structure – see sections 4.26 and 4.28. In the context of Budget 2000, this was considered by the Government and a decision made that the rates be rationalised to a four-tier structure – that is 100%, 98%, 75% and 50%. This proposal was provided for in the Social Welfare Act, 2000, and became effective from 5th May 2000. The 98% rate replaces 3 existing, reduced rates and equates to a new, current rate of £94.10 per week. Some 38,000 pensioners have benefited by this measure with overall increases in weekly personal rates of pension of between £7.50 and £12.20 at an estimated cost of £3 million in 2000 and £5 million in a full year.

Sections 4.33 to 4.55 examines the pension position of **homemakers**. Existing arrangements which were introduced in 1994 with the Homemakers scheme provide for disregards of periods (up to a maximum of 20 years) spent working in the home to assist with qualifying for the OACP. However, as the Review points out, it has become apparent that the concept of ‘disregards’ is very difficult for customers to grasp and that the validity of the disregard mechanism only applies where the Yearly Average Test is in use. Accordingly, the Review proposes that, in principle, the disregard approach should be replaced with one based on credits (given that credits are established mechanism for covering gaps in paid insurance under various contingencies) and that the detailed impact assessment be undertaken in Phase 2. In proposing this approach, the Review acknowledges that such a switch may have potential, long-term pension cost implications.

The Review also notes that women who have already reached or are approaching pension age and who have gaps in their insurance records because of home caring duties or the existence of the marriage bar do not benefit under the Homemaker disregards. While they may qualify for an OACP under improvements introduced in 1997 which reduced the yearly average to 10, the absence of any retrospective element confers less than full advantage to this group – section 4.54. The Review considers that there is no fundamental reason, in principle, why the Homemaker provisions should only apply from 1994 (the date of introduction) but identified the difficulties in establishing an obviously logical earlier date – section 4.54. The Minister has asked the Department to bring forward proposals in this regard for consideration in a Budgetary context – section 4.55.
The Review also examines the use of **contributions paid prior to 1953** which contain no pension element, an issue which has received much publicity in a pensions context. The Review outlines the background to this issue – sections 4.56 to 4.63 – while sections 4.64 to 4.67 detail the proposals in this regard, namely: that provision be made for payment of special, half-rate pensions to people who became insurable employed prior to 1953 provided such people have paid, at least, 260 contributions. This proposal was agreed to by the Government and became effective from 5th May 2000, on foot of the enactment of the Social Welfare Act, 2000.

In relation to **information issues**, the Review notes the many activities undertaken by the Department’s Information Service and officers and the initiatives of areas such as the Pensions Services Office (PSO). In section 4.70, the Report proposes that use be made of the planned pensions awareness campaign which was recommended by The Pensions Board in its report “Securing Retirement Income” and which will be rolled-out following the enactment into law of the new Pensions Bill which is scheduled for publication during the summer of 2000.

In sections 4.71 to 4.82, the Report examines associated issues, namely:

- the position of those affected by the **earnings limits** which applied to non-manual workers prior to 1974. The Report acknowledges the introduction of special partial pensions in 1988 to address this issue and considers that no further remedial measures are warranted – sections 4.71 and 4.72;

- more flexible retirement options (sections 4.73 to 4.77) and

- age-related pensions (sections 4.78 to 4.82).

**Conclusions and Phase 2 (Chapter 5):**

Chapter 5 summarises the findings of the Report and sets out the terms of reference for Phase 2 of the Review which relate to:

- a detailed examination (including costings, impact statement, etc) of the implications of a switch from a yearly average to a total contributions approach; and

- proposals in relation to the further recognition of homemakers for pension purposes.

Other more medium-term issues (for example, more flexible retirement patterns) will
be kept under review and examined in detail in the future.

Phase 2 will be undertaken in time for consideration in the context of the next Budget.
CHAPTER 1: Introduction and Context

Introduction

1.1 The Old Age (Contributory) Pension (OACP) was introduced in 1961 while the Retirement Pension (RP) was introduced in 1970. Designed to meet the needs of insured people who previously only had recourse to the means-tested Old Age (Non-Contributory) Pension (OANCP) (which was introduced in 1908), entitlement to these schemes is conditional on a person satisfying a number of governing qualifying contribution conditions, based on the social insurance/PRSI history. The OACP/RP schemes are payable at age 66/65 respectively.

1.2 Over the years, many issues concerning the OACP/RP entitlement conditions have been raised, in both Parliamentary Questions (PQs) and representations from Members of the Oireachtas, and by the Department’s customers. Some of these have been addressed, as set out later in this report, and a number remain to be considered further which include

- the operation of the yearly average test to determine entitlement;
- the use of pre 1953 contributions paid under the National Health Insurance Acts; and
- the pensions entitlements of homemakers.

Context of the Review

1.3 As set out in the National Pensions Policy Initiative (NPPI) the aim of pensions policy is to have a fully developed national pensions system which enables all residents in the State to acquire an income which allows them to maintain their established standard of living on retirement. This has been articulated more recently, for example, in the Programme for Prosperity and Fairness which stated that “All retired persons should have an adequate income to enable them to live with dignity and to share in the benefits of economic growth”. Social Welfare, occupational and personal pensions have key roles to play in this regard.

1.4 The mission statement of the Department of Social, Community and Family Affairs is to “promote social well-being through income and other supports

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2 Programme for Prosperity and Fairness, Page 13
which enable people to participate in society in a positive way”. The Government, in its Action Programme for the Millennium, committed to the establishment of “an inclusive society where all citizens have the opportunity and incentive to participate fully in the social and economic life of the country”. In line with this commitment, a key priority of the Government Programme has been to focus on improving the level of social welfare payments to older people with the eventual target of an Old Age Pension rate of £100 by 2002. Budgetary increases over the last three Budgets have reflected the progress towards achieving that commitment with the maximum OACP/RP personal rate (at £96 per week) now equating to over 30% of average earnings. Subsequently, in a more recent review of the Action Programme for the Millennium (November 1999), the Government committed to “advancing the goal of bringing the old age (contributory) pension to £100 and by extending the £100 commitment to all social welfare old age pensioners by 2002” ….. while “over the lifetime of the Government all social welfare pensions will be increased in line with increases in average earnings”.

1.5 In addition, the Fianna Fail position paper ‘Irish Families in the New Millennium’ (May 1997) also undertook to

(i) provide flexible social security arrangements to cover present deficiencies and meet the changing needs of women;

(ii) provide for a system of voluntary Contributions for women in the home;

(iii) ensure that Ireland takes the lead in providing adequate pensions for part-time workers, mainly women, who don’t have occupational pensions at present; and

(iv) make new arrangements to tackle the problems faced by people who were marginally excluded from participation in PRSI pensions.

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1 One of the recommendations of the Pensions Board in its report “Securing Retirement Income” (1998) which arose out of the National Pensions Policy Initiative (NPPI) was that the target rate for social welfare pensions should increase, over a 5-10 year period, to 34% of average industrial earnings – Recommendation 6 S.5.1.5. This target of 34% was set against the post-Budget 1998 rate of 28.5% (or £83 per week). The Board also considered that this figure should be updated to reflect earnings increases over the 5 to 10 year period envisaged by the Board for the full implementation of its proposed target rate.

Arising from this, the Government’s Action Programme contained a commitment to provide a mechanism to allow women who take time out for family reasons, to continue contributions for pension purposes\(^5\).

1.6 In line with the commitment to ensure the broadest possible contributory pension cover to as many categories of people as possible, the Minister for Social, Community and Family Affairs, Mr Dermot Ahern, TD, announced, in his 1999 Budget speech, that the “Government will continue to address the issue of people who fail marginally to qualify for an Old Age (Contributory) Pension and in this context, I wish to announce that, next year, my Department will be carrying out a comprehensive review of the qualifying conditions for the Old Age (Contributory) and Retirement Pensions. This review will pay particular attention to the operation of the yearly average qualifying condition, including the possibility of using contributions paid prior to 1953 and to the commitment given in our Action Programme to provide a mechanism to allow women who take time out for family reasons to continue contributions for pension purposes”. The Minister also committed to reporting back to the House when the review is completed and considered by Government. Subsequently, in his Budget 2000 speech, the Minister indicated his intention to bring forward proposals arising out of this phase of the review during the debate on the Social Welfare Bill, 2000.

1.7 On foot of the Minister’s commitment, a number of changes were introduced in the Social Welfare Act, No. 4 of 2000, which:

(i) take further account of pre-1953 contributions; and
(ii) streamline the structure of the rates bands for OACP/RP.

It is estimated that some 3,000 and 38,000 people will benefit from these respective measures. In deciding on these changes, the Minister was aware of the findings of this Review. Further details in this regard are set out in Chapter 4, Paragraphs 4.26 to 4.28 and 4.56 to 4.67 respectively.

**Composition of Group**

1.8 A Group was established to undertake this Review, comprising officials from the Planning Unit and Pension Services Office (PSO), Sligo, of the Department of Social, Community and Family Affairs. Its members are:

\(^5\) *Action Programme for the Millennium, Page 15*
Terms of Reference:

1.9 The terms of reference for the Group were as follows:

1. To examine the background to the current qualifying conditions and establish the underlying rationale;

2. To evaluate and review the impact of the current qualifying conditions.

3. To identify anomalies, if any, created by the operation of the current qualifying conditions, in particular:

   (a) the operation of the “yearly average” condition (and the exclusion of pre-53 contributions in calculating the yearly average);
   (b) the position of “homemakers”;  
   (c) the role of credits and “disregards” in the system (taking account of the Expenditure Review of Credits report).

4. To elicit the views of appropriate groups/organisations on:

   (a) the extent to which the schemes are meeting their objectives;
   (b) ways of addressing any anomalies.

5. To examine and cost possible alternative approaches to the existing qualifying conditions, taking account of:

   (a) the Government’s commitment to the Social Insurance principle;
   (b) the changes already made to the contribution conditions (e.g. the increase in the paid contributions requirement);
   (c) the overall objective to have a qualification and payment structure that would apply to all contributors in an equitable way;
   (d) the measures introduced to date to address anomalies already identified;
the need to address any outstanding anomalies;
(f) the views of groups/organisations referred to above;
(g) existing recommendations in various reports (such as the final report of the National Pensions Board, etc);
(h) the impact of any changes in this area on the current system for delivery of these payments;
(i) projected demographic changes.

6. In the light of the above, to make recommendations (if appropriate) in relation to the OACP/RP qualifying conditions.

1.10 In carrying out its work, the Group was informed by

- Issues raised in PQs and representations from Members of the Oireachtas and the public;
- The rationale behind the introduction of the OACP scheme (e.g. by the National Archives files and contemporaneous Dáil debates);
- A consultative process with groups representing the interests of older people and appropriate agencies, such as the National Council on Ageing and Older People and the Combat Poverty Agency;
- Government commitments in the ‘Action Programme for the Millennium’, the Review of the Action Programme for the Millennium, and the 1997 Fianna Fáil Election Manifesto; and
- comparative international approaches.

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Format of Report

1.11 The Group considered that it was best to approach this Review in two phases, of which this is Phase I. This traces the historical development of the OACP/RP schemes, subsequent improvements and the impact of the qualifying conditions (Section 2). Section 3 backdrops the demographic and statistical environment, the factual position in relation to the cost of the schemes and whether they offer Value for Money as well as exploring EU developments in the area of pensions generally. Section 4 addresses the various issues raised in Section 2 and advances proposals in this regard. It is envisaged that Phase 2 will address the detail of these proposals and will be completed in time for consideration in the context of Budget 2001 (Section 5).
CHAPTER 2: Development of the Old Age (Contributory) and Retirement Pensions Schemes (OACP/RP) and Issues Arising

Development of the OACP/RP:

2.1 The OACP scheme was introduced on 6 January 1961, in accordance with the Social Welfare (Amendment) Act, 1960 and was then payable at age 70 (which reduced over time – see Section 2.11.1 below). This was the first major extension to the range of contingencies covered since the various social insurance codes were unified into a new system of social insurance on 5 January 1953. In 1970, the RP was introduced for contributors who retired at age 65 - the level and structure of payments being the same as those for the OACP. To qualify under this scheme, a person must be retired - i.e. not engaged in insurable employment or insurable self-employment; this condition ceases to apply on reaching age 66.

2.2 Prior to 1953 coverage for social-insurance-type benefits was provided by way of three different types of contributions which gave specific entitlement only to the benefits of the schemes under which they were paid, namely:

- National Health Insurance, which provided cover for Sickness Benefit, Maternity Benefit and Disablement Benefit;
- Widow’s and Orphan’s Insurance, which provided cover for Contributory Widow’s and Orphan’s Pensions; and
- Unemployment Insurance, which provided cover for Unemployment Benefit.

2.3 A relatively disparate number of schemes existed in a climate of cross-Departmental administrative responsibility before the establishment of the Department of Social Welfare in 1947. These lay with the Departments of Industry and Commerce (unemployment insurance and workmen’s

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7 A number of Government Departments commented on the new pension scheme with, for instance, the Department of Posts and Telegraphs noting favourably that the scheme “will improve the lot of Auxiliary Postmen and other classes in this Department who are not eligible at present to a pension on retirement”. While several Departments expressed some concerns as to the extra liability imposed on employers, the Department of Finance was most vocal in its opposition to the proposal, citing the anti-competitive nature of an additional charge of nearly £5 million on the community. Furthermore, that Department criticised the method adopted for financing the proposal, citing the high proportion of the overall cost of the extended Social Insurance Scheme which the Exchequer would be required to bear.
department of social, community and family affairs

compensation), the revenue commissioners and local government (old age pensions) and the national health insurance society (sickness and maternity benefits). the social welfare system itself developed on a relatively ad-hoc basis, reacting to crises or the concept of the ‘deserving poor’ - usually meaning widows, orphans and large families. in this context, contributions paid prior to 1953 had very limited scope in terms of the specific contingencies they covered. the rate of contribution was pitched accordingly and it is noteworthy that, with the introduction of the OACP in 1961, this was increased to take account of the specific long-term risk for which provision was now being made.

2.4 at the same time as the introduction of the OACP scheme, the rate of social insurance contribution was increased to include an element towards the funding of the new pension scheme. Contributions paid prior to 1961 did not include any such element. however, it was decided, at that time, to count all contributions paid under the unified scheme - i.e. from January 1953 for men and July 1953 for women - towards qualification for the new pension.

2.5 Title to pension was conditional on three qualifying conditions, namely: payment of 156 contributions, age at entry into insurance being under 60 (pension age then being 70) and satisfying a yearly average test. (Where a person entered social insurance on or after age 60, that element of the employee’s portion of the contributions attributable to the OACP was refundable.) These conditions were imposed on the basis that it was desirable to “require a reasonable period of insurance and of genuine insurable employment as conditions for receipt of a long-term benefit”. the requirement for payment of a total of 156 contributions mirrored the qualifying condition applying to receipt of the then Widow’s (Contributory) Pension, Marriage Benefit and Disability Benefit of indefinite duration.

2.6 Special provisions were introduced for people who had already reached pension age or who were close to reaching pension age when the OACP came into operation. These measures ‘boosted’ certain contributions paid before 1953, under the National Health Insurance Acts, by permitting them to be taken into account for the ‘yearly average’ test (see below) for any male born before 5 January 1903 or any female born before 6 July 1903, thereby ensuring that the average test covered not less than ten years in all cases.

2.7 In addition, provision was made for contributions, paid before 1953 under the National Health Insurance Acts, to be taken into account for the purposes of satisfying the first two qualifying conditions under the OACP scheme; that is, that a person must have (a) entered insurance 10 years before pension

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age; and (b) have, at least, 156 social insurance contributions paid since first entering insurance. This arrangement, while clearly a product of its time, still applies today.

