CHAPTER 06

THE SOCIAL WELFARE PENSION: REFORM OPTIONS
Introduction

6.1 In this chapter the objective is to set out a range of approaches that could be considered to deal with the issues set out in the previous chapter. These range from maintaining the status quo to fundamental reforms involving the use of measures such as universal entitlements. The chapter also deals with the possibilities for structural reforms within the existing arrangements to address anomalies and inconsistencies which arise within the system. These latter options are not mutually exclusive and could be considered as stand-alone measures or as a series of reforms.

6.2 The “reforms” discussed in this chapter are put forward for consideration notwithstanding the sustainability issues discussed in Chapter 3 and which show that public spending on pensions is projected to increase from about 6% of GNP today to 15% by 2050. In the context of the Social Insurance Fund, the recently completed actuarial review shows that, on the basis of current policies, income to the fund will equal or slightly exceed outgoings up to 2010. From 2011 onwards, outgoings will exceed income with the shortfall growing continuously both in real terms and as a percentage of GNP. By 2061, outgoings are projected to exceed income by 6.4% of GNP. The increase in spending is largely driven by increases in pension recipients from 417,000 to 1.77 million over the period in question.

6.3 Clearly there are issues in relation to the funding of Social Welfare pensions which will need to be addressed by Government. These can be considered in the context of the funding of the overall Social Welfare system or through the overall budgetary position.

“Reform” A: Maintain the Current Arrangements

6.4 Any change in pension provision has long-term implications and it can take many years for the benefits accruing from reforms to come to fruition. In an Irish context the changes made in social insurance in the 20 year period from 1974 could be viewed as part of a long-term process of transition of our Social Welfare pensions system to one based comprehensively on social insurance contributions.

6.5 The gaps in pension coverage which exist today are, to a great extent, the result of the structure of our social insurance system in the past and societal norms which existed through to the 1970s and which, for instance, required women in many cases to retire from employment when they married.

6.6 Despite the impact of these constraints on pension provision, the Government has sought to deal with as many issues as possible within the existing contributory and means tested structure, with due regard being paid to the need to uphold the contributory principle underpinning social insurance payments and, in the case of means tested benefits, to ensure that resources are used to best effect in addressing income needs. Over the years a range of measures have been introduced in pursuit of these goals including:

- Pro-rata pensions were introduced to cater for situations where people have social insurance contributions at different rates;
- The Homemaker’s Scheme was introduced from 1994 to recognise periods spent out of the paid workforce caring for children or incapacitated people;
- The yearly average contribution rate required for standard pensions was reduced from 20 to 10;
- Special pensions for self-employed who were already over 56 in 1988, and could not therefore satisfy the standard qualifying conditions, when compulsory social insurance was introduced for this group;
- Special pre-53 pensions were introduced to give additional recognition to contributions made prior to the creation of the unified system of social insurance;
- The means test for non-contributory pensions has been improved by increases in capital allowances and basic income disregards.

6.7 In addition to the measures outlined, pension increases have been well ahead of inflation thus ensuring that not only is the real value of pensions maintained but that they are
significantly improved in real terms. Since 1996, and including the most recent increases pensions have increased by almost 119%, or about 57% in real terms, faster than both price and wages growth over the period.

6.8 As outlined in Chapter 4, based on the official consistent poverty indicator, older people are in a relatively better position than the rest of the population (3.7% compared to an overall rate of 7%). When considered in relative income terms the risk of poverty for older people is much the same as that for the overall population having shown a very significant improvement in SILC 2005, with the ‘at risk’ rate dropping to just over 20%, representing a significant decline on the 27% recorded one year previously. Further improvements in this regard can be expected as further significant Budget increases granted in 2006 and 2007 impact on the figures.

6.9 The impact of our earlier social insurance structures and societal norms will decrease in the years ahead as the Social Welfare pensions landscape is now very different:

- Almost all workers are now covered by the PRSI system and are contributing towards a Social Welfare pension;
- Arrangements are in place within the social insurance system to recognise time out of the paid workforce on caring duties in respect of periods from 1994;
- Workforce participation across all sectors of society has increased with consequent improvement in coverage for contributory pensions;
- Women are no longer required to leave employment on marriage. Even when women do make the choice to leave employment when they start a family, with an average age at marriage of 30.4 years and first births at 28.4 years, they are more likely to have established a basic social insurance record which will ensure that the Homemaker’s Scheme is relevant to them.