2.8 The rationale behind these concessions was to extend coverage for the new pension scheme to as many insured people as possible. If, for example, entitlement to the OACP had been confined solely to social insurance contributions which included a pension element - i.e. contributions paid since 1961 - ten years would have had to elapse from the date of introduction of the new scheme before anyone could have qualified. This would have meant that the first OACP would not have been payable until 1971.

Legislative Provisions

2.9 The main legislative provisions relating to the OACP are contained in

- Chapter 12, (Sections 83 to 87) of Part II of the Social Welfare (Consolidation) Act, 1993, as amended, and

For RP, these are

- Chapter 13 (Section 88 to 91) of Part II of the Social Welfare (Consolidation) Act, 1993 as amended, and

Qualifying Conditions

2.10 To qualify for an OACP/RP, a person must have

(1) entered insurance before reaching age 56 in the case of the OACP and age 55 in the case of RP; and

(2) at least 156 full-rate contributions paid or, if the yearly average (see 3. below) is between 10 and 19, at least 260 full-rate contributions paid; and

NOTE: From 6 April 2002, the minimum requirement of 156 paid contributions will increase for all applicants to 260 paid contributions and, subsequently, to 520 paid contributions from 6 April 2012.
These changes were provided for in the Social Welfare (Consolidated Payments Provisions) (Amendment) (No.10) (Pensions) Regulations, 1997;

(3)(a) a yearly average of at least 10 contributions paid/credited from January 1953 for men or July 1953 for women (when the unified system of social insurance came into effect), or from the date of entry into social insurance if later. A minimum yearly average of 24 is required for the RP;

(3)(b) a yearly average of at least 48 contributions paid or credited from 6 April 1979 to the end of the tax year before reaching pension age. This is referred to as the Alternative Yearly Average Test and confers entitlement to the maximum rate pension only.

**Improvements to the Qualifying Conditions**

2.11 Significant improvements have been made to the OACP/RP qualifying (contribution) conditions over the years. These measures, coupled with the progressive extension of compulsory Social Insurance to virtually all the work force over the past 20 years, have been designed with the two-fold aim of extending coverage and alleviating the impact of certain ‘anomalies’ which had developed over time and which have been experienced by different categories of people who, for various reasons, had gaps in their insurance records. The following is a brief, general overview:

2.11.1 Pension age is currently 66 years. It was progressively reduced from age 70 to age 66 over the period from 1973 to 1975 reflecting the then life expectancy which was, on average, 69 years for men and 74 years for women;  

2.11.2 EU Regulations on Social Security (Nos: 1408/71 and 574/72) became applicable for migrant workers to Ireland on EC accession in 1973;  

2.11.3 In 1974, the earnings limit for entry into compulsory social insurance was abolished. Prior to this, earnings thresholds applied to non-manual workers whose income was exceeded prescribed limits (compulsory insurance for manual workers applied, regardless of income)  

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11 The earnings thresholds in the pre-1974 era applied to non-manual workers whose income was exceeded prescribed limits. These were as follows: 15/07/1912 = £160.00 per annum; 13/06/1919
2.11.4 In 1979 the weekly flat rate and pay related contributions were replaced by fully pay related contributions (PRSI) up to an earnings ceiling. As the discussion document ‘Social Insurance in Ireland’ points out, the “former system was regressive in that the flat rate contributions were not related to ability to pay. In addition, the scope available to increase contribution income was limited by the extent to which those on the lower incomes could afford to pay increased contributions. Income from pay related contributions, however, rises with increases in earnings levels, subject to the relevant annual earnings ceiling” 12;

2.11.5 In 1988, special partial pensions were introduced for people who had paid social insurance early in their careers and then re-entered social insurance cover on 1 April 1974, due to the abolition of the ‘earnings limit’ - see Section 2.11.3 above and Chapter 4, Sections 4.71 and 4.72 below. Such people would have failed to qualify under the standard qualifying conditions. A yearly average of at least 5 full-rate contributions paid/credited is required;

2.11.6 In 1991 pro-rata pensions for people with 'mixed insurance' records were introduced, the rate of pension payable being in proportion to the periods of insurance completed at the rate appropriate for old age/retirement pensions. This is in line with the EU norm as is payment of the Qualified Adult Allowance (QAA) on a pro-rata basis. Mixed insurance records comprise full and modified rate contributions13;

2.11.7 The 1992 Social Welfare Act made provision for the introduction of an “alternative yearly average test” for entitlement to the maximum rate OACP/RP. This allows a person to qualify for full pension if he/she has an average of 48 since 6 April, 1979, when the present PRSI system came into operation. This measure has also proved to be of significant administrative benefit in speeding up the decision-making process;

2.11.8 Homemaker Provisions were introduced in April 1994 to cater for people who spent periods of time outside the workforce caring either

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12 ‘Social Insurance in Ireland’ Page 22, Paragraph 4.2.4

13 Appendix I contains details of the various contribution classes and the contingencies covered by each.
for children or incapacitated people. Essentially, these intervals are disregarded when calculating a person's pension entitlements. The Social Welfare Act, 1996 extended the Homemaker provisions by increasing the age of children being cared for from 6 to 12 years with effect from 6 April 1995. A maximum of 20 years can be disregarded in this way (see also Sections 4.33 to 4.55);

2.11.9 In 1997 provision was made for self-employed contributors, who entered insurance in 1988, but were already over the age of 56 at that time\(^\text{14}\), and, who had previously paid Social Insurance contributions as an employee, to receive a refund of the pension element (i.e. 53%) of the social insurance contribution, provided that they do not qualify for an Old Age (Contributory) or Non-Contributory Pension. Up until then, their earlier contributions precluded them from receiving such a refund;

2.11.10 Also, in 1997 (November) the minimum yearly average for the Old Age (Contributory) Pension was reduced from 20 to 10 contributions per year. Where a person has a yearly average of between 10 to 14 contributions, he/she is entitled to a pension rate at 50% of the standard maximum rate, while those with averages of between 15 to 19 receive a pension rate equivalent to 75% of the standard maximum rate. To qualify a person must also have paid at least 260 full-rate contributions;

2.11.11 At the same time, provision was made for an increase in the paid contribution test for standard rate pensions – see also Section 2.10(2) above. At present, a person must have paid, at least, 156 full-rate contributions. As already stated, from 6 April 2002, this will increase, for all contributors, to 260 full-rate contributions (or 5 years) and to 520 full-rate contributions (or 10 years) from 6 April 2012. This measure was introduced in line with one of the recommendations of the National Pensions Board\(^\text{15}\).

2.11.12 The 1999 Social Welfare Act provided for payment of a special Old Age (Contributory) Pension to certain self-employed people who, by virtue of being aged 56 or over on 6 April 1988 when compulsory social insurance for the self-employed was introduced, could not

\(^{14}\) Compulsory social insurance was introduced for the self-employed with effect from 6\(^\text{th}\) April 1988. Any such contributor who was 56 years of age or over on that date could not satisfy the 1\(^\text{st}\) qualifying condition for the OACP – see Section 2.10(1).

\(^{15}\) See Paragraph 12.6, Page 153: Final Report of the National Pensions Board: Developing the National Pensions System, (1993) The NPB considered that the increase to 520 contributions (10 years) “would then represent 20% of the potential maximum number of contributions which could be registered”.
satisfy the condition of having entered social insurance at least 10 years before pension age. To qualify, a self-employed contributor must have, at least, 5 years contributions paid since 1988. This pension is paid at a flat-rate of 50% of the standard maximum rate as are increases in respect of qualified adults and children, where appropriate;

2.11.13 Further recognition was given to contributions paid prior to 1953 in the Social Welfare Act, No. 4 of 2000. This provided for the introduction of a special half-rate (50%) pension, effective from 5th May 2000, for any person who became insurably employed prior to 1953 and who had failed to qualify for a pension or qualified for one (contributory or non-contributory) at a lower rate. To qualify for this flat-rate payment, a person must have become an employed contributor under the National Health Insurance Acts prior to 1953 and have paid at least 260 (or 5 years) contributions which may comprise contributions paid prior to 1953 or a combination of pre and post-1953 contributions. The Qualified Adult and Child Dependent Allowances are also paid at equivalent (i.e. 50%) rates;

2.11.14 The structure of 3 of the top 4 contributory band rates for OACP/RP was also improved, in line with provisions in the Social Welfare Act, 2000. Equating to a minimum yearly average of 20 or over, from 5th May 2000, these 3 bands, formerly struck at 92%, 94% and 97% of the maximum rate, have now been amalgamated into a single rate which is 98% of the maximum rate.

Issues Arising:

2.12 The above list of improvements to the OACP/RP schemes over the years have, as a package, provided significant benefit to various groups of pensioners/contributors in that the end result has, generally, been the award of a contributory pension with, overall, an increasing flexibility in the qualifying conditions. However, as has been stated, a number of issues remain to be addressed. Paragraph 1.2 highlighted some of these – chiefly, the operation of the yearly average test and the pensions entitlements of homemakers. PQs and representations also provide a very good source of feedback to the Department – issues arising in these include those listed above as well as the treatment of homemakers for social welfare pensions purposes and possibilities of a reduction in pension age (from 66 to 65), or as a variation on this theme, the possibility of introducing a more flexible retirement regime which would facilitate the deferral of pension, and an extension of the pro-rata principle to contributors with less than the minimum required contributions.
With a view to further informing this Review, a consultative forum was also held in May 1999 with a number of advocacy groups representing the interests of older people. Those which met with Departmental officials were: Age Action Ireland, Age & Opportunity, the Irish Senior Citizens’ Parliament, Muintir na Tire, National Federation of Pensioners’ Associations and the Self-Employed Pensions Association.

In a wide-ranging discussion (which also facilitated consultation for the then ongoing review of the Free Schemes) the following points of relevance (which are in no particular order) to this Review were made by the groups:

2.14.1 **Pension Age:** Noting the growing international trend towards raising pension age which was not favoured by the groups, the consensus held that adjustments should be made to the state pension system for those who do continue to work after age 66 - e.g. awarding a higher rate of pension to such people to take account of their extra contributions.

2.14.2 **Information:** Information regarding pensions should be made widely available so that nobody is without a pension because of a lack of understanding of the system. One group felt that women, in particular, should have access to pension information and education with regard to their future financial needs.

2.14.3 **Qualified Adult Allowance:** Qualified adults should receive a pension in their own right.

2.14.4 **Contribution Conditions** The yearly average test was considered to be inequitable and a view was expressed that a pension should be paid to everyone who has any reckonable contributions. In addition, the groups were in agreement that contributions paid prior to 1953 should be used for pension purposes (specifically the Yearly Average Test) and that the qualifying conditions for contributory pensions should be radically simplified.

2.14.5 **Homemakers:** All representatives concurred that the social benefits of women remaining in the home are not recognised in the present pensions framework and that retrospection should also apply to the Homemakers scheme;

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16 This Review, which was undertaken by an official of the Department in conjunction with the Policy Institute, Trinity College Dublin, as part of the formal Expenditure Review process, has now been completed. “A Review of the Free Schemes operated by the Department of Social, Community and Family Affairs: Studies in Public Policy: 5”, Orlaigh Quinn, published by the Policy Institute, Trinity College Dublin in association with the Department of Social, Community and Family Affairs, (2000).
2.14.6 **Credits:** The Social Insurance system should be reformed and extended to cover vulnerable groups – for example, missionaries who work abroad and come back to Ireland to retire and find that their pension is inadequate. 'Social credits' should be available to those who have to leave the workforce under certain circumstances - notably for family reasons.

2.15 The National Council on Ageing and Older People (NCAOP), the Combat Poverty Agency and the NSSB were also invited to contribute their views. While the NSSB did not respond, both the NCAOP and the Agency provided observations – copies of which are contained in Appendix II 17.

2.16 The NCAOP believes that the objective of the OACP “should be to ensure that the maximum number of people receive the contributory pension at the highest rate and that the system operates in an equitable fashion”. While the Council accepted that progress had been made “in recent years, (it) was concerned that anomalies remaining in the system should be removed”.

2.17 While the NACOP did not feel qualified to offer technical comments on the key issues highlighted by the Review – namely, the operation of the yearly average condition and the removal of the anomalies it causes along with the issue of pre-1953 contributions – it did express concern at various aspects of the current operation of the OACP system, as follows:

(a) That a person with a higher number of contributions may receive a lower pension than a person with a lower number of contributions, or may not receive a pension at all. The NCAOP commented that “this is contrary to the principle that the level of pension paid should be related to the level of contributions made”;

(b) The operation of the Homemakers provisions which, in relation to periods spent out of the workforce before 1994, are “of little benefit to older people, mainly women, who have devoted time to child-rearing or caring for an incapacitated person”. The NCAOP stated that this situation “is all the more jarring when we consider that for today’s older women, many had no option but to leave the workforce upon marriage and motherhood, given the lack of childcare arrangements, unequal pay and tax arrangements” and which was

17 Submission by the NCAOP (May 1999) and response of the Combat Poverty Agency, (30th June 1999) – see Appendix II for full text.
“further exacerbated by the marriage bar which forced many women to leave paid employment on marriage”;

(c) Individualisation of benefits which the NCAOP also raised as an issue in its response to the National Pensions Policy Initiative Consultation process. In highlighting that this issue is again of relevance to women, the Council reiterated its position that “The ‘adult dependants’ of persons receiving a contributory social welfare pension should receive an allowance (called an old age allowance) in their own right once they have reached pensionable age”.

2.18 In commenting on the overall thrust of the Review, the Combat Poverty Agency identified those sectors in the elderly population which are most at risk of poverty – namely

- “those on Non-contributory Widows Pension;
- those on Non-contributory Old Age Pension;
- those on Contributory Widows Pension “

and, in highlighting that “Women are over-represented among poor older people and rural women, in particular are found to be especially at risk”, and that “in relation to the Review of RP/OACP, we note that those who are on RP/OACP are not a high poverty risk group” stressed the need for the Review to take “into account how the Contribution Conditions for RP/OACP can be changed to enable a greater number of people, particularly women, to qualify for RP/OACP”.

2.19 In addressing poverty issues and recommending that the Review should be assessed against the Poverty Proofing Guidelines, the Agency made the following points:

i) “we support and endorse the social insurance principle;

ii) the Review should try to ensure that in future an increasing proportion of pensioners are entitled to full contributory pension. The contributory conditions should facilitate such extended coverage;

iii) consideration should be given to moving towards the individualisation of pension rights so that men and women are treated equally as citizens in retirement and for pension purposes. As a first step the Qualified Adult Rate should be increased to 70% of the personal rate;
iv) **RP/OACP payment rates should be adequate and uprated in line with average earnings;**

v) **information about pensions and the associated qualifying conditions should be made widely available in a clear and accessible way".**

2.20 Given all the issues raised and the time available, the Group decided to specifically address the following general areas in the context of Phase I of the Review:

i) the impact of the current OACP/RP qualifying conditions vis-a-vis the operation of the Yearly Average Test and related issues (namely, the use of contributions in the 65th/66th year, reduction in the yearly average to below 10, rationalisation of the rates bands structure and the role of credits);

ii) the treatment of homemakers;

iii) non-usage of contributions paid prior to 1953; and

iv) information issues.

These are discussed in detail in Chapter 4.
Chapter 2 CHAPTER 3: Demographic, Statistical and International Backdrop

3.1 The Group was conscious of the demographic and international developments generally. In its Communication on Ageing\(^{18}\), the EU Commission has identified the challenge to society posed by ageing as having several dimensions, one being the relative decline of the population of working age and the ageing of the workforce. The Communication stated in relation to the EU:

“There is a concern that the youngest generation, the 0-14 age group, representing 17.6% of the EU population in 1995, will fall to 15.7% in 2015, a decline of almost 5 million. The generation, 15-29, from which entrants into the labour market are drawn, will decrease even more rapidly (-16%, equivalent to a decline of 13 million). Among older age cohorts, the exact opposite will occur. The generation 50-64 will increase by more than 16 million (26%) while the growth of people of retirement age (65+) and the very old (80+) will approach 30% and 40% respectively. The changes in the 80+ group will be larger and happen faster than changes in any other group”.

3.2 For Ireland, demographic projections indicate considerable changes within the structure of the population over the next 60-odd years. The Actuarial Review of Social Welfare Pensions\(^{19}\) projected that the number of people over age 65 would increase from 11% of the population to 19% in 2026 and to 27% in 2056. At that stage, there would then be over 1 million people aged over 65 in the population compared to 414,000 in 1996. Furthermore should the improvement in life expectancy, as assumed in the Review, occur the projected numbers over age 80 will increase over the period from 90,000 (2% of the population) to 317,000 (8%).

3.3 In 1998, the NPPI report\(^{20}\) outlined how, in the Social Welfare context, of the 387,400 people in the State aged over 66\(^{21}\), approximately 316,600 are recipients of Social Welfare pensions. Among this group an additional payment is made in respect of 25,500 qualified adults. Coverage of recipients and dependants is, therefore, almost 90% of the relevant age cohort.

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\(^{19}\) Actuarial Review of Social Welfare Pensions, undertaken by Irish Pensions Trust on behalf of the Department of Social, Community and Family Affairs, 1997


\(^{21}\) Based on the 1995 CSO publication “Population and Labour Force Projections”.

19
3.4 The shift in composition of recipients of these old age pension payments is noticeable. While the numbers receiving a non-contributory pension are still large - i.e. 93,023 in 1999 - there has been a drop of nearly 23% in recipients of this pension type since 1989. Equally, in 1989, just under 50% of awards received a contributory-based pension: in 1999, this had increased to over 62.5%. This shift towards contributory payments is illustrated below:


Source: Statistical Information on Social Welfare Services, Department of Social, Community and Family Affairs, (1999).
3.5 The shift can be attributed to more people (particularly women) entering the workforce due to economic growth and the progressive extension of compulsory social insurance to (a) the self-employed in 1988, (b) part-time employees in 1991 and (c) new entrants to the Civil and Public Service from 1995 as well as the abolition of the insurable limits based on earnings in 1974. The role of contributory (PRSI related) payments will increase further in the future, as indicated in Appendix D of the Actuarial Review (pages 55 + 56). It is projected, for example, that by 2016, 86 per cent of recipients of old age pensions will be in receipt of a contributory payment, compared to 58 per cent in 1996.

Expenditure on the Schemes

3.6 In 1999, Social Welfare expenditure was financed mainly by the State (54.7%) and the Social Insurance Fund (44.9%). Financing of the Social Insurance Fund comprised receipts from employer PRSI (73.8%), employee PRSI (20.3%) and self-employed (5.9%).

3.7 By programme group, expenditure on the old age pension payments amounts to 24.3% of the total Social Welfare budget of IR£4.9 billion in 1999. The following table gives the 1998 and 1999 expenditure on the three pension schemes (i.e. OACP, RP and OANCP):

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23 In the 25 years from 1971 to 1996 the number of women at work grew by 212,000, reaching 488,000 in 1996. This compares with growth of just 23,000 in male employment over the same period. By 1996, women account for almost 4 in 10 of those at work. Using the ILO classification, 41.1% of Irish women aged 15 or over were in the labour force. This compares with an EU-15 average of 45.3% with the highest female participation rates in the Scandinavian countries (from 58.7% to 54.6%) and the lowest rates in Mediterranean countries (from 36.6% to 34.6%): Source: CSO ‘Women in the Workforce’, September 1997.

24 Source: Statistical Information on Social Welfare Services 1999: Department of Social, Community and Family Affairs (Tables A6 & A7)
TABLE 1: EXPENDITURE ON SOCIAL WELFARE PENSIONS, 1998 AND 1999

<table>
<thead>
<tr>
<th>Type of Payment</th>
<th>1998</th>
<th>1999 (Provisional)</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£000</td>
<td>£000</td>
<td></td>
</tr>
<tr>
<td>OACP</td>
<td>363,063</td>
<td>392,260</td>
<td>8.0%</td>
</tr>
<tr>
<td>RP</td>
<td>365,027</td>
<td>402,882</td>
<td>10.4%</td>
</tr>
<tr>
<td>OANCP</td>
<td>334,389</td>
<td>346,023</td>
<td>3.5%</td>
</tr>
<tr>
<td>Total Old Age</td>
<td>1,062,479</td>
<td>1,141,165</td>
<td>7.4%</td>
</tr>
</tbody>
</table>

Value for Money (VFM)

3.8 The 1997 Actuarial Review of Social Welfare Pensions (Chapter 7) analysed the VFM provided by the contributory pension schemes and concluded that the system is good value for money, particularly for couples, lower-income earners and the self-employed. The redistributive aspect of Social Insurance was highlighted in this analysis, which is summarised in Table 1 below. The VFM Index is the Present Value of Expected Pension Benefits divided by the Present Value of Expected Contributions. An index of 1 means that each exactly match.
TABLE 2: VALUE FOR MONEY INDEX

ASSUMED THAT PAYMENT RATES INCREASE IN LINE WITH AVERAGE EARNINGS FOR:

<table>
<thead>
<tr>
<th>AVERAGE EARNINGS</th>
<th>£8,000</th>
<th>£12,000</th>
<th>£16,000</th>
<th>£20,000</th>
<th>£30,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Full-rate Contributors (i.e. employee &amp; employer contributions combined)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single Male</td>
<td>2.54</td>
<td>1.58</td>
<td>0.88</td>
<td>0.69</td>
<td>0.52</td>
</tr>
<tr>
<td>Married Male</td>
<td>5.86</td>
<td>3.64</td>
<td>2.03</td>
<td>1.60</td>
<td>1.19</td>
</tr>
<tr>
<td>Single Female</td>
<td>3.68</td>
<td>2.29</td>
<td>1.28</td>
<td>1.01</td>
<td>0.75</td>
</tr>
<tr>
<td>Married Female</td>
<td>5.52</td>
<td>3.43</td>
<td>1.92</td>
<td>1.51</td>
<td>1.12</td>
</tr>
<tr>
<td>(b) Full-rate Contributors (employee contributions only)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single Male</td>
<td>12.56</td>
<td>6.15</td>
<td>4.07</td>
<td>3.04</td>
<td>2.53</td>
</tr>
<tr>
<td>Married Male</td>
<td>28.95</td>
<td>14.18</td>
<td>9.39</td>
<td>7.02</td>
<td>5.84</td>
</tr>
<tr>
<td>Single Female</td>
<td>18.18</td>
<td>8.91</td>
<td>5.90</td>
<td>4.41</td>
<td>3.67</td>
</tr>
<tr>
<td>Married Female</td>
<td>27.28</td>
<td>13.36</td>
<td>8.85</td>
<td>6.61</td>
<td>5.50</td>
</tr>
<tr>
<td>(c) Self-Employed Contributors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single Male</td>
<td>3.31</td>
<td>2.10</td>
<td>1.54</td>
<td>1.21</td>
<td>1.04</td>
</tr>
<tr>
<td>Married Male</td>
<td>7.86</td>
<td>4.99</td>
<td>3.65</td>
<td>2.88</td>
<td>2.47</td>
</tr>
<tr>
<td>Single Female</td>
<td>5.16</td>
<td>3.28</td>
<td>2.40</td>
<td>1.89</td>
<td>1.62</td>
</tr>
<tr>
<td>Married Female</td>
<td>7.60</td>
<td>4.83</td>
<td>3.54</td>
<td>2.79</td>
<td></td>
</tr>
</tbody>
</table>

EU Developments

In line with the Terms of Reference, developments in other EU countries were also examined. In general, it may be said that entitlement to old age or retirement benefits in the EU Member States is dependent on satisfying one of several different approaches – for example, reliance on a residency-based system where the person must have been domiciled in the country for a certain period or where entitlement is linked to some level of labour force participation or, indeed, a combination of the two. Within these (very) broad categories, some countries provide an income-related payment while others – e.g. Ireland - pay a fixed amount that bears no relationship to any prior earnings. Still others supplement their flat-rate pension with an earnings-related payment.

More generally, a recurring theme at both EU Commission and Member State level is the future viability of public pensions systems in view of demographic predictions. Appendix III contains examples of some reform initiatives underway in other EU Member States. The Commission’s Communication on Ageing\(^{26}\) highlighted the implications for social protection while a more recent communication\(^{27}\) identified as one objective the need “to make pensions safe and pension systems sustainable”. The special European Council held under the Portuguese Presidency on 23-24 March 2000 re-affirmed the success of public pensions systems in securing the relative income position of older people while approving a comprehensive, collaborative study on pensions reform issues and the requirements for secure and sustainable pension provision that ensures solidarity between the generations.

To progress this EU-wide debate on the future direction and modernisation of pensions systems, the Commission has identified a number of key issues

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drawing from the common threads of reform in the different Member States. While emphasising the interdependency of pensions reform with other policy areas these issues are broadly:

- the interaction between pensions systems and the labour market – for example, the need to promote ‘active ageing’ and the possibilities for incentivising longer, more flexible working lifetimes;

- the need to maintain public confidence in pensions systems and to develop a “clear vision” as to how they can be adapted while still remaining true to their fundamental objective – i.e. to provide people with a securely financed and adequate income after retirement, an income to replace earnings or derived income during working life;

- the adequacy of pensions in terms of income maintenance and coverage for those in atypical careers, particularly women and older pensioners, and

- financing future expenditure – for example, a move away from increasing the yield by raising existing social insurance contributions which runs counter to the broad policy objective of lowering charges on labour to consideration of new sources of financing (for example, using the proceeds of ecotaxes for pensions) along with the development of a robust and guaranteed Second Pillar (or supplementary pensions) environment.

Developments in Ireland

3.12 While most of these themes are very much at the core of the Irish debate on the future direction of both Social Welfare and supplementary pensions coverage, developments in Ireland have progressed in advance of the EU’s initiative. The National Pensions Policy Initiative (NPPI) which culminated in the wide-ranging report of The Pensions Board “Securing Retirement Income”\(^{28}\) was the product of a consultative process engaging all the major actors and interest groups. The NPPI Report itself contains nearly 100 recommendations with the general thrust being, overall, on the development of strong Social Welfare pensions based on social insurance and major improvements in our Second Pillar (both occupational and personal) pensions coverage. This goal is with the ultimate objective of ensuring that at least 70% of those at work will have Second Pillar coverage, as compared

to just under 50% at present and also includes specific targets for increased coverage of women in both employed and self-employed areas.

3.13 The Board recommended the establishment of an explicit fund to minimise the future costs of social welfare pensions. The Government accepted this recommendation in principle and, in July 1999, announced its intention to set up reserve funds to meet the future costs of Social Welfare and Public Service pensions.

3.14 Legislation setting up a temporary holding fund for exchequer monies allocated in 1999, was passed by the Oireachtas in December 1999 and a sum of £3 billion paid into the fund. This comprised £2.4 billion obtained from the Telecom Eireann flotation (the former State telecom company) and nearly £600 million representing the 1% of GNP contribution for 1999. A provision in the Finance Act, 2000, enabled a further sum of £1.85 billion to be paid, of which nearly £1.2 billion is from the Telecom sale and about £650 million is an estimate of the 1% of GNP contribution for the year 2000.

3.15 On 14th June 2000, the Minister for Finance published legislation which provides for the establishment, financing and management of the National Pensions Reserve Fund. This Bill also provides for a statutory obligation on the Government to pay a sum equivalent to 1% of GNP from the Exchequer into the Fund each year until at least 2055 and does not preclude the lodgement of additional funds, following approval by the Oireachtas. The Fund will have a strictly commercial investment mandate with the objective of securing the optimal return over the long-term, subject to prudent risk management. Drawdowns before 2025 are prohibited.

3.16 To address the issue of coverage, the Pensions Board also recommended, inter alia, the introduction of the Personal Retirement Savings Account (PRSA) to achieve this increase in coverage. The PRSA is envisaged by the Board as a low-cost, easy access personal investment account designed to allow people, regardless of their employment status, to save for retirement in a flexible manner and which will complement the Social Welfare pension. The Government accepted this recommendation in

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29 Source: ‘Occupational and Personal Pension Coverage 1995’, Gerard Hughes and Brendan J Whelan: A report prepared by the ESRI for the Department of Social Welfare and The Pensions Board (ESRI, 1996). It should be noted that the Programme for Prosperity and Fairness contains a commitment by Government to undertake a survey of occupational pension coverage in the first 15 months of the Programme to monitor progress towards the NPPI target. Details of the nature and timing of the survey and subsequent reviews will be agreed in consultation with the Pensions Board. The information generated will be reviewed to track the trends in coverage and will enable the extent and effects of the introduction of PRSAs to be monitored.
principle and a key feature of the Pensions Bill which the Minister for Social, Community and Family Affairs plans to publish later in 2000 will be the legislative framework for the PRSAs.

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CHAPTER 4: The Way Forward

Introduction

4.1 Chapter 2 listed the main issues which have arisen in the context of the review. The key points emerging are as follows:

(A) difficulties caused by the operation of the Yearly Average Test and related issues (namely, the use of contributions in the 65th/66th year, reduction in the yearly average to below 10, rationalisation of the rates bands structure and the role of credits);

(B) the treatment of homemakers;

(C) non-usage of contributions paid prior to 1953; and

(D) information issues.

Each of these is examined in the following sections.

Guiding Principles

4.2 The Group considered a number of guiding principles/general points of agreement which contributed to informing this review process. There is, for instance, general agreement that the social protection system is an important expression of social solidarity and redistribution both between economic groupings and the generations. The Irish social welfare system is one manifestation of this contract which associates the replacement of lost income with the identification of specific contingencies/needs.

4.3 The discussion document ‘Social Insurance in Ireland’ (SIDD)31 noted the consensus in Ireland that the social insurance system should be maintained to provide income maintenance cover against social risks while recognising the need for its adaptability and flexibility in meeting evolving risks under changing socio-economic conditions. Successive Irish Governments have committed to the maintenance of the social insurance principle, seen as central to underpinning the social contract between employers, employees, the self-employed and the Government.

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31 Social Insurance in Ireland; Department of Social Welfare (1996)
4.4 The Social Insurance Fund plays a key role in the provision of social protection in Irish society. People, when they are economically active, make contributions to the Fund according to their ability to pay and depending on the range of benefits and pensions for which they are covered. These payments fund the pensions of an earlier generation of contributors and also pay benefits to persons who are not working due to unemployment or illness. Contributors, accordingly, build up entitlements to various pensions and benefits which are paid to them as of right, without having to undergo a means test.

4.5 Moving on from this point is the preservation of the "contributory principle", defined in SIDD as combining “features of State income maintenance schemes, based on the principle of solidarity, and of commercial insurance in which benefit entitlements earned are related to contributions paid” 32. In commenting that “the principle of solidarity means in effect that there is not a proportional link between contributions paid by individual insured persons to finance Social Insurance and the vulnerability of the persons covered related to knowledge of differences among them in the likely incidence of unemployment, sickness, occupational accidents and diseases, permanent incapacity for work and longevity”, SIDD also noted that the levels of pension benefits payable under the OACP/RP schemes (and, indeed, widow(er)s) are deliberately out of proportion to the periods of Social Insurance completed during a person’s career, thereby avoiding potential supplementation of contributory pensions by social assistance payments 33.