6.10 Research undertaken in connection with the National Pensions Review projects the percentage of the population aged 66 and over covered by Social Welfare schemes (contributory and non-contributory) rising from a current level of about 88% to 98% by 2056. Within that coverage, there will also be a significant change in the proportion of the population on the contributory and non-contributory schemes, with the share on the latter dropping to just 2%.

6.11 Maintaining the status quo would mean that, in the short to medium term, about 47,000 people on average would remain outside the Social Welfare pensions system although changes in the means test for State Pension (Non-Contributory) introduced in 2006 and 2007 will see some of this group qualifying for some level of pension. That said, a significant number will still not qualify and these are mainly retired public servants and self-employed people together with their spouses and partners.

Reform B: Universal Pensions

6.12 At the other end of the spectrum of reform options is the option of some type of universal pension. As already indicated, there are at present about 47,000 people outside the Social Welfare pensions system. Given the level of coverage which has been achieved, and the fact that over time we will achieve almost 100% coverage through social insurance, it has been argued that a restructuring should take place that would bring in those who remain outside the system and ensure that all people resident in the State are guaranteed some form of Social Welfare pension in their retirement. This would mean making pensions available on a universal basis, presumably with some minimum residency period required for qualification. Such an arrangement would deal with the anomalies and other issues outlined in the previous chapter. However, it means incurring significant additional costs to provide for people who would not otherwise qualify for Social Welfare support because they have not contributed to the social insurance

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75 CSO Vital Statistics Marriages Report 2002
76 CSO Vital Statistics Q3 2005

77 The basic means disregard increased from €7.60 to €30 per week and an earnings disregard of €200 per week is in place. Capital disregards have also increased to €20,000.
system, or their contribution is not deemed adequate under present arrangements, or their means (including pensions from other sources) and resources are such that their assessable income exceeds the current means test thresholds. It should be noted that the introduction of universal pensions does not necessarily mean the end of means testing in a pensions context. The possibility remains that there will be a number of people who may not satisfy the residency conditions that might apply to a universal pension. Some form of social assistance scheme may need to be maintained to cater for such people.

6.13 This pension could take a number of forms, including:

- A standard rate of payment to all on reaching pension age of, say, 66 years;
- A minimum payment to those without any existing welfare entitlement;
- A minimum age-related payment to those without any existing welfare entitlement.

6.14 A universal system would, however, be a radical departure from the present system, particularly if the suggestion for a standard payment for all were adopted. It would change the basis of payments from a system based on social insurance or need to one based on citizenship and/or residency. The introduction of such a scheme could have far reaching implications, not only for the State Pensions system, but also for the Social Insurance Fund in general.

Models of Universal Pension Provision in Other Countries

6.15 Universal pension systems operate in a number of other countries. In general, entitlement to the universal pension is based on residency. However, in some cases, it is necessary to satisfy an asset and income test in addition to meeting the residency requirements. Typically, these universal pensions require a minimum period of residency in a country to qualify with payment related to the length of time a person has lived in a country. For instance, in the Netherlands all residents between the ages of 15 and 65 are insured for the General Old Age Pension. During the period of insurance, entitlement to a pension is being built up by steps of 2% for every insured year. This leads to 100% entitlement to the relevant pension benefit upon reaching age 65, provided there are no gaps in the period of insurance. Years of non-insurance, for instance due to residence and work outside the Netherlands, do not count for entitlement to the pension benefit (the rate of pension is not reduced for years spent at school or university). Family status and the length of insured periods determine the rate paid. New Zealand has a universal pension known as New Zealand Superannuation. To qualify a person needs to be aged 65 or over and a legal resident of New Zealand, having lived there for ten years since age 20. Five of those years have to be since a person turned age 50. If a person receives a pension from an overseas Government, it is likely to be deducted from their New Zealand pension. In Australia, payment of pension is subject to a means and asset test.

6.16 In many instances, the universal pension is operated in conjunction with a social insurance based pension, which is usually earnings-related. While Ireland does not have the earnings-related pensions which social insurance provides in many countries, the basic principle of a social insurance based system allied to Exchequer-funded pensions for those without the necessary insurance applies in Ireland. A residency condition also applies in many instances and, while this is not something that has featured here to date it is something that may merit consideration in the context of overall future policy in this area.

The National Pensions Board and Universal Pensions

6.17 The National Pensions Board examined the option of a universal pension scheme for Ireland in 1993. It considered a scenario whereby a flat-rate basic pension would be paid to all residents in the country on reaching pension age, in the event of invalidity, or to surviving dependants without having to satisfy a means test. 