4.6 Commensurately, it is a valid argument that, where a person has made a ‘reasonable’ contribution over their employment career to the Social Insurance Fund, then he/she should have "some" entitlement in his/her own right. It is important that all such contributors know that they are guaranteed a pension regardless of their income or household (income) status. This principle was reiterated in the Report of the Pensions Board ‘Securing Retirement Income’, arising out of the National Pensions Policy Initiative, which supported the inherent features of Social Insurance and a strong Social Welfare pension based on Social Insurance, and recommended that “the entitlement component of Social Insurance should be retained” 34.

4.7 While there is no proportional link between contributions paid and the level of benefits, this raises the question of what can then be considered as a ‘reasonable’

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32 Social Insurance in Ireland; Department of Social Welfare (1996) page 22
33 Social Insurance in Ireland; Department of Social Welfare (1996): page 22-3
attachment to the Social Insurance system. The National Pensions Board recommended, in 1993, that "10 full years' of paid contributions in the course of a person’s career should confer entitlement to a minimum pension in respect of old age and retirement". As has been indicated (see Section 2.11.10), the introduction of reduced rate pensions in 1997, based on yearly averages of between 10 and 19 contributions per year reflected this recommendation and balanced it with a measure implementing another recommendation of the Board which provided for the staged increase in the requirement for a specified total of paid contributions – see also Sections 2.10(2) and 2.11.11.

4.8 Allied to this is the desirability of a contributory pension scheme which enjoys widespread customer credibility. This implicitly suggests that a fundamental component of any such scheme will ensure that the level of pension paid is related, where feasible, to the level of contributions made; or, in other words, that a person with a higher number of contributions should not receive a lesser pension than a person with fewer contributions.

4.9 When the Commission on Social Welfare examined the contribution conditions for long-term social welfare benefits generally, it commented that “In a social insurance system which operates on a pay-as-you-go basis and which is not based on actuarial considerations, there is no scientific method of establishing what the exact contribution requirements should be for either short or long term payments. In the final analysis, any criteria adopted will be arbitrary.”

(A) Yearly Average Test

4.10 As was outlined in Chapter 2, qualification for the OACP/RP depends on satisfying three basic qualifying conditions. Of these, anomalies caused by the operation of the Yearly Average Test have been highlighted in

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37 The Yearly Average is arrived at by dividing the total number of reckonable contributions (i.e. full-rate contributions which are either paid and credited; Class A applies since 1979 – see Appendix I for the contribution classes and contingencies covered by each) in the period from the person’s date of entry into social insurance or from 1953, if earlier, to the last complete contribution year prior to age 66 by the number of years in question. Current (year 2000) claimants therefore face a potential divisor of up to 47 years unless they can avail of the “alternative yearly average test” which was introduced in 1992 and which allows a person to qualify for full pension if he/she has a yearly average of 48 or over since 6 April, 1979 when the PRSI system came into operation – see also Paragraph 2.11.7.
numerous representations, PQs and also featured prominently in the consultative process discussed earlier – see Sections 2.13 to 2.19.

4.11 Special arrangements apply to self-employed contributors which facilitate discounting earlier periods of insurance (if applicable) prior to 6 April 1988. Compulsory social insurance was introduced for the self-employed from that date and, under the aforementioned arrangements, the formal Date of Entry may be taken as 6\(^{th}\) April 1988, provided a self-employed contributor actually entered compulsory social insurance on that date.

4.12 The operation of the so-called ‘long’ yearly average test has given rise to problems for people who paid social insurance contributions at an early stage in their careers and who then left the workforce, for whatever reasons, re-entering at a later stage. For such people, the periods spent outside of the Social Insurance system may result in deficient insurance records and the yearly average is, therefore, diluted. This means, in some cases, people with gaps in their insurance may not qualify for a pension or will do so at a reduced rate despite having a higher number of contributions than those who enter at a later date.

4.13 The following examples illustrate the kind of discrepancy that can result:

**Example 1:**

Customer A, at age 16 and while still a full-time, second-level student, was employed for 8-weeks vacation employment in the summer of 1953. On leaving school in 1954, she began full-time employment in the public service and was subsequently obliged to resign on her marriage in 1960, due to the existence of the then bar against married women working in the public service\(^{38}\).

From 1960 to 1990 she was engaged on full-time home duties and re-entered the paid labour force in 1990 at age 53. She is a full-time employee, registered for PAYE / Class A PRSI and intends to continue working outside the home up to pensionable age which is 66.

Under the present qualifying conditions and, of course, assuming that she continues to pay full Social Insurance until her 66\(^{th}\) birthday in 2003, Customer A’s yearly average will fall to be calculated from her date of entry back in 1953. Her social insurance record will read as follows:

---

\(^{38}\) See also Footnote 66.
Customer A will, therefore, have a projected total of 684 reckonable contributions which will fall to be divided from 1953 to April 2003 - i.e. a 50-year period. Her yearly average will be 13.6 which equates to a current weekly payment of £48 (rate effective from 5 May 2000).

Example II:

Customer B is, at present, in receipt of an OACP at the current weekly personal rate of £72.10 which is equivalent to a yearly average of between 15 to 19. He was born in 1930 and entered social insurance in August 1947. According to the records of this Department, his insurance record from 1953 is as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Reckonable Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td>52</td>
</tr>
<tr>
<td>1954</td>
<td>52</td>
</tr>
<tr>
<td>1955</td>
<td>51</td>
</tr>
<tr>
<td>1956</td>
<td>53</td>
</tr>
<tr>
<td>1957</td>
<td>52</td>
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<tr>
<td>1958</td>
<td>52</td>
</tr>
<tr>
<td>1959</td>
<td>52</td>
</tr>
<tr>
<td>1960</td>
<td>52</td>
</tr>
<tr>
<td>1961</td>
<td>52</td>
</tr>
<tr>
<td>1962 – 1964</td>
<td>Earnings exceed remuneration ceiling</td>
</tr>
<tr>
<td>1965</td>
<td>17</td>
</tr>
<tr>
<td>1966</td>
<td>52</td>
</tr>
<tr>
<td>1967</td>
<td>43</td>
</tr>
<tr>
<td>1968 – 1973</td>
<td>Earnings exceed remuneration ceiling</td>
</tr>
<tr>
<td>1974</td>
<td>40 (Abolition of earnings limit)</td>
</tr>
<tr>
<td>1975</td>
<td>52 (48 contributions + 4 credits)</td>
</tr>
<tr>
<td>1976</td>
<td>52 (26 credits + 26 Voluntary Cons.)</td>
</tr>
<tr>
<td>1977 - 1987/88</td>
<td>Self-employed</td>
</tr>
<tr>
<td>1988/89</td>
<td>52 (Class S)</td>
</tr>
<tr>
<td>1989/90</td>
<td>52 (Class S)</td>
</tr>
<tr>
<td>1990/91 – 1996</td>
<td>Retired</td>
</tr>
</tbody>
</table>

Effectively, therefore, he has a total of 828 reckonable contributions from 1953 to April 1996 (43-year period) resulting in a yearly average of 19.25 and a weekly pension rate of £72.10 (rate effective from 5 May 2000).
4.14 Another variation on these examples occurs in the case of a self-employed contributor, as follows:

Customer C was born in 1932, reaching age 66 in July 1998. During his university years, he was employed during vacation periods from 1951 - 1954. There are 35 social insurance contributions recorded on his behalf for this period. He then migrated to Britain, returning in 1960 when he re-entered the Irish social insurance system and paid employee’s social insurance contributions for 4 years (1960 to 1964: 208 contributions). Thereafter, his earnings exceeded the insurable limits until 1970 when he became self-employed. While registered for tax purposes, Customer C held no PRSI liability until social insurance for the self-employed was introduced on 6th April 1988.

As a self-employed contributor, Customer C then paid PRSI Class S from April 1988 to April 1998. There are a total of 520 contributions recorded on his behalf over this ten year period. By virtue of the facility available to the self-employed which permits discounting periods of insurance prior to 6 April 1988 (on the proviso that the date of re-entry into social insurance was 6th April 1988), Customer C’s yearly average is calculated over the ten years from 1988, resulting in a maximum (personal) rate pension of £96 (rate effective from 5 May 2000).

(B) Total Contributions Approach

4.15 Given that the use of the Yearly Average Test has given rise to anomalous situations, the Group considered that a more transparent and inherently fair way of assessing the value of contributions is needed. It examined two options, namely:

(a) the use of a common divisor (say 40 years) where the yearly average test would exceed this (one variant of this could be a reliance on a ‘best years’ approach which might entail, for example, working backwards from pension age to achieve the number of contributions required to qualify for the optimal pension rate); or

(b) a switch towards a total contributions approach.

4.16 Option (a) has merit in that it would ignore a certain level of intermittent contribution payment but it is unwieldy from an administrative perspective and, as with the Yearly Average Test, is unlikely to deliver an easily understandable pension calculation formula from the pensioners’ perspective.
4.17 The National Pensions Board in its report also suggested a model predicated on a reduction from 48 to 45 of the maximum contributions required to qualify for a maximum rate pension. This envisaged a minimum yearly average of 10 and a rates band structure ranging from 100% as the maximum to a 30% minimum. Building on this and the Board’s earlier recommendation (see Section 2.11.11 above) that the number of paid contributions be increased ultimately to 520 contributions (or 10 years), which will happen in 2012, it is possible to surmise that the Board’s model envisages a potential requirement of 2,340 contributions to reach maximum rate pension. This is illustrated as follows:

**Table 3: Rates Bands Structure Envisaged by the National Pensions Board and Current Arrangements**

<table>
<thead>
<tr>
<th>Total Contributions</th>
<th>Relating to Average No. of Contributions Per Year</th>
<th>Rates of Payment</th>
<th>May 2000 Rates of Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>%</td>
<td>Yearly Average £</td>
</tr>
<tr>
<td>2,340+</td>
<td>45 +</td>
<td>100%</td>
<td>48+ £96.00</td>
</tr>
<tr>
<td>2,080 - 2,339</td>
<td>40 – 44</td>
<td>90%</td>
<td>20-47 £94.10</td>
</tr>
<tr>
<td>1,820 - 2,079</td>
<td>35 – 39</td>
<td>80%</td>
<td>15-19 £72.10</td>
</tr>
<tr>
<td>1,560 - 1,819</td>
<td>30 – 34</td>
<td>70%</td>
<td>10-14 £48.00</td>
</tr>
<tr>
<td>1,300 - 1,559</td>
<td>25 – 29</td>
<td>60%</td>
<td></td>
</tr>
<tr>
<td>1,040 - 1,299</td>
<td>20 – 24</td>
<td>50%</td>
<td></td>
</tr>
<tr>
<td>780 – 1039</td>
<td>15 – 19</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td>520 – 779</td>
<td>10 – 14</td>
<td>30%</td>
<td></td>
</tr>
</tbody>
</table>

39 Final Report of the National Pensions Board: Developing the National Pension System, (1993): see Para 12.18, Table 20, Page 160. The Board correctly emphasised the need to make appropriate arrangements to protect existing entitlements and to guarantee future, legitimate expectations. In an approach similar to that adopted in 1961 for contributions paid in the pre-'53 era, the Board proposed that one option would be to enhance the value of contributions paid from 1953 to the date of the introduction of the new arrangement – Paragraph 12.19, Page 160. This would effectively imbue these contributions with double their value – that is, counting each registered contributions as 2 for the purposes of entitlement to old age, retirement and widow(er)’s contributory pensions “subject to the number of contributions thus arrived at not exceeding the total number that would have been registered if the person had been insured for all the period in question”.
4.18 The Group had, however, some concerns in relation to the feasibility of this model, namely

(i) its over-reliance on the yearly average test;

(ii) the reduction of the minimum rate of payment to a level lower than that which currently obtains for standard rate pension payments. For example: in current terms, the 50% rate suggested by the Board as equating to a yearly average of between 20-24 would result in a weekly payment of £48.00 whereas, at present, a pensioner on a similar yearly average receives £94.10 per week;

(iii) the likelihood of a social assistance top-up for those on the lower rates; and

(iv) the operational implications for the Department with a new payment structure which (re)introduces 4 extra payment levels.

4.19 As will have been evident from the examples shown in Sections 4.13 and 4.14 (which are based on actual cases), the Group was of the view that yearly average test has not stood the ‘test’ of time. It has been shown to have a detrimental effect on a person’s entitlement by dragging back the calculation to contributions registered at an early age – for example, during vacation, student or other similar type employment. The Group considered that it is a fact of modern life that many people tend to intersperse irregular employment/work experience with formal education or, indeed, travel and that this should not lead to disadvantage under a system which, while in principle was sound, is now effectively outmoded.

4.20 Ultimately, the Group considered 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. It acknowledged that such a move in relation to the qualifying conditions would represent a fundamental shift in policy but considered that this would dovetail with the already agreed increase in the number of total contributions paid requirement to 520 in the 2012 (via a first step increase to 260 in 2002). A move away from the Yearly Average Test would have to be gradual and for a period there would be a need to operate two different qualifying mechanisms on a transitional basis – that is, essentially whichever of a Yearly Average Test or Total Contributions Approach was more beneficial to the client would be used.

4.21 In making such a switch to a Total Contributions Approach, the key issues are related to the contribution and benefit structure of the OACP/RP
payment. Ideally, one would aim for a fairer system which, while still maintaining the redistributive and VFM elements already discussed in Chapter 3, would have some reasonable link between contributions and benefit levels. The structure should also take account of the level of OANCP so as to ensure that recourse to this payment was not a better/additional option. As outlined in Chapter 2, the recent improvements have linked entitlement to an OACP 50% rate with equivalent, flat-rate adult and child dependent allowances. The structure would also take account of the total number of contributions and within this the mix of paid contributions and credits. Would, for example, a paid contributions test be sufficient? One approach, purely for illustrative purposes, could be along the following lines with 3 rates of payment, say:-

From 2012:

- to qualify for a 50% pension, XXXX contributions would be required of which at least 520 (or 10 years) are paid;
- to qualify for a 75% pension, YYYY contributions are required of which 780 (or 15 years) are paid;
- to qualify for a 100% pension, ZZZZ contributions are required of which 1,040 (or 20 years) are paid.

4.22 There could obviously be an infinite number of variations on this structure and these will be examined further in Phase 2 of the Review. It is considered that such a 3-tier structure would be more straightforward than the present arrangements and easier to understand from the pensioners’ perspective.

4.23 In light of these issues, the Group proposed a switch to a Total Contributions approach (along the lines proposed above), in principle, and that the necessary detailed work be carried out in Phase 2 of the Review process to establish how such a switch should best be achieved. The Minister signalled this proposal in his Budget 2000 speech, confirming that “Phase 2 of the Review will set out the specific detail of the proposals” and that “any changes to the existing pensions system have to be planned carefully.” Clearly, therefore, Phase 2 will involve detailed costings of options, impact assessment studies for future pension claimants, evaluation of the administrative implications, and the development of a realistic timeframe (bearing in mind the change in the Total Contributions paid requirement to 260 in 2002).

40 Speech by the Minister for Social, Community and Family Affairs, Mr Dermot Ahern, TD, on Budget 2000: 2nd December 1999. Page 7
Use of Contributions in the 65th/66th year

4.24 A corollary to this proposal is the usage of contributions up to the last complete contribution week prior to the 65th or 66th birthday. At present, contributions paid in the year of a person’s 66th birthday, when it falls after the April of that year, are not counted in the calculation for Yearly Average Test purposes although these may, if required, be counted to satisfy the 156 paid contribution test. This is due to the direct alignment of the contribution year with the tax year – that is, from 6th April to the following 5th April. While anecdotal evidence suggests that very few people would actually benefit by a relaxation of this rule, the Group was of a view that, in principle, this revised approach should be adopted in the context of the Total Contributions approach.