Such a scheme would involve paying pensions to residents who have insufficient contributions to qualify for a contributory pension and who have means in excess of the maximum limits for social assistance pensions. Assuming that the rate of this pension would be equivalent to the maximum rate of the State Pension (Contributory), its introduction would also have implications for existing recipients of contributory and non-contributory reduced rate pensions. It is presumed that the notion of reduced pensions would disappear and those currently receiving these payments would be increased to the level set for the Universal Pension.

The main advantage of such an approach would be its breadth, simplicity and ease of administration, as the need for means testing would be eliminated. However, it would also have serious cost implications and could call into question the whole notion of social insurance in the pensions area as it is presently constituted. The issue of making special arrangements for people who have paid/are paying social insurance contributions would also have to be addressed.

Having examined all these issues, the National Pensions Board reached the following conclusion:

"The Board considered that a social insurance scheme, supported by means-tested social assistance, best satisfies the various criteria identified as appropriate for a flat-rate Social Welfare scheme. Such an arrangement is already well established and accepted and would avoid the need for elaborate transitional arrangements." 79

The present contribution conditions incorporate an element of solidarity as lower rates of contributions apply to those on lower earnings. The link between contributions and benefits tends to be more direct in pension systems in other countries. This solidarity is financed from the narrow base of contributions on employment and self-employment. A universal scheme could perhaps be financed from the tax base, which would be more appropriate for such a solidarity based system, thus reducing non-wage costs.

Implications of a Universal Pension

Currently, Ireland, at 11%, has the lowest proportion of people over 65 in the population in the EU. However, this will increase steeply in the coming years reaching a projected 15% in 2021, 19% in 2031 and 27% in 2051. Assessments on the financing of the State pensions system (Social Welfare and public service pensions) carried out by the EU Social Protection Committee in 2003 and 2005 suggested that our system, as currently constituted, was sustainable 80. However, a more recent assessment by the EU (2006) puts Ireland at a medium risk in the area of sustainability 81. A universal pension would serve to further increase costs and the burden on future taxpayers and would undoubtedly have implications for the sustainability of the system. As already indicated, the percentage of people who will be outside the pensions system will fall to about 2% of those aged 65 years and over. This still represents about 30,000 people and, in today’s terms, would cost about €331 million per annum if pensions were to be provided to them.

The financial sustainability of pension systems is a necessary precondition for the provision of adequate pensions. The ability of pensions to meet pensioners’ income needs in retirement is also important, however. Over time most people will, under the current arrangements, qualify for a contributory pension.

A large part of any additional expenditure incurred on a universal pension would be in respect of persons who are not eligible for a pension under current arrangements. These are people who do not have the necessary social insurance contributions to qualify for contributory pensions and whose means are at such a level that they cannot satisfy the means

79 The criteria identified by the Board included a sense of entitlement, consistency, financially sustainable, simplicity, provide equality of treatment and comprehensiveness.

80 Assessments under the Open Method of Coordination on national strategy reports for adequate and sustainable pensions 2003 and 2005.

test for a non-contributory pension. This group consists largely of self-employed people with private or occupational pension cover and includes many public servants who are insured at modified rates which do not provide eligibility for contributory pensions, and whose occupational pension is such that they are not eligible for non-contributory payments. (From 1995, new public servants pay social insurance at full rates and are therefore eligible for a contributory pension. However, this will be integrated with their occupational pension.)

6.25 The introduction of a universal pension could also have very significant implications for Social Insurance Fund income. Clearly, in order to engender the necessary commitment and acceptance of social insurance, it is essential that people consider that they are deriving a significant benefit from their contributions. The introduction of a Universal Pension, which did not have a very significant differential between it and the contributory pension, could undermine this commitment and acceptance. PRSI contributions could be seen as more of a tax than an insurance measure with resultant pressure for the elimination of the pension element from the contribution. However, as already suggested, there is a significant element of social solidarity in the current system and this might be more appropriate for general taxation.

6.26 The Actuarial Review of Social Welfare Pensions (2000) estimated that approximately 62.5% of contributions could be allocated to the costs of long term benefits, i.e. State Pension (Contributory) and (Transition), Widow(er)’s Pension, Invalidity Pension, Deserted Wife’s Benefit and Household Benefits. When it is considered that Social Insurance Fund income in 2005 was €5,663 million the implications of any developments in this area for the funding of pensions could be very significant.

Social Insurance

6.27 Apart from the additional costs involved, a universal system would be contrary to the social insurance principle to which successive Governments have been committed. In fact, the Commission on Social Welfare (1986) argued for an extension of social insurance in order to minimise the reliance on means-tested payments. This has been the general thrust of policy for some years with additional groups, particularly part-time workers (1991) and the self-employed (1988), brought into the system.

6.28 There is now a comprehensive system of social insurance in place and, in light of rising workforce participation rates, the indications are that, in time, Ireland will have a comprehensive pension system operated through social insurance and for which most people will qualify. This trend is already obvious with 72% of old age-type pensions in payment in 2005 being contributory-based compared to 57% in 1996. However, despite the growing numbers qualifying for contributory pensions, there will still be a significant group relying on means-tested payments or outside the system altogether.

6.29 Breaking the link between social insurance and State Pension represents a fundamental shift in policy. It would mean a return to the situation prior to 1961 when the social insurance system provided for contingencies such as illness, unemployment and survivor benefits. At present, the link between social insurance contributions and contributory Social Welfare payments is reasonably obvious, particularly in relation to pensions.

6.30 The Commission on Social Welfare (1986) described the system of social insurance as:

"an expression of social solidarity and citizenship in which the risks and costs should be spread as widely as possible in the community"

and stated that:

"A sense of entitlement to benefit is an important principle which should underlie the Social Welfare code, and this sense of entitlement is most easily achieved in the social insurance system where benefits are paid as of right on the basis of contributions paid."

6.31  The Commission also called for an extension of social insurance so that reliance on means-tested payments could be minimised. As the social insurance system is based on entitlements rather than means-testing, this helps to lessen any stigma attached to claiming a means-tested payment. The Social Insurance in Ireland report, published by the Department of Social Welfare in 1996, outlines other advantages of a social insurance based system:

“...it gives them [individuals and families] a degree of certainty in advance regarding their entitlements in the event of specified [e.g. old age, being widowed] contingencies arising”

“recipients contribute to the cost of their benefits and rely on Exchequer financing only to a very small extent.” 85

6.32  However, the link between residency, general tax and the (eventual) contingency is not obvious or transparent. Therefore, the introduction of a residency-based pension could weaken the incentive/acceptance of the need to contribute towards funding. In addition, persons who had contributed for many years to the contributory schemes under social insurance could find that these contributions conferred no benefit, unless a universal system was phased in over a long period for new entrants to the labour force.

EU and Bilateral Arrangements
6.33  The introduction of a residency-based scheme could have an impact on the operation of EU pro-rata pension arrangements as well as bilateral agreements with non-EU countries. EU Regulation 1408/71 coordinates social security arrangements across the EU by means of a number of underlying principles, two of which are relevant in this context; waiving of residency requirements and aggregation of periods of residence or contribution.

6.34  The first principle is usually applied to allow payment of benefits and pensions abroad. It is estimated that, at present, we export contributory payments to about 45,000 people. In addition, the Regulation provides that, where the legislation of a Member State makes the acquisition, retention or recovery of the right to benefits subject to the completion of periods of insurance or of residence, that Member State shall take account, where necessary, of the periods of insurance or of residence or of completed under the legislation of another Member State. In effect, this means a continuation of existing pro-rata arrangements, but instead of eligibility being based on social insurance contributions, the assessment would be based on periods of residency. Given that we already export a significant number of payments, it is difficult to say to what extent this would increase under a residency-based system. Clearly, the export of payments will, in any event, increase in the years ahead as the entitlements of migrant workers mature.

6.35  The administration of a system based on residency would pose added difficulties. There is no system in place to confirm residency on an ongoing basis and it is difficult to envisage how such a system would be monitored. The Habitual Residency Test (HRT) is in operation to assess entitlement to assistance and this approach may offer some solutions to this problem.

6.36  The National Pensions Board considered that a universal pension could be financed through general taxation and stated that:

“A special tax could be introduced to partly or fully finance expenditure on pensions as is the case, for example of the health contributions, payment which does not confer specific entitlements to benefits.” 86

6.37  However, as already indicated the final report did not support the introduction of such a pension.

Options for Universal Pensions and Estimated Costs
Universal Standard Rate Pension
6.38  The most straightforward option would involve a standard rate payment to all with an associated residency condition to ensure that only long-term residents of the country received the full benefit of the pension.


6.39 At this stage of our development, it is probably reasonable to assume that those residents who are at present outside the Social Welfare pensions system have lived here for most of their lives. Accordingly, a universal pension would involve introducing payments for the approximately 47,000 people currently outside the system and increasing the payments of existing welfare recipients and qualified adults on reduced payments to the agreed level of the universal pension. These include public servants recruited prior to 1995 who are not currently eligible for Social Welfare contributory pensions (they can apply for non-contributory pensions, which are means tested). It could be argued that such people are already getting significant State support in retirement while, on the other hand, excluding them could be viewed as discrimination given that, in common with many other workers, their retirement income derives from an occupational pension. For the purposes of this exercise it is assumed that the pension would be paid at the existing maximum rate of the State Pension (Contributory) which for 2007 is €209.30.