Reduction in the Yearly Average below 10

4.25 There have been some calls, both in representations and PQs, to reduce the minimum yearly average to below 10, leading to a lower rate or even pro-rata OACP/RP. The Group, however, considered it reasonable to expect a person to attain a certain level of contributions over his/her working career in order to qualify for a contributory-based pension and, that from an equity perspective between previous, current and future generations of contributors, a certain contribution threshold must apply. This not only upholds the social insurance principle, firmly supported by successive Governments, but also affirms the expectations and entitlements of those who have a history of strong attachment to social insurance. Ultimately, the Group considered that any such move was not desirable and, in any event, would run contrary to the decision to raise the minimum number of paid contributions to 520 by 2012 which, in effect, means that a person will, in any event, have to have a yearly average of, at least, 10. This supports the view taken by the National Pensions Board – see Section 2.11.11.

(C) Rationalisation of the Rates Bands

4.26 Assuming a 3-tier rates structure in the longer term – see Section 4.21 above, the Group also considered that there should be some rationalisation of the existing OACP/RP rates bands to facilitate this. The current structure (at June 1999 rates) is set out in Table 4 across.

4.27 The Group was of a view that these 6 bands should be streamlined to a three-rate structure (100%, 75% and 50%) at an estimated full year cost of £8 million. The Group considered that a number of benefits would accrue from such a move - administrative simplification, enhanced transparency and
benefit to a significant number of pensioners (some 38,000 fall into the relevant categories).

**TABLE 4: RELATIONSHIP OF RATES * TO AVERAGE CONTRIBUTIONS**

<table>
<thead>
<tr>
<th>Yearly Average Contributions</th>
<th>Personal Pension Rate £</th>
<th>% of Max. Rate on this Rate</th>
<th>Number of Recipients (OACP + RP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>48+</td>
<td>89.00</td>
<td>100%</td>
<td>92,711</td>
</tr>
<tr>
<td>36-47</td>
<td>86.60</td>
<td>97%</td>
<td>18,763</td>
</tr>
<tr>
<td>24-35</td>
<td>83.70</td>
<td>94%</td>
<td>14,393</td>
</tr>
<tr>
<td>20-23</td>
<td>81.90</td>
<td>92%</td>
<td>5,097</td>
</tr>
<tr>
<td>15-19</td>
<td>66.80</td>
<td>75%</td>
<td>3,203</td>
</tr>
<tr>
<td>10-14</td>
<td>44.50</td>
<td>50%</td>
<td>4,414</td>
</tr>
</tbody>
</table>

* at June 1999

4.28 The Government considered this proposal in the context of Budget 2000 and decided that the rates be rationalised to a four rate structure -100%, 98%, 75% and 50%. These proposals were given effect in the Social Welfare Act, 2000 and became effective from 5th May 2000. The 98% rate replaces rates bands 92%, 94% and 97% (see Table 4 above) and equates to a new rate of £94.10 per week (as at May 2000). The resultant increases including Budgetary improvements are as follows:

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*Figures supplied by the Pensions Services Office (PSO), Sligo, as at August 1999 and do not include recipients of EU or Bilateral Agreement pro-rata pensions*
### TABLE 5: SIMPLIFICATION OF THE OACP/RP RATES

#### NEW STRUCTURE

<table>
<thead>
<tr>
<th>Band: Yearly Average Contribution</th>
<th>Numbers Of Recipients (OACP+ RP)</th>
<th>Rates At June 1999</th>
<th>May 2000 Rates (Total Budget increase)</th>
<th>Net Weekly Gain (from Banding re-rate to 98% only)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 48+</td>
<td>92,711</td>
<td>£89.00 (100%)</td>
<td>£96.00 (+£7.00) (100%)</td>
<td>N/A</td>
</tr>
<tr>
<td>2 36-47</td>
<td>18,763</td>
<td>£86.60 (97%)</td>
<td>£93.40 (+£6.80) (97%)</td>
<td>£94.10 (+£0.70) (98%)</td>
</tr>
<tr>
<td>3 24-35</td>
<td>14,393</td>
<td>£83.70 (94%)</td>
<td>£90.30 (+£6.60) (94%)</td>
<td>£94.10 (+£3.80) (98%)</td>
</tr>
<tr>
<td>4 20-23</td>
<td>5,097</td>
<td>£81.90 (92%)</td>
<td>£88.30 (+£6.40) (92%)</td>
<td>£94.10 (+£5.80) (98%)</td>
</tr>
</tbody>
</table>

#### (D) Total Contributions Approach: Role of Credits

4.29 As already stated in Section 4.20, a further element of the total contributions debate is whether to calculate entitlement on the basis of paid contributions only or to include both paid contributions and credited contributions (credits) as at present. The Working Group which reviewed Credited Contributions surveyed the OACP scheme to establish (a) the extent to which the award of credits enabled benefits to be secured, (b) the implied costs of credits to the Social Insurance Fund and (c) insofar as possible, an estimate of the extent to which the people in question would have qualified for a social assistance payment if they had not obtained a contributory benefit.

4.30 The results of this OACP survey suggested that some 12.5% of OACP claimants would have no entitlement to this pension if credits were not awarded.

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42 Department of Social, Community and Family Affairs “Review of Credited Contributions”, (January 1999)
reckonable. The Group noted, particularly in the context of the introduction in 1997 of the pro-rata OACP, that the existence of credits enabled a significant number of claimants to secure a higher level of payment than would otherwise have been received. On that basis, allowing for a margin of +/-5%, the Group estimated that the cost of credits insofar as OACP claims are concerned is estimated to be between £38.6m and £42.6m in 1997 terms. However, it further estimated that, given some 56% of those who qualified for the OACP on the basis of credits appeared to have an underlying entitlement to the OANCP, it could be concluded that the corresponding saving on assistance payments was in the order of £22-£24m per annum giving a net cost of credits of £16.6m to £18.6m per annum.

4.31 In the context of ensuring a viable Social Insurance Fund, the Credits Working Group noted that there are two approaches which can be adopted if it were necessary to limit the liability to the Fund to credits-related expenditure. A limit could be placed on the number of credits an individual could accumulate over the course of his/her working life, or alternatively, the qualifying conditions for social insurance benefits generally could be amended so as to limit the degree to which credits may be used to secure entitlement to a payment. That Group favoured the latter approach, on grounds of equity.

4.32 In that regard, the Credits Working Group did not recommend any further change in the contribution conditions in respect of long-term schemes, noting that the “paid contribution test” for the OACP/RP is being increased (from 156 currently to 260 in 2002 and 520 in 2012 – see also Section 2.11.11 above). Applying this to the current question – i.e. whether to base a total contributions approach on paid contributions only or a combination of contributions and credits – the (current) Group proposed that the latter option form, in principle, the basis for proceeding and that the specific detail be worked out in Phase 2 of the Review in the context of the proposed move to a total contributions approach, as suggested in Section 4.23.

Within this survey, two separate categories of OACP recipient were examined, namely 143 cases which were assessed on the long Yearly Average Test (i.e. on the full post-1953 insurance record of the individual concerned) and 45 which were assessed on the Alternative Contribution Test (i.e. on the post-1979 insurance record) (details of these tests are already outlined in Section 2.10 and 2.11.7). In the first group, if credits were non-reckonable, 71% of claims would continue to be paid at the same rate, 21% at a reduced rate and 8% would be disqualified. For the second group, 27% would have been awarded a maximum-rate OACP even if credits were non-reckonable. The rest (73%) would have been disqualified under the Alternative Contribution Test (Review of Credited Contributions, Appendix 3, Sections 7 & 8).

Review of Credited Contributions: Chapter 11: Summary of Conclusions and Recommendations, Para 11.14

Review of Credited Contributions: Chapter 9: Scope for alternative approaches, Para 9.9
(E) Homemakers

4.33 The current pension arrangements are the result of the introduction of a number of flexibilities over the years to address various issues that were raised, as set out in Section 2.11. The development of the pensions system (as in other areas of social and economic policy) reflects developments/changes in societal attitudes and it is clear that arrangements that were acceptable twenty or thirty years ago are not always so today.

4.34 In this regard, a key issue relates to the treatment of those people (mainly women) who were forced (whether explicitly or implicitly) or opted to give up paid employment on marriage and/or to take up caring duties. Attitudes over the years have changed leading to demands that this work now receive formal recognition in the social insurance system. These range from, at a minimum, a demand that half the social welfare pension payable to a couple be split between the couple to, at the other end of the continuum, payment of a full pension to each of the couple in his/her own right independently of the spouse’s/partner’s entitlement or resources generally.

4.35 The Government’s commitment in its Action Programme for the Millennium is also of relevance here – namely “to provide the mechanism to allow women who take time out for family reasons, to continue contributions for pension purposes” (page: 15).

Examination of the Existing Homemakers scheme

4.36 While the social insurance system remains closely tied to participation in the paid labour force, Homemaker provisions were introduced from 6 April 1994 to cater for people who spent periods of time – up to a maximum of 20 years – outside the workforce caring either for children (up to 12 years of age) or incapacitated people. This was in line with a recommendation arising out of the Final Report of the National Pensions Board46. Essentially, these intervals are disregarded when calculating a person’s OACP entitlements. The introduction of disregards for homemakers was a

46 Final Report of the National Pensions Board “Developing the National Pension System” (1993). The Board put forward four options to address, within the Social Insurance system, periods spent out of the workforce on caring duties, which consisted of (1) women in the home paying voluntary contributions (available to any person who ceases insurable employment) (2) the award of credits for periods spent caring full-time for family members,(3) special recognition to (i.e. disregarding) periods spent caring for family members when calculating the number of qualifying years required for entitlement to a full pension, and (4) utilising the working spouse’s social insurance to cover the other spouse for periods when that spouse had no insurance cover by virtue of being engaged full-time caring for family members. Chapter 9, Paragraphs: 9.34 to 9.40.
recognition that women who had given up work to care for children or elderly/disabled relatives often failed to satisfy the OACP yearly average requirement. On introduction the disregards were not made retrospective to before 6 April 1994, which is the origin of the current issue.

4.37 A ‘homemaker’ is set out in legislation 47 as a person who is

- permanently resident in the State,
- aged 16 or over and under age 66
- not engaged in remunerative employment;
- residing with and caring for a child under 12 years on a full-time basis, or residing with and providing full-time care and attention to a person who is so incapacitated as to require full-time care and attention. The age threshold of 12 years does not apply where a child is so incapacitated as to require any fulltime care and attention.

For any year to be disregarded for this purpose, a homemaker must be out of the workforce for a complete year (52 weeks) in any given year from 6 April 1994. Provision is made for the award of credited contributions 48 in the year in which a person commences or ceases to be a homemaker. In addition, gross earnings of up to £30 per week where a person is engaged in part-time employment outside the home are also permitted.

4.38 The disregard system, in effect, discounts periods spent homemaking when calculating the yearly average over a social insurance lifetime at the pension

47 S.I. 235/94 Social Welfare (Old Age (Contributory) Pension) Regulations, 1994

S.I. 292/97 Social Welfare (Consolidated Contributions and Insurability) (Amendment) (No.3) (Homemakers) Regulations, 1997


S.I. 300/99 Social Welfare (Consolidated Payments Provisions (Amendment) (No. 6) (Bereavement Grant and Homemakers) Regulations, 1999

S.I. 323/99 Social Welfare (Consolidated Contributions and Insurability) (Amendment) (No.4) (Credited Contributions) Regulations, 1999

S.I. 82/00 Social Welfare (Consolidated Payments Provisions) (Amendment) (No.2) (Homemakers) Regulations, 2000

48 A credited contribution or “credit” may be awarded in a range of circumstances to assist a person retain his/her status as an insured person thereby protecting his/her social insurance entitlement during periods when he/she may be unable to pay contributions.
decision stage. In this way, it bolsters the social welfare supports available to families. As the Commission on the Family commented “The Commission has already questioned the structure of social welfare payment with its emphasis on the dependency role of one partner in the family. The Commission is of the view that the concept is particularly inappropriate in relation to couples who have completed their time in the active labour force and as homemakers and who, on retirement, should be able to look forward to a new recognition of the contribution they have made within the home and in the workforce. This recognition is particularly relevant to retired women who have worked full-time in the home”\textsuperscript{49}. In acknowledging the introduction of the Homemakers arrangements, the Commission pointed to the increased labour force participation rates of women, noting that “the pool of dependents who must fall back on derived entitlements in the future will get smaller”\textsuperscript{50}.

4.39 The issue of the individualised treatment of people in the social welfare code was examined by the working group examining the treatment of married, co-habiting and one parent families in the tax and social welfare codes (the Household Group)\textsuperscript{51}.

Individualisation

4.40 The Household Group viewed the concept of individualisation as relevant because it has the potential to diminish and eradicate differences in the treatment of different types of household. In considering the issue, they identified four approaches to individualisation in the social welfare code, as follows:

(a) total independent treatment in the social welfare system, whereby entitlements to payments (be they contributory or means tested) are based entirely on individual circumstances;

(b) expansion of the social insurance system, involving the replacement of derived rights in social insurance with participation rights based


\textsuperscript{50} Final Report to the Minister for Social, Community and Family Affairs of the Commission on the Family “Strengthening Families for Life”, (July 1998), Part 5, Chapter 14 ‘Older People in family life and society’, Section 14.8, Page 311.

on, for instance, the introduction of credits for carers, those in education etc, or a system based on residency;

(c) assessment for means-tested social welfare payments on a couple basis, with payment of full rates on an individual basis once entitlement is established. This is the situation which currently exists in the social welfare system with regard to the OANCP\(^5\); and

(d) administrative individualisation – which entails paying the same amounts as in the current social welfare system but with the ‘couple rate’ being split in half.

4.41 Overall, the Household Group was in general agreement that administrative arrangements in the area of separate payments should be extended and that the increase in social insurance coverage (which is already taking place) would lead to a greater degree of individualisation among social welfare recipients.

4.42 In light of the above and in the context of the Homemakers issue, the current Group also noted the recommendation of the National Pensions Board that “when persons who have been full-time homemakers reach pensionable age, the allowance currently paid with social insurance pensions in respect of them as ‘adult dependants’, should instead be paid directly to them. The allowance in their case should be renamed the ‘old age allowance’\(^5\), entitlement remaining conditional on the insured spouse/partner having qualified for payment of a social insurance pension.

4.43 Research on equivalence scales undertaken by the Economic and Social Research Institute (ESRI) for the Household Group\(^5\) suggested that the QAA should be increased to 70% of the personal rate. The Government intends to reach this recommended level for the QAA over a period of three Budgets and the process started in Budget 2000 with increases of between 8% to 17% being provided\(^5\). In principle, the QAA rate is set at less than 100% of the personal

\(^5\) In this case, where each of the couple is age 66, there is a joint means test and payment is then on an individual basis; each of the couple receives the same level of payment. Where one of the couple does not have an individual entitlement, then a Qualified Adult Allowance (QAA) is paid in respect of that person. In the social insurance system, those who meet the contribution conditions receive a payment in their own right.


\(^5\) Budget 2000 speech by the Minister for Social, Community and Family Affairs, December 1999, Page 14
rate on the basis that there are economies of scale where two people live together in the same household, and that account should be taken of these economies where the second person does not have a direct entitlement to the payment in his/her own right. 56.