6.40 The full year cost of providing a standard rate pension for all citizens at €209.30 per week is estimated as follows:

<table>
<thead>
<tr>
<th>Cost € million</th>
<th>Providing for 47,000 outside the Social Welfare system</th>
<th>518</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost € million</td>
<td>Upgrading QAI, non-contributory and reduced rate payments</td>
<td>657</td>
</tr>
<tr>
<td>Total</td>
<td>1,175</td>
<td></td>
</tr>
</tbody>
</table>

6.41 The long-term cost would be considerably less because over time more people will, in any event, qualify for full-rate pensions as a result of improved social insurance cover and work-force participation and qualified adult payments and non-contributory will have a much reduced role in the system in the future. However, the group remaining outside the system, although small in overall percentage terms (2% per the National Pensions Review), will still comprise about 30,000 people and cost of the order of €326 million per annum in today’s terms to provide for. The estimated costing does not take account of the cost of exporting payment to former residents. (For illustrative purposes, the net present value of the cost of a universal pension out to 2050 would be some €30 billion in 2007 terms, two thirds of which would relate to modified rate public servants).

**Standard Rate Reduced Pension for those currently outside the SW system**

6.42 In recent years a number of special pensions have been introduced to provide pension cover for a number of groups who could not satisfy the standard qualifying conditions. These include the special pre-53 pension and the special pension for the self-employed which are paid at 50% of the maximum personal rate. A similar approach could be adopted to provide pensions for those currently outside the system.

6.43 This approach would be less radical than the first suggestion as it would not call into question the contributory principle underlying the current PRSI system. There would still be significant benefits for those at the higher end of the contribution ladder. People with the minimum number, however, would derive no extra benefits from their contributions - although the number receiving payments at less than 50% of the maximum State Pension (Contributory) rate is relatively small.

6.44 The estimated full year cost of providing a pension at 50% of maximum State Pension (Contributory) rate (€104.65) is as follows:

<table>
<thead>
<tr>
<th>Cost € million</th>
<th>Providing for 47,000 outside the Social Welfare system</th>
<th>259</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost € million</td>
<td>Non-con and reduced rate payments currently receiving less than 50%</td>
<td>98</td>
</tr>
<tr>
<td>Total</td>
<td>357</td>
<td></td>
</tr>
</tbody>
</table>
Universal Age-Related Pension

6.45 Another option for reform is paying a pension based on age to those who are outside the Social Welfare system. A similar approach has been taken in relation to the Household Benefits where, until relatively recently, eligibility was based on the receipt of designated payments and household composition. In 2000, qualifying conditions for Household Benefits were changed to allow those over 75 years of age to qualify regardless of income or household composition and this was extended to those over 70 years in 2001.

6.46 A similar approach could be taken in relation to pensioners, although this group (i.e. those who do not satisfy a means test and who do not have the required number of contributions) would not usually be considered appropriate for targeted income support payments. Despite the easing of the qualifying conditions for pensions introduced in recent years, this group does not satisfy the contribution conditions for social insurance payments. Neither can they satisfy a means test, suggesting that they have an adequate income (in Social Welfare terms) through occupational or private pension coverage, income from property or savings/capital. It should be pointed out, however, that many private occupational pensions do not provide for indexation so, in real terms, their overall income may deteriorate as they grow older. That said, EU-SILC results found that poverty rates are lower for those aged 75 or over than for those aged between 65 and 74.

6.47 Accordingly, if it were decided to issue a payment based on age then it would be more in recognition of senior citizens rather than any perceived Social Welfare need. However, for those with income just above the level for the State Pension (Non-Contributory), any payment would be welcome and could make a significant difference in the quality of their lives.

6.48 Table 6.3 gives an estimate of the numbers of people at various ages who are not receiving Social Welfare payments either in their own right or as dependants on their spouse or partner’s pension.

Table 6.3: Estimated numbers at various ages not receiving SW payments

<table>
<thead>
<tr>
<th>Age</th>
<th>Number not receiving SW payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>65-69</td>
<td>14,000</td>
</tr>
<tr>
<td>70-74</td>
<td>12,000</td>
</tr>
<tr>
<td>75-80</td>
<td>10,000</td>
</tr>
<tr>
<td>80-84</td>
<td>6,000</td>
</tr>
<tr>
<td>85+</td>
<td>5,000</td>
</tr>
</tbody>
</table>

6.49 If it were decided to pay a pension/recognition payment to people based on age, the level of such a payment has to be determined. In suggesting a rate, it is assumed that the existing insurance based/means based structure remains in place. Accordingly, in fairness to those who have contributed to the PRSI system or whose means are such that they are in need of income support, any payment based on age would have to be pitched at a level which was very much below the maximum rates payable.

6.50 Accordingly, the estimated cost of paying a 50% (€104.65) pension at various age levels is as follows:

Table 6.4: Cost of age-related pension for non-welfare recipients

<table>
<thead>
<tr>
<th>Age</th>
<th>Cost €m</th>
</tr>
</thead>
<tbody>
<tr>
<td>65</td>
<td>259</td>
</tr>
<tr>
<td>70</td>
<td>182</td>
</tr>
<tr>
<td>75</td>
<td>116</td>
</tr>
<tr>
<td>80</td>
<td>61</td>
</tr>
<tr>
<td>85+</td>
<td>28</td>
</tr>
</tbody>
</table>

Advantages/Disadvantages of a Universal Pension

6.51 The introduction of universal payments has advantages and disadvantages and the extent to which these would apply depends on the level of payment decided upon. In addition, the relative merits of the proposal depend on whether the intention is to provide a standard payment to all or a recognition payment in retirement.

6.52 On the positive side, a full-rate universal pension would:

87 These figures do not take account of knock-on costs of increasing Social Welfare pensions paid at less than 50%.
Provide a standard, individualised payment to all long-term residents as suggested at 6.12 some means tested scheme may need to be maintained for those who do not satisfy the residency conditions;

- Deal with issues of equity associated with people who work inside and outside the home;
- Eliminate anomalies associated with contribution conditions and ensure consistent treatment for everyone;
- Be simple to administer and eliminate the need for schemes such as the Homemaker’s Scheme as well as means testing to a large extent. That said, some arrangements to confirm residency would be required in the longer term.

6.53 Reduced rate pensions would also provide an income for all residents and would make some contribution in the area of equity (although not to the extent that a full payment would). Indeed, it could be argued that paying less to someone who worked in the home because they did not contribute could perpetuate arguments relating to parity of esteem between those who work outside the home and homemakers. That said, it would afford some recognition to all residents in retirement. In terms of reduced administration, reduced payments would likely have little impact as there would always be the possibility of someone improving on the recognition payment through means assessment or PRSI contributions.

6.54 The negative aspects of the system can be summarised as follows:

- A universal pension would be against longstanding Government policy that has sought to provide individual pensions through expanding PRSI coverage;
- While means testing would be eliminated (if a universal pension was at the full rate), other administrative complexities would be introduced to confirm periods of residency in the country;
- It would involve a very significant increase in expenditure in the medium term which, depending on the option involved, could be as much as €1 billion per annum;
- New funding arrangements might be required for pensions as payment of a standard rate to all residents funded from PRSI contributions might not be tenable;
- It would add to the growth in numbers which are already projected for the Social Welfare pension in the coming years putting further pressure on funding in the future. However, in this regard, improved social insurance will, in any event, see up to 98% qualifying for payments against 88% today;
- There would be reduced incentives for older people to return to/remain in active employment;
- It would involve poor targeting of resources by payment of pensions to people who have not contributed to the PRSI system and whose position is such that they cannot qualify at present for means tested benefits;
- It would weaken the link between contributions and pensions.

Conclusion
6.55 The payment of a universal pension is, from some perspectives, an attractive proposition because of the potential it has to deal with many issues in the pensions area. However, it would be contrary to long-standing policy in this area that favours the provision of individual entitlement through payment of PRSI contributions. The possible need for alternative funding arrangements for pensions in a scenario where they were paid as of right, rather than on the basis of contributions or means, and the very significant extra costs involved are major issues that also need to be considered.

Reform C: Reforming and Back-Dating the Homemaker’s Scheme
6.56 As already indicated, one of the main issues relating to the Social Welfare pensions system is the treatment of those who left employment to care for children or sick or incapacitated people. Their position, in so far as pensions are concerned, is protected for the future, but issues continue to be raised regarding those who left employment before 1994, when the Homemaker’s Scheme was introduced.
6.57 The Homemaker’s Scheme was examined as part of a general review of qualifying conditions for Old Age Contributory and Retirement Pensions in 2000. That report highlighted two areas which it considered should be examined further:
- A proposed switch from the current ‘disregard’ system to a credits-based mechanism which would provide cover for State Pension (Contributory) only.
- The report also considered that there was no fundamental reason, in principle, why the Homemaker provisions should only apply from 1994. That said, any proposals in relation to homemakers give rise to issues of equity and consistency vis-à-vis other groups who are/were outside the Social Welfare pension system or getting reduced payments by virtue of their exclusion from social insurance cover over the years.