4.44 One of the objectives of the Programme for Prosperity and Fairness (PPF) is to develop proposals to progress the individualisation of social welfare payments in the context of the continuation of joint assessment of means. In this regard, working groups will be established under the Programme to produce proposals

(a) “to progress the implementation of administrative individualisation with the Social Welfare system”; and

(b) “for the development of a fully inclusive social insurance model which would facilitate combining work and family responsibilities in the context of changing working and social patterns”57.

4.45 The work of these groups will be taken into account insofar as possible in developing proposals as part of the current review. In any event, this Department has been re-evaluating the arrangements for Homemakers in the general context of this review process and two issues have arisen, namely:

(1) the appropriateness of the “disregards” (as distinct from a credits) approach; and

(2) the current lack of any retrospection (earlier than 1994) in the periods to be disregarded.

Relevance of the “disregards” approach

4.46 At the time (1994), the disregard approach was adopted on foot of the recommendation of the National Pensions Board (see also Sections 4.36 to 4.38 above). Of the four options considered by the Board, it concluded that the “maintenance of social insurance pension entitlements .... for persons having to care full-time for family members ... can best be achieved by means of Option 3”58, on the basis that the other options would involve extra costs which, while difficult to estimate the amount involved due to lack

56 Budget 2000 also provided for the extension of the tapered QAA to the OACP/RP schemes. From April 2000, a qualified adult may earn up to £70 per week and still retain the full QAA while a reduced allowance is payable where such income ranges between £70 and £135 per week.

57 Programme for Prosperity and Fairness, 2000, Page 81: Framework III
of information of the likely claims experience and future pension entitlements accruing from the award of credits, would have to be borne by other contributors or the Exchequer. There is no doubt that the introduction of the disregard mechanism opened up a practical route by which a homemaker could access the OACP. Equally, the measure recognised the fact, also identified by the National Pensions Board and the Commission on the Family (see Section 4.38 above) that the increasing incidence of marital breakdown and lone parenthood would result in fewer women being covered by social insurance as dependants of their partners (see also Sections 4.38 to 4.41).

4.47 However, given that the Homemaker scheme is now in operation for six years, the Group questioned whether the actual concept of disregards has gained popular currency or understanding in promoting take-up of the scheme. In operating disregards it has become apparent that the concept is very difficult for customers to grasp and there is, consequently, a great deal of confusion as to what a “disregard” actually means. By June 2000, there had been a relatively low take-up on applications under the Homemakers Scheme – i.e. 2,752. Recipients of Child Benefit and the Carer’s Allowance do not need to register as Homemakers.

4.48 The Group was also of a view that the validity of the disregard mechanism only applies where the Yearly Average Test is in use. Furthermore, it noted the conclusion of the Credits Working Group which, in examining the disregard approach, stated that “This scheme differs from credits in three ways – it has no value in terms of securing entitlement to short-term benefits, it produces a slightly lower “yearly average” than credits, and it is not affected by the two-year rule. The Group considered that the existence of two separate schemes, with similar objectives and different rules and effects, should be further examined to see if a single uniform arrangement could be put in place” 59. In light of the above and the proposal for the adoption of a new approach towards calculating pension entitlement based on total contributions thereby replacing the Yearly Average Test, the Group decided to examine an alternative mechanism for dealing with this issue – namely, replacing disregards with credits.


59 Review of Credited Contributions: Chapter 11: Para 11.30. The reference to the “two-year rule” refers to a limitation on the award of credits where a person has no paid or credited contributions for a period of two years. In such a circumstance, he/she cannot be awarded further credits until 26 contributions are paid. As the Credits Review notes: “The rationale for this measure centres on the general principle that there should be a reasonable link between entitlement to benefit and a recent participation in the (active) labour force” – Chapter 2, Para 2.8.
Disregard to Credit Switch

4.49 To dovetail with the proposal to move to a Total Contributions approach, the Group proposed that a switch would have to be made from the disregards approach which currently applies to a credits based approach which would provide cover for pensions only. The total paid contributions requirement (for OACP/RP qualification purposes) of 156 at present and increasing to 260 in April 2002 and 520 in April 2012 would remain while the maximum period to be considered under the provisions (20 years) would also probably be retained but this would be examined in the context of Phase 2 of the Review.

4.50 The advantage of awarding credits is that such a system will keep a record ‘alive’, complete and transparent during periods of mobility between the paid work force and work in the home. It also has the administrative benefit of avoiding retrospective scrutiny of the insurance record at the pension decision stage unlike the disregards system. However, the Group was aware that there may be potential, long-term pension cost implications in such a measure, as evidenced in the following examples.

Example 1: woman aged 66 in 2004, first entered insurable employment in 1956 at age 18. Worked for 5 years only, no subsequent employment.

With Credits:

\[
\text{Average} = \frac{260 + (20 \times 52)}{48} = \frac{1300}{48} = 27: \text{qualifies for rate of £94.10 per week}^{61}
\]

With Disregard

\[
\text{Average} = \frac{260}{48 - 20} = \frac{260}{28} = 9.2: \text{will not qualify.}
\]

60 The assumption in these examples is that the minimum OACP qualifying conditions from 2002 will apply - i.e. a person will have 260 paid contributions, enters at least 10 years before pensionable age and satisfies the yearly average condition of 10 or above.

61 May 2000 rates: £94.10 equates to a 98% rate or a yearly average of between 20 and 47 contributions.
Example II: woman aged 66 in 2004, first entered insurable employment in 1956 at age 18. Worked for 2 years before marriage and was obliged to leave; spent 34 years homemaking, returned to the paid labour force in 1992 at age 54 to retirement at age 60 (6 years), did not sign on for UB or Pre-Retirement Allowance (PRETA) credits thereafter:

With Credits:

Average = \[ \frac{104 + (20 \times 52) + (6 \times 52)}{48} \] \[ = \frac{2028}{48} = 30.3 \] } qualifies for rate £94.10 per week

With Disregard

Average = \[ \frac{104 + (6 \times 52)}{48 - 20} \] \[ = \frac{416}{28} = 14.8 \] – rounded up to 15 } qualifies for rate £72.10 per week\(^{62}\)

4.51 This was also borne out to some degree in the results of the survey undertaken on OACP claims by the Credits Working Group. An imbalance was clearly evident in the survey between the number of female and male claimants who would fail to qualify if credits were non-reckonable. For example, on the Long Yearly Average Test (i.e. when contributions paid and/or credited from 1953 onwards are counted), some 18% of women claimants would be adversely affected as compared to 5% of males. That Group pointed out that this reflects the fact that women are far more likely to have a shorter PRSI contributions history generally by virtue of their leaving the paid work force in order to engage in home duties. Of those assessed under the Alternative Yearly Average Test (i.e. from 1979, which confers entitlement to a maximum rate pension only) who potentially would be disqualified if credits were removed from the equation, 52% were female and 48% male. It noted that the differing outcomes arose because the period of PRSI history considered for the Alternative Yearly Average Test is much shorter and the effects of time spent on home duties is consequently lessened\(^{63}\).

4.52 The current Group accepted that an implicit cost to the Exchequer is contained, in any event, in the Government’s commitment in its Action Programme for the Millennium - i.e. "to provide the mechanism to allow

\(^{62}\) May 2000 rates: £72.10 equates to a 75% rate or a yearly average of between 15 and 19 contributions.

\(^{63}\) Review of Credited Contributions, Chapter 11, Section 10.
women, who take time out for family reasons, to continue contributions for pension purposes (page 15). Furthermore, given the increase in female labour force participation which has risen in the 25-year period from 1971 to 1996 from 212,000 to 488,000 in 1996 resulting in more women building up insurance-based entitlements in their own right and the fact that the award of credits is the established mechanism for covering gaps in paid insurance under various contingencies, the Group proposes that a switch to credits could be justified.

Retrospection of Homemaker Provisions

4.53 Women who have already reached or are approaching pension age and who have gaps in their insurance records because of home caring duties or the existence of the marriage bar do not benefit under the Homemaker disregards. While they may well qualify for the OACP under the 1997 measure (which reduced the yearly average to 10) and the new arrangements which give further recognition to contributions paid prior to 1953 (see Sections 2.11.10 and 4.56 to 4.67), the absence of any retrospective element confers less than full advantage to this group. It should be noted, in this context, that the vast majority of women affected by this rule who were employed in the Civil or Public Service would have paid a modified rate of

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64 CSO 'Women in the Workforce', September 1997, and Census 1996 Principal Socio-Economic Results, Table C

65 In addressing one of the concerns of the National Pensions Board in its Final Report (1993) in relation to a credits-based approach (i.e. that lone parents and widows would also have to be eligible for such credits), the Group considered that this may no longer be valid given the direction social welfare policy has taken in encouraging lone parents to take up employment through the introduction of an "earnings disregard" with the One-Parent Family Payment. The option of payment of Voluntary Contributions was not considered to be practicable by the Group – not only in view of the potential numbers involved and the need for annual returns with all the administrative overheads that this entails, but even more importantly that, while the rate of the Voluntary Contribution would be relatively low, many homemakers are unlikely to have an independent income in their own right from which to pay contributions.

66 The ‘marriage bar’ referred to the compulsory retirement of women on marriage. In general, women employed in services industries, banks, local authorities and semi-State bodies as well as the civil service were required to resign their employment on marriage. While the First Report of the Commission on the Status of Women (December 1972) noted this practice was being gradually eroded – in effect if not in principle - at the time of its report in that married women in non-Civil Service employment could remain on in that employment for a certain period after marriage, this length of stay varied (usually not exceeding two years), was a matter for decision by the individual employer or for agreement between the employer and the trade union, tended to be of a purely temporary nature and, where pension schemes operated, the married woman was precluded from continuing in the scheme (page 108). The provisions of the Civil Service (Employment of Married Women) Act, 1973 (effective from 31 July 1973) removed the bar from the Civil Service while the Employment Equality Act, 1977, prohibited discrimination on the grounds of marital status, rendering the operation of the bar in employment unlawful and nullifying any contract of employment that contained any discriminatory term.
social insurance contribution which did not cover them for an OACP/RP and so will not be affected by any changes.

4.54 The Group was of a view that there is no fundamental reason in principle, why the Homemaker provisions should only apply from 1994. However, there is no obviously logical earlier date: for instance, settling on a date such as 1979 (when PRSI replaced the flat-rate contributions) or 1973 (abolition of the marriage bar) could be viewed equally as arbitrary. In addition, there is an administration/control issue of now retrospectively certifying periods spent on homemaking duties. Furthermore, in the pre-1974 era, a gap in the insurance record may not have been solely due to the marriage bar but could have been the result of the earnings/insurability limits.

4.55 In view of the complexities of this issue (from policy, cost and operational perspectives), the Minister has asked the Department to give priority to its scheduled (year 2000) review of the existing arrangements for Homemakers (which, in itself, forms part of the ongoing review of eligibility conditions for the OACP/RP schemes) and to bring forward proposals in this regard for consideration in a Budgetary context. This will be undertaken by the Group in Phase 2 of this review.

(F) Pre-1953 contributions

4.56 One issue which has received much publicity in a pensions context is that of the use (or non-usage) of contributions paid prior to 1953 for the yearly average test purposes. The Working Group was conscious of the groundswell of support over the last two years particularly from Oireachtas members, advocacy groups and customers seeking a repeal of this rule which has its roots in the early development of the social welfare system as already outlined in Sections 2.2 to 2.8.

4.57A concession already exists in relation to pre-1953 contributions in that they may be used to satisfy the first two qualifying conditions for the OACP/RP schemes - i.e. that a person must have entered at least 10 years before pension age and have a minimum of, at present, 156 paid contributions. Every two contributions paid prior to 1953 are, therefore, counted as three for this purpose with any odd contribution counted as two.

4.58 The National Pensions Board examined the pre-53 issue and a majority of its members considered that the present arrangements for pre-1953 contributions should be abolished. This was based on the premise that using pre-53

67 While this issue has been addressed in Budget 2000, the following sets out the Group’s considerations in this regard, which took place before the Budget and were considered in that context.
contributions could result in people qualifying for pensions in respect of whom less than 3 years’ contributions had been paid in a period of over 40 years since 1953. The Board also felt that this system gave rise to “significant administrative costs in having to maintain and check very old insurance records to establish whether paid contributions have been registered prior to 1953” \(^{68}\) which, indeed, is still the case. A minority of Board members (Trade Unions), however, considered that this facility should be retained and allowed to end naturally (which will happen in January 2003 for males and July 2003 for females). New claimants after that date could only have entered social insurance after 1953.

4.59 In considering this issue, two clear options presented themselves to the (current) Working Group. The first was to try and resolve the pre-53 issue through a general change to the Yearly Average Test while the second was to address it by way of a special measure.

4.60 Given that the Group favoured, in principal, a move towards a total contributions approach and in view of the fact that pre-1953 insurance will shortly cease to be a feature of new claims to OACP/RP, it was considered that the second approach would be more appropriate and equitable within the overall framework of both schemes.

4.61 The Group therefore examined the pre-53 contributions issue in terms of:

(i) people who might have pre-1953 insurance and were **rejected** for a Retirement/Old Age (Contributory) pension, and

(ii) those with pre-1953 insurance who were currently in receipt of a **reduced** rate of RP/OACP.

4.62 Contributions paid prior to 1953 did not contain any pensions element and, as a result, workers up to 1953 paid a lower rate of contribution than their successors who had to pay a higher rate of contribution to fund the OACP on its introduction in 1961. Also of relevance is the fact that those people who have failed to qualify under the present contribution conditions have been unable to meet even the reduced yearly average of 10 - introduced in 1997 - and so have displayed little or no attachment to social insurance during their working lives. Therefore, it can be validly argued that sufficient weight is already given to pre-1953 insurance through concessions already made - viz. allowing such insurance to satisfy the first two qualifying conditions for OACP/RP - and that a further concession in this area was not warranted.

4.63 Another area of concern which the Group also felt needed to be considered related to the policy generally. From a policy point of view, the Group did not favour any move which would completely equalise the value of pre and post 1953 contributions on the basis that this could introduce further inequities into the pension equation and result in people with pre-53 insurance being awarded pensions while others with the same number of contributions paid after 1953 and at a higher rate, might not qualify for a pension. The Group considered that to introduce such a clear and significant anomaly in an attempt to address the pre-53 issue could be very difficult to justify. On balance, it considered that further account should not be taken of pre-1953 contributions in the Social Insurance Code.

4.64 However, in light of the Government’s support for a measure to address the pre-53 issue, the Group revisited the issue and proposed that any such move would have to ensure that people with pre-53 insurance illustrated a reasonable attachment to the social insurance regime. It further considered that this could be achieved by imposing, say, a five year threshold for potential pre-1953 insurance to be considered. While the Group accepted that not all people with pre-53 insurance would benefit from this arrangement, such an approach is consistent with that adopted in 1999 in relation to the special pension for the self-employed which imposed a condition that a claimant had to have at least 5 years (or 260) contributions paid since 1988.

4.65 Accordingly, the Group proposed that provision be made in the Social Welfare Bill, 2000, for payment of special half-rate pensions to people who became insurably employed prior to 1953 and who have failed to qualify for pension or who qualify for a pension at less than half-rate because of the "yearly average rule". The Group considered that this new pension should take effect from 5th May 2000 (i.e. in line with the due date of the Budgetary increases) and that payment of an Old Age (Contributory) Pension at this 50% rate (i.e. £48 per week) be made in the case of any person who:

- fails to qualify for an equivalent or higher rate Old Age (Contributory) Pension, or
- fails to qualify for an Old Age (Contributory) Pension but qualifies for the Old Age (Non-Contributory) Pension at a lesser rate; and
- became an employed contributor under the National Health Insurance Acts prior to 1953 and
- has paid at least 260 contributions under the National Health Insurance Acts or a combination of 260 social insurance contributions and pre-53 contributions since he/she commenced insurable employment.
4.66 The Group also proposed that the method of reckoning contributions paid prior to 1953 for the purposes of the yearly average test, will be that every two paid contributions be counted as three. Finally, the Group further proposed that equivalent increases (i.e. half-rate) be paid for adult and child dependents, where applicable. The Living Alone and/or Over-80 Allowances will also be paid, as appropriate, from 5th May, 2000. These proposals were agreed by Government with the necessary provision made in the Social Welfare Act, 2000.