6.58 The Equality Authority has stated that “the question of extending the Homemaker’s Scheme to older women, in particular those who were obliged to leave the labour force on marriage, should now be addressed with a view to allowing as many as possible to qualify for pension entitlements in their own right.” However, such a recommendation does not take account of the fact the Homemaker’s Scheme will not of itself provide a person with a pension, as the basic qualifying conditions in terms of, inter alia, contributions paid, must also be satisfied. In particular, the scheme cannot deal with the position of public servants who left employment as a result of the marriage bar. Such people were insured at modified rates of social insurance, which did not provide cover for contributory pensions, and unless they subsequently worked in employment covered by Class A PRSI it is unlikely they could benefit from the scheme, no matter what measures are taken in relation to backdating the scheme.

6.59 It is also worth noting that the Government has committed to increasing the Qualified Adult Increase to the rate of the State Pension (Non-Contributory) and has legislated to provide for a direct payment to the qualified adult from September 2007. This facility has been available on a voluntary basis, and where both of a couple agreed to the arrangement, since 2002. To October 2006, 1,400 couples have opted to have the Qualified Adult Increase paid directly to the spouse. This represents 8% of claims awarded with a Qualified Adult Increase since October 2002. It is expected that the new arrangements will see separate payments to qualified adults increasing by about 4,000 each year.

6.60 According to the CSO, there were 262,000 women aged 65 and over in the State in 2006. Some 215,000 women receive Social Welfare payments in their own right and 32,000 are qualified adults on their spouse’s pension. However, 17,000 of these are resident abroad which means that about 88% of women over 65 years of age resident in Ireland are receiving Social Welfare payment.

Options for Changes to the Homemaker’s Scheme

i) Period covered by the Homemaker’s Scheme
   - Approaches in some other countries

6.61 Pension provision varies considerably from country to country. In countries where old age pensions are based on a social insurance system, there are some differences in the periods of non-insurance taken into account/credited for entitlement. The most common intervals covered by such arrangements are periods of sickness, invalidity, unemployment, maternity, childcare and education. Denmark operates a social insurance based system but no non-contributory periods are taken into account in assessing entitlement to old age pension. In countries such as Australia and New Zealand, where qualification for old age pension is based on means or residency, such issues do not arise.

6.62 The periods of non-insurance due to caring duties which are credited/taken into account in other countries are generally quite short. The following are some examples:

   Germany - 36 months can be credited for looking after a child born since 1992;

88 Review of the Qualifying Conditions for the Old Age (Contributory) and Retirement Pensions Department of Social and Family Affairs (2000).
89 Implementing Equality for Older People (2002).
91 Unless otherwise stated the information in this section derives from MISSOC.
Spain - the first year of parental leave granted to bring up a child under three years of age is credited for pension purposes;

Greece - for periods covered by parental leave, there is an option to repay missing contributions, amounting to 3 months per child;

France - credit of 2 years insurance per child for mothers and periods of parental leave with a limit of 3 years;

Luxembourg - periods spent caring for a child or dependant;

Norway - years caring for a child under 7 or caring for a disabled, sick or older person;

Austria - periods spent raising children (up to 4 years per child); and

UK - Provision for homemakers within the UK State Pension system is similar to the situation in Ireland. In the UK, a programme called Home Responsibilities Protection (HRP) helps to protect the basic state Retirement Pension position of carers. A person may be entitled to HRP if s/he is not working, or his/her work is low-paid because s/he is looking after:
- a child under 16;
- a person with a long-term illness; or
- a person with a disability.

In the UK, full years of HRP can be ignored when the number of qualifying years needed to earn a full basic state Retirement Pension is being examined. However, it is still necessary for the person to have at least 20 qualifying years in addition to any years covered by HRP. The UK is, however, engaged in an overall reform of its pension system, including the Basic State Pension. The reforms involve reducing the requirement for a full pension to 30 years and introducing weekly credits to recognise and reward caring in the same way as working. The reform will mean that almost half a million extra women over State Pension age in 2025 - aged around 45 to 55 today - will be entitled to a full Basic State Pension.