4.67 On this basis, it is estimated that some 3,000 people will benefit under the new arrangements at an estimated full year cost of £7 million.

(G) Information Issues

4.68 Awareness of pension entitlements was signalled as a key issue during the consultative meeting held with advocacy groups and the response from the Combat Poverty Agency – see also Sections 2.13 to 2.19. The provision of information is a primary service of the Department. The Department’s Information Service conducts information campaigns on the various schemes; some 60 Information Officers, based in Social Welfare Local Offices throughout the country, regularly advise on entitlements and the 70 Branch Offices have also taken on an information-giving role. Departmental staff also frequently facilitate requests from organisations seeking to inform their members of their entitlements. In addition, to mark the designation of 1999 as UN International Year of Older Persons, the Pension Services Office, Sligo, (PSO) published three newsletters dealing with all areas relating to the OACP/RP, OANCPs and Widow(er)’s (Contributory) and (Non-Contributory) Pensions which were issued to some 311,000 pensioners nationwide in October 1999. These received positive and constructive feedback. The PSO has since updated these newsletters in light of the Budget 2000 improvements and have re-issued them to all concerned.

4.69 Plans are also being developed for the re-alignment of the Information Service support and structures within Social Welfare Services to provide a more proactive, integrated and cohesive service to customers, employers, staff and external partners. Focus Groups of Information officers were set up in 1998 to determine their training needs and identify operational and organisational barriers which hinder the provision of an excellent service. In the area of application forms and leaflets, consultation has taken place with customers and their representatives to ensure that forms and leaflets use a layout and language that is clear and easily understood while being as comprehensive as possible. In addition, the Department’s Internet site (www.dscfa.ie) holds details of schemes/supports and rates of payment, Departmental publications, internal
guidelines (under section 16 of the Freedom of Information Act) and press releases.

4.70 The Group also had regard to one of the key recommendations of the 1998 report of the Pensions Board “Securing Retirement Income”\(^69\). The Board considered that its recommendations will need to be supported by an effective education and awareness programme if they are to have the maximum desired effect. Accordingly, the Board recommended a Government driven pensions awareness campaign to be conducted in conjunction with the relevant public and private sector bodies. The Government agreed with the Board regarding the importance of information in the pensions areas and asked the Department of Social, Community and Family Affairs to examine how this can be pursued in consultation with other Departments and the Pensions Board\(^70\). Further consideration will also be given to this following publication of the Pensions Bill later this year. The Group considered that this could provide a complementary platform through which information on social welfare pensions entitlement could also be progressed but that care would have to be taken to ensure that the ‘message’ was simply delivered in a structured and cohesive manner.

(H) Associated Issues

(i) Pre-1974 Earnings Limits and Voluntary Contributors\(^71\)

4.71 This relates to the operation of the earnings disregards prior to 1974 (see Section 2.11.3) and the exclusion from compulsory social insurance of non-manual workers whose incomes exceeded these thresholds. The issue, in the context of this Review, is the failure of many affected by the operation of the pre-1974 insurable limits to become Voluntary Contributors possibly resulting adversely on their pension entitlements.

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\(^{71}\) Provision for the payment of voluntary contributions by an insured person under pensionable age, and who satisfied the required conditions, has been in operation since the enactment of the National Insurance Acts, 1911. In cases where a person is no longer covered by compulsory PRSI and is under 66 years of age, it is and always has been open to them to become a voluntary contributor thereby preserving their insurance record and entitlements. A person may become a voluntary contributor provided they (a) have at least 156 weeks PRSI paid under compulsory insurance in either employment or self employment; and (b) apply within 12 months after the end of the contribution year during which compulsory insurance was last paid as an employed or self employed contributor or during which a credited contribution was last awarded.
4.72 In considering this issue, the Group noted the special partial pensions which were introduced in 1988 were specifically designed to address this issue\textsuperscript{72}. When taken in conjunction with the 1997 improvements which reduced the yearly average to 10 and the 2000 measure which gave further recognition to contributions paid prior to 1953, the Group was of the view that sufficient rectifying measures have been made over time in this regard.

(ii) More Flexible Retirement Options:
4.73 One of the issues which came through from the consultative process was the concern displayed by the groups about the growing international trend towards raising the pension age. Conversely, there have been some calls (most recently in PQs) to drop the retirement condition for the RP and reduce the pension age overall to 65.

4.74 The Group did not consider that a reduction in pensionable age could be justified in a policy sense, taking into account firstly the increases in life expectancy and secondly, the demographic scenarios projected in the Actuarial Review of Social Welfare pensions\textsuperscript{73}. The Department also estimates that the cost of lowering pensionable age by one year from 66 to 65 would be in the order of £50 million in a full year, including knock-on effects to other social welfare schemes and allowances.

4.75 The National Pensions Board also addressed this issue and recommended that, in principle, “the Board considers that a standard qualifying age of 65 for retirement and old age pensions should be introduced”. However, it regarded this as a “low priority given the cost .....”\textsuperscript{74}. The Board also examined raising the pensionable age and concluded that this should not

\textsuperscript{72} In 1988, special partial pensions were introduced for people who had paid social insurance early in their careers and then re-entered social insurance cover on 1 April 1974, due to the abolition of the ‘earnings limit’ - see 2.11.5 above.

\textsuperscript{73} The Actuarial Review which provided a demographic profile of older people in Ireland and formed part of the context of the NPPI, projected that the number of people aged 65 and over will increase from 11% of the population in 1996 to 19% by 2026, 22% by 2046 and to 27% (or over 1 million) by 2056. The Review also suggested that due to the assumed continuing improvement in mortality, the projected numbers over age 80 will increase over the period from 90,000 (or 2% of the population) to 317,000 (or 8% of the population). The number of persons at working ages (for the purpose of the Review, this was taken to be between 20 to 64) is projected to increase by around 16% over the next 30 years and, thereafter, to decline by 18% to the end of the projection period. The overall effect of the changes is that the ratio of those at working ages to those over age 65 will increase slightly initially and then decline steadily to the end of the projection period, at which stage the Old Age Dependency Ratio will have fallen from 4.9 to 1.9 – Section 14, Page 14 and Appendix C.

\textsuperscript{74} “Final Report of the National Pensions Board: Developing the National Pension System” 1993 – Paragraph 11.5, Page 133.
happen but that “that position should be kept under review in the light of future changes in the labour market”

4.76 Research has shown that new, sympathetic approaches will be required to address the future funding requirements of State pensions in the light of population ageing leading to, for instance, at EU level calls for more flexible retirement programmes which will cater for longer periods of economic activity. The Pensions Board report “Securing Retirement Income” raised the possibility of flexible later retirement ages being introduced in the Social Welfare code. The Board considered that one of the key factors affecting pension costs is retirement age which is normally taken as 65 and that it “may be worthwhile to consider an approach to retirement age which mirrors (this) expected increase in life expectancy”. In general, Social Welfare pension age for both women and men in Ireland is 66. The Board noted the knock-on effects from an increase in First Pillar (i.e. Social Welfare) pension age and the aspirations towards an earlier retirement age in commenting that the raising of retirement ages “needs a major communication exercise if it is to be publicly acceptable”.

4.77 The Group concluded that, while this issue will have to be examined in detail in the medium-term, it is outside the remit of Phase 1 and 2 of this current Review process. However, the current arrangements for RP and the operation of the retirement condition will be examined in Phase 2. The option of more flexible retirement patterns forms part of a wider debate both at EU and individual Member State level in relation to incentivisation of active ageing policies generally. This debate, in which the Department is fully engaged at EU level, has arisen in the context of the future sustainability of public pensions systems.

75 “Developing a National Pensions System”, Paragraph 11.4, Page 132

76 “Securing Retirement Income”, Section 5.10, Pages 95 to 98

77 The exception here is the Retirement Pension Scheme which holds a retirement condition for 1 year from age 65. Eligibility for this pension is conditional on being fully retired from employment and/or self-employment. A person is regarded as being retired if his/her earnings from (a) employment are less than £30 per week and (b) self-employment are less than £2,500 per annum


79 For example, evaluation of the merits of providing for a deferred and actuarially increased social welfare pension. This was one option examined by the National Pensions Board, a majority of which recommended that “provision should be made for the payment of increased pensions to persons who defer claiming a social insurance pension for at least a year beyond age 66, in the interests of providing for flexible retirement. Such additions to the pension ultimately payable should be provided on an actuarially calculated cost neutral basis. (The increase is likely to be of the order of 5% to 7% for each year of deferment). It is considered that this option could be offered to persons wishing to defer claiming their pension for periods up to age 70”. “Developing a National Pensions System”, Paragraph 112, Page 136.
(iii) Age Related Pensions

4.78 Another issue which the Group discussed was the possibility of paying a basic pension on an age-related basis. This concept suggests a universal-type scheme where a flat-rate retirement income would be paid to all residents (not necessarily nationals of the State) regardless of the employment status/insurable periods completed.

4.79 Such a scheme would enjoy the broadest possible coverage and, arguably, has the three-fold advantage of (a) eliminating the need for a means-test, (b) being utterly straightforward in its qualifying conditions and (c) on an equity-basis, consistent in its treatment of both households and individuals. There are, of course, variations on such an approach. One example is the Netherlands model whereby the General Old Age Insurance scheme covers, in principle, the entire population, irrespective of nationality or marital status. Participation in the Scheme is based on residency in the country rather than the period spent in the paid work force. As the Household Group report stated “this also enables those involved in caring duties to establish an individual pension entitlement. In addition, participation in part-time or low paid employment does not affect the amount of pension received, as the pension amount is based on a proportion of the national minimum wage. Title to pension is predicated on a person having a basic right as a citizen to an income. This is payable regardless of sex, marital status, composition of the household or employment history”\(^8\).

4.80 Canada also employs a universal old age pension scheme which is payable at age 65, based on 10 years residence in the country. Payment is “earned” at 1/40\(^{th}\) of the maximum pension for each year of residence in Canada after age 28 and up to a maximum of 40 years. However, benefits are subject to recovery from high income earners. An earnings-related pension is also available with a minimum entry requirement of, at least, 1 year of social insurance contributions, payable at age 65 with a 0.5% reduction per month if claimed at any stage between 60 and 64 years of age. New Zealand Superannuation also provides for a retirement income based on residency. This is payable at age 64 which will rise to age 65 in 2001. 10 years residence is required after age 20 (5 of which must have been since age 50). The rate of payment is dependent on marital status and household composition and income.

4.81 In the Irish context, the difficulty with such an approach lies in the undermining of the social insurance principle which links benefit rates to, in a pensions context, a relatively sustained period of economic activity. Cost implications are also, clearly, a factor. While there is not, for instance,

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anything to preclude linking completed periods of social insurance with those of residency to either satisfy the minimum qualifying conditions (although this effectively weakens the concept) or to facilitate supplementation of the basic pension scheme with a graduated/contribution-related second (State) pension tier, the Group was aware that the cost factor may ultimately prove to be prohibitive,

4.82 For example, such a pension arrangement would clearly have to apply to both men and women and, in effect, would amount to a universal pension while embracing the concept of absolute individualisation of payments. It is estimated that the full year cost of introducing a pension at, say, the OACP maximum rate (£96 per week from 5 May 2000) in respect of all those in receipt of reduced rate pensions or those in respect of whom a qualified adult allowance is paid, would be in the region of £220 million. To extend entitlement further to those people who have no entitlement to a Social Welfare contributory old age pension at present would increase the cost to a total of £400 million approximately in a full year.
CHAPTER 5: Proposals and Phase II

5.1 The OACP/RP schemes form an integral part of the State income supports available to older people. Entitlement is based on a person satisfying a number of qualifying contribution conditions, based on the social insurance/PRSI history. For the OACP scheme, these governing conditions have been in operation for nearly 40 years.

5.2 While, over time, many issues concerning the operation of these qualifying conditions have been raised with the Minister and the Department, it has become clear that the yearly average test, in particular, has led to certain anomalies. In effect, this has resulted in people either qualifying for an OACP/RP at a reduced rate (although this has been mitigated to some extent by the improvements to the rates bands which came into effect from 5th May 2000) or not qualifying at all.

5.3 Another important aspect to this is the priority the Government has attached to ensuring that the broadest possible contributory pensions coverage applies. In light of these issues, the Department’s Group has prepared the initial report on the review of the qualifying contribution conditions for the OACP/RP. In line with the Terms of Reference (see Section 1.9), its purpose has been to

(a) examine the background to the current qualifying conditions and establish the underlying rationale;

(b) evaluate and review the impact of the current qualifying conditions; and

(c) identify anomalies, if any, created by the operation of the current qualifying conditions.

5.4 The Group was aware that, as the Commission on Social Welfare (1996) put it, “In a social insurance system which operates on a pay-as-you-go basis and which is not based on actuarial considerations, there is no scientific method of establishing what the exact contribution requirements should be for either short or long term payments. In the final analysis, any criteria adopted will be arbitrary” (see Section 4.9). In that regard, the Group was conscious of the fundamental and continuing need to underline the integrity and credibility of the contributory-pension schemes and had as its main principle that of equity. The Group was informed by a number of sources including the views of advocacy groups representing the interests of older people and external partners of the Department.
5.5 In this Report, the Group took the approach that it was important to signal, in principle, that changes are required to ensure the efficacy of the contributory pension schemes and that the detailed work leading to the implementation of these changes will be carried out in Phase 2 of the Review process.

5.6 However, some of the proposals arising out of this Report are now a matter of historical record in that they have been implemented (namely, the decision to introduce new pension arrangements which give further recognition to contributions paid prior to 1953 and the rationalisation of the rates bands for the OACP/RP schemes - both of which were provided for in Budget 2000, coming into effect on 5th May 2000). There are two key points arising out of the proposals of the Group which will, therefore, be addressed in Phase 2 of the review process: namely:
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<td>The</td>
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<tr>
<td>Sector</td>
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<td>1998/1999*</td>
<td></td>
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<tr>
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<td>B Most Civil Servants, Gardai</td>
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<td>Widow(er)’s and Orphan’s Benefit, no Occupational Injury Benefit</td>
<td>1,340</td>
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<td>All benefits except Occupational Injury Benefit</td>
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<td></td>
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<td>Limited Unemployment, Disability and Treatment Benefits</td>
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<td>S Self-Employed</td>
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* Source: Statistical Information on Social Welfare Services 1999, Table A15. The number of insured includes 187,315 persons who were in receipt of credited contributions only.
1. The National Council on Ageing and Older People

The National Council on Ageing and Older People was established in March 1997 in succession to the National Council for the Elderly (January 1990 to March 1997) and the National Council for the Aged (June 1981 to January 1990). The functions of the Council are: to advise the Minister for Health and Children on all aspects of ageing and the welfare of older people, either on its own initiative or at the request of the Minister; to assist the development of national and regional policies and strategies designed to produce health and social gain for older people; to promote the health, welfare and autonomy of older people; to promote a better understanding of ageing and older people in Ireland and to liaise with international bodies which have functions similar to the Council.

2. The Council believes the objectives of the old age contributory pension system should be to ensure that the maximum number of people receive the contributory pension at the highest rate and that the system operates in an equitable fashion. While progress has been made in recent years, the Council is concerned that anomalies remaining in the system should be removed.

While the Council understands the main focus of this review to be the operation of the yearly average condition and the removal of the anomalies it causes along with the issue of pre-1953 contributions it does not feel qualified to offer technical comments on these issues.

3. However, the Council is concerned at various aspects of the current operation of the old age contributory pension system as follows:

(a) A person with a higher number of contributions may receive a lower pension than a person with a lower number of contributions, or may not receive a pension at all.

(b) The operation of the Homemaker’s Allowance

(c) Individualisation

a) A person with a higher number of contributions may receive a lower pension than a person with a lower number of contributions, or may not receive a pension at all.

Due to the operation of the yearly average condition, this basic anomaly can occur, if people have gaps in their insurance record or were employed prior to 1953, when social insurance first included a pension entitlement. This is contrary to the principle that the level of pension paid should be related to the level of contributions made.

Many welcome changes have been made to the qualifying conditions in recent years but this basic anomaly can still arise. While the Council feels it is beyond its capability to provide technical suggestions as to how this situation might be resolved, it strongly believes progress is necessary in this direction and awaits with interest the outcome of the review.

The National Council on Ageing and Older People: Submission to Department of Social, Community and Family Affairs, Review of the Contribution Conditions for Old Age Contributory Pensions

b) Homemaker’s Allowance
This issue is of particular relevance to older women. The Homemaker’s allowance was introduced in April 1994 and means that time out of the workforce to care for children or an incapacitated person is disregarded when the yearly average contributions for the Old Age Contributory Pension are being calculated. The scheme now applies to those caring for children under 12 or disabled or invalided people who require continuous supervision. Time spent out of the workforce for these reasons before 1994 is still counted in calculating the yearly average. Thus this is of little benefit to older people, mainly women, who have devoted time to child rearing or caring for an incapacitated person.

This situation is all the more jarring when we consider that for today’s older women, many had no option but to leave the workforce upon marriage and motherhood, given the lack of childcare arrangements, unequal pay and tax arrangements. This was further exacerbated by the marriage bar which forced many women to leave paid employment on marriage.

Work currently being carried out for the Council by the ESRI illustrates the vulnerability of elderly women to poverty and deprivation. The Council therefore recommends that the extension of the Homemakers Allowance retrospectively should be considered.

c) Individualisation of benefits

A related issue is the individualisation of benefits. The Council agrees with the recommendation in the Final Report of the National Pensions Board that the pension system needs to incorporate individualisation of payments for qualified adults. This point was also raised in the Council response to the National Pensions Policy Initiative Consultation document. The ‘adult dependants’ of persons receiving a contributory social welfare pension should receive an allowance (called an old age allowance) in their own right once they have reached pensionable age.

This issue is again particularly relevant to women, Given the situation outlined above which today’s older women experienced in the workforce, it is unfair that in their old age, they should be treated as dependant. Rather, the contribution they have made in the workforce or in the home should be recognised independently. The contributory pension has always operated on an individual basis because of the means test.

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Aodhnaid Doyle
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Aras Mhic Dhiarmada
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30 June 1999

Dear Aodhnait

Review of the Contribution Conditions for Retirement and Old Age Contributory Pensions

1. Thank you for the opportunity to provide observations on the Review of the contribution conditions for Retirement and Old Age Contributory Pensions (RP/OACP). While many of the issues to be addressed are essentially technical in nature we would like to comment on general principles which should inform the Review.

2. From a poverty perspective the elderly population most at risk of poverty are:
   • those on Non-co Widows Pension
   • those on Non-contributory Old Age Pension
   • those on Contributory Widows Pension.

   Women are over-represented among poor older people and rural women, in particular, are found to be especially at risk.

3. The recent study by the National Council on Ageing and Older People documents this well. As you are on the research advisory group you will be familiar with this work, so I will not detail it here.

4. In relation to the Review of RP/OACP we note that those who are on RP/OACP are not a high poverty risk group. It is others, particularly older women on non-contributory pensions or women on contributory widows pension who are most at risk. Thus, the Review should take into account how the Contribution Conditions for RP/OACP can be changed to enable a greater number of people, particularly women, to qualify for RP/OACP.

5. In addressing poverty issues we would make the following points:
   i) we support and endorse the social insurance principle;
   ii) the Review should try to ensure that in future an increasing proportion of pensioners are entitled to full contributory pension. The contributory conditions should facilitate such extended coverage;
   iii) consideration should be given to moving towards the individualisation of pension rights so that men and women are treated equally as citizens in retirement and for pension purposes. As a first step the Qualified Adult Rate should be increased to 70% of the personal rate;
   iv) RP/OACP payment rates should be adequate and uprated in line with average earnings;
   v) information about pensions and the associated qualifying conditions should be made widely available in a clear and accessible way.

6. The Review of the Contribution Conditions for Retirement and Old Age Contributory Pensions should be assessed against the Poverty Proofing Guidelines.

I hope these observations are helpful to your Review. If you wish me to elaborate on any of the points made please do not hesitate to get in touch.

Yours sincerely,

Helen Johnston
Head of Research.
APPENDIX III

A.III.a No single standardised social welfare system exists within the EU/EEA. In relation to nationals of the EU and the EEA, discrimination on grounds of nationality is prohibited in the Treaties. This principle is reflected in the EU Regulations on Social Security (Nos: 1408/71 and 574/72). In general, a worker and his/her dependants who reside in the territory of one Member State are subject to the same obligations and enjoy the same benefits under the legislation of any Member State as workers who are nationals of that State.

A.III.b These EU Regulations on social security perform a co-ordinating role between these different systems and establish common rules and principles which have to be observed by all national authorities. The Regulations contain detailed provisions on the application and implementation of social security schemes throughout the EU and apply to employed persons, self-employed persons and to members of their families moving within the Union.

A.III.c Old age pensions are among the most important social security benefits covered by the EU Regulations. These provide, for example, that a person who has been insurably employed in more than one Member State will have his/her pension calculated according to the insurance record in each country - the rate of payment corresponding, on a pro-rata basis, to the periods of insurance completed there.

A.III.d The following is a sample of some of the recent developments and trends relating to pensions reform and, more particularly, eligibility issues by various Member States.

- France, in a 1994 measure which will affect those born after 1 January 1934, reformed its state pension scheme with, most notably, a decision to increase the minimum period of contributions required to qualify for the full pension. Measures included raising from 150 to 160 quarters (of an earnings-based system) the contributory period conferring entitlement to a full retirement pension (50%) at age 60; and extending from 10 to 25 years the period taken into account to arrive at the average pay used to calculate the pension. after extended periods of education, etc.).
  
  In addition, earnings on which the pension is calculated and the pension in payment are now re-valued in line with prices and not, as previously, earnings.

- in 1994, Portugal extended its minimum period of contributions (paid or credited) from 10 to 15 years with a requirement to have contributed
over a 40-year period to receive a full pension; equalised, on a 5-year transitional basis, retirement age for men and women to 65 and extended the contribution period taken into account for determining the basic sum of the old age pension to the 10 best years over the previous 15.

- Italy similarly reformed its pensions system in 1995. Of note here was a move towards a contributions-based criterion for calculating pensions in comparison to its predecessor which provided for a percentage calculation based on average earnings from the entire working life. While, effectively, there are now three categories of pensioners with transitional measures in place for those whose entitlements arise under the pre-1995 rules, of relevance are the new arrangements for new entrants to the labour force as and from 1 January 1996. Pension entitlement is based on the amount of accumulated contributions times an individualised, age-related coefficient ranging from 4.72 at age 57 to 6.136 at age 65. To qualify for a minimum rate pension 5 years contributions are required; a maximum rate is conditional on 40 years of insurance and contributions being completed;

- This trend towards directly linking the number of years in which contributions were paid into the pension scheme and the amount of contributions paid is also evidenced by developments in the Spanish pensions system. Arising out of the political Toledo Pact, approved by the Spanish parliament in 1995 which laid down principles relating to the viability and structural reform of the social protection system legislation, passed in July 1997, provided for an increase of up to 15 years (from 8) of the period used for the determination of the statutory earnings basis, of which at least 2 years must have been during the 15 years preceding entitlement. Effectively, therefore, the pension amount is determined on the basis of contributions which, in turn, depends on the earnings and on the number of contribution years. To obtain a full rate pension, the contribution period must be 35 years.

- In Sweden, a new national pension system was introduced on 1 January 1999 and the first payments will be made in 2001. This new system which will operate on a transitional basis (any person born in 1954 or later will receive their entire pension from the new system) will replace both the national basic and supplementary (ATP) pensions schemes. It consists of three parts: an income pension, a premium pension and a guaranteed pension. During a person’s active working period, all income up to a ceiling of just under SEK 25,000 a month (in 1999 terms) will form the basis of the pension. The pension fee is 18.5 per cent of

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81 Social Security Programs throughout the World 1997, published by the US Social Security Administration in cooperation with the International Social Security Association (ISSA). The adjustment coefficient may be modified every ten years, based on demographic and economic changes (GDP); source, MISSOC Comparative Tables 1996 published on annual basis by the European Commission.
the income. Of this fee, 16 percentage units go towards paying for today’s pensioners. At the same time, everyone receives corresponding pension rights to their own future pension. Some 2.5 percentage units go towards the premium pension and are invested by the individual through the offices of the new premium pension authority (which has the task of handling choices and changes of funds: the social insurance office will administer the income pension and the guaranteed pension). The guaranteed pension is designed for those who have not earned a pension of their own or have a low income-based pension.

- The basic idea of the new Swedish pension scheme is to ensure that the system remains financially stable regardless of economic swings. The idea of keeping the fee at the same level – i.e. 18.5% - and of linking the pensions to general income developments guarantees that payments to pensioners do not constitute too great a burden on the rest of the workforce. Actuarially increased pensions are also available on deferral of drawdown – there is no maximum age limit for retirement. Everyone also receives pension rights including periods during which they have young children, regardless of whether parental leave is availed of or not. Every spring, all those affected under the premium pension scheme will receive a statement containing information about the total income they have collected towards their pensions, how much they can invest for their premium pension on the basis of the fees paid in the previous year and a forecast of their future pension. This facilitates informed decisions on future personal pension plans.

- Of all the EU member states, the UK’s basic retirement pension scheme corresponds most closely with Ireland’s. Social security is provided through a contributory flat-rate insurance benefit for the main contingencies, incapacity, unemployment and old age, paralleled with income support - a non-contributory, general means-tested benefit for those on low incomes. The system operates on a pay-as-you-go basis with earnings-related contributions payable by employed people and their employers and contributions payable by the self-employed. People over state pensionable age who satisfy statutory contribution conditions receive a flat-rate basic retirement pension and an earnings-related additional retirement pension (SERPS). State pension age is currently 65 for men and 60 for women but over a ten year period from 2010 it will be gradually increased for women until it is equalised at age 65. Retirement pensions in payment are increased annually in April of each year in line with increases in the retail price index (RPI).

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[82] See address by the State Secretary, Swedish Ministry of Health and Social Affairs, at the conference ‘The Future of Social Security’ (otherwise known as the Stockholm Initiative) Stockholm, 1998 and published by the International Social Security Association (ISSA) and “Social Insurance in Sweden, 1999: published by the Swedish National Social Insurance Board
• The basic retirement pension is paid to those who, as indicated above, have reached state pension age and have paid contributions on enough earnings (52 x the lower earnings limit for paying national insurance contributions) in a year (from April to April)\(^3\). Pension entitlement is calculated on the basis of the relationship between the numbers of NI contributions paid/credited over the working life. To qualify for a maximum rate pension, this needs to equate with, at least, 90% of that working life. Those with less than 90% but at least 25% of qualifying years become entitled to a pro rata reduced pension. In addition, the facility exists for someone who continues working beyond pensionable age to receive a retirement pension irrespective of earnings. Should a person defer claiming a retirement pension for up to 5 years and during that period receives no other state benefit, the level of pension will be increased to take account of the amount of pension foregone.

Summary

A.III.e MISSOC 1998 commented that much of the emphasis over the last decade in EU Member States’ reforms of their pensions systems relate, in one respect, to the elimination of any favourable exceptions to certain categories of insured people - we see, for instance, progressive harmonisation of the retirement age to 65 for men and women occurring in Belgium, Greece, Portugal, Germany, Austria and the UK. There is also a distinct trend towards making pensions more contributory with an every increasing emphasis on the link between the amount of pension and total contributions paid throughout the working life. Clearly, how this is achieved varies widely from Member State to Member State given the differing eligibility criteria, etc.

APPENDIX IV

GLOSSARY

Contributions:

\(^3\) From April 1999, key changes have occurred in the UK’s National Insurance (NI) contribution structure which exclude the payment of NI contributions on earnings below the lower earnings limit with the aim of eventually aligning the point at which employees begin to pay NI contributions with the single person’s allowance for Income Tax. In addition, a similar measure has been introduced for employers whereby liability for the employer’s share of the contributions will arise only on their employees’ earnings over £83 per week. The current system of multiple NI contribution rates for employers is to be replaced with a single rate.
These are social insurance contributions payable in respect of employees and the self-employed including voluntary contributors into the social insurance fund to finance the payment of social insurance benefits.

**Contribution Record:**
The record of the amount of social insurance contributions, known as Pay Related Social Insurance (PRSI) contributions since 1979, paid or credited in respect of an insured person during the course of their working lives.

**Contribution Year:**
A period running from 6th April in one year to 5th April in the next year.

**Credited Contributions or Credits:**
These form part of the Social Insurance System, are awarded in circumstances such as unemployment and illness and are designed to protect the social insurance entitlements of a person during periods when he/she is unable to pay contributions. In order to qualify for credits, a person must first have entered insurable employment and have, at least, one paid social insurance contribution.

**Disregards:**
This concept was introduced at the time of the Homemakers Scheme in 1994. Essentially, a period of time, up to a maximum of 20 years, may be disregarded at the pension decision stage where a person has registered with the Department as a homemaker and is caring for a child or incapacitated relative. See also Homemaker.

**Homemaker:**
A person who is (a) permanently resident in the State; (b) under age 66; and (c) not engaged in remunerative employment. The homemaker must reside with and care for a child under 12 years on a full-time basis, or reside with and provide full-time care and attention to a person who is so incapacitated as to require full-time care and attention. For any year to be disregarded for this purpose, a homemaker must be out of the workforce for a complete year (52 weeks) in any given year from 6 April 1994. See also Disregards.

**Qualified Adult:**
A person, spouse or partner, in respect of whom an increase in the social welfare pension rate may be paid.
Pay-As-You-Go:
The nature of the existing social insurance system and most statutory pension schemes which finance benefits or payments with income from current contributions.

Pensionable Age:
The earliest age at which old age pension may be drawn and at which liability for social insurance contributions ceases (age 66 for the Old Age (Contributory) Pension and age 65 for the Retirement Pension).

PRSI
Pay Related Social Insurance: usually refers to contributions paid by social insurance contributors. These contributions are based on a percentage of pay rather than on a flat rate basis.

Social Assistance Payments:
These are payments which are means-tested and funded totally by the Exchequer.

Social Insurance Fund:
A fund from which the current costs of social insurance benefits are met. It is financed by contributions from employers, employees and the self-employed with the deficit (if any) being met by the Exchequer.

Social Insurance Payments:
These are payments made on the basis of the contribution record and are funded from the Social Insurance Fund.
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Government of Ireland

“Action Programme for the Millennium”, 1997

Government of Ireland


Government of Ireland

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