6.63 The international experience outlined would suggest that allowing credits or disregards for caring for a child up to 12 years of age is excessive (although the UK adopts a similar approach to here), particularly given the improved workforce participation of women.

ii) Replacing disregard system with credits

6.64 It is generally thought that credits would be a more appropriate way of recognising periods of caring and, as outlined at 5.17, they are also more beneficial to a person than a system of disregards. The extent of this advantage will depend on the nature of the individual’s contribution record. Credits also will keep a record active, complete and transparent during periods of mobility between the paid workforce and work in the home.

6.65 As with the existing Homemaker’s Scheme, it would seem appropriate that a Homemaker’s Credit should only be relevant in the context of qualification for the State Pension (Contributory), although it could be argued that if the purpose of the scheme is to protect pension entitlements of employees then the scheme should also apply to eligibility for State Pension (Transition). Homemaker Credits could be earned at any time in a person’s career and need not necessarily follow a period of insurable employment. The important issue is that the Homemaker’s Credit must be supplemented by the necessary paid contributions, at the appropriate rate, and these could be earned at any time.

6.66 As is the case with the present disregard system, men and women could be treated equally on the introduction of Homemaker’s Credits. However, it would seem appropriate that only one parent should be entitled to Homemaker’s Credits in respect of time spent caring for their children at a given time. Where a couple is separated/divorced, only one parent could be awarded credits in respect of a particular child at any given time. It would also seem appropriate that only parents, or those with legal guardianship/custody of children, should qualify for credits. This would be necessary to ensure that people engaging in informal childcare arrangements do not receive credits.
6.67 Periods spent homemaking abroad would, in general, not be covered by credits though regard would have to be had to EU legislation. This would mean that a person whose last insurable employment was in this country would remain entitled to Homemaker Credits until they became subject, through employment, to the insurance legislation of another Member State. Similarly, a person from another Member State who took up residence in this country would have to become insurably employed here before they could benefit from the Homemaker’s Scheme.

6.68 The position of the spouses/partners of foreign aid workers who travel with them to developing countries is also an area where concessions might be considered. The current scheme requires that a homemaker is normally resident in this country and, while at present they may receive Child Benefit as the child is still regarded as resident in this country, there is no such assumption made in respect of the carer and they cannot, therefore, benefit from the Homemaker’s Scheme.

6.69 The cost of changing to credits will depend on a number of factors, with the employment history of those applying and their ability to combine caring duties with work being particularly important. The latter will mean less reliance on Homemaker Credits. As already outlined, credits will serve to increase the average contributions a person has and will tend to move them to the next higher rate. However, the Homemaker’s Scheme is not yet a factor in deciding pension claims and it may be some time yet before it becomes relevant. In the circumstances, it is difficult to say what the cost implications will be or when they are likely to arise.

(iii) Backdating the Homemaker’s Scheme

6.70 When the Homemaker’s Scheme was introduced in 1994, it was not backdated. Accordingly, existing pensioners or those who have not yet reached pension age but whose children were already over 12 years of age at that time may not benefit from the scheme. A number of options for backdating are discussed in the following sections. Apart from the abolition of the marriage bar, these dates coincide with milestones in the development of the social insurance system.

6.71 Before dealing with possible options for backdating the scheme, it is appropriate to outline some of the principles underlying the existing qualifying conditions for state pensions as these are relevant in considering what, if any, action should be taken in this area. Therefore, it is considered that options for change must be:

- consistent with the social insurance principle and the contributory nature of the non-means-tested system which is in place. This means that, in order to qualify for a contributory pension, a person must have a sufficient number of paid/credited contributions at the appropriate rate. People whose only attachment to the insurance system is, or was, at a modified rate of insurance, which did not include coverage for contributory pension, cannot benefit from homemakers provisions. The position of this group could perhaps be dealt with in the context of consideration of the merits of a system of universal pension to cover all groups outside the Social Welfare pensions system. Alternatively, it could be a matter for consideration in the context of public service pensions policy generally, as public service policies are what gave rise to these issues in the first place;
- equitable not just in its treatment of men and women but in its treatment of different generations of contributors;
- affordable - this will be a major factor in deciding what action should be taken in this area, particularly given the demographic projections for the ageing of our population. Clearly, extending coverage/increasing payments to large numbers of people will be costly;
- administratively workable - changing eligibility conditions means reviewing large numbers of existing cases. Records to support individual cases are not always readily available, particularly where they relate to periods before 1979 i.e. when insurance records were computerised.

6.72 In general, the various extensions of the
social insurance system over the years have been effective from the date of introduction of the relevant change. Such development has not, to date, involved any underlying or retrospective change to the social insurance history of contributors. The introduction of Homemaker’s Credits for periods prior to 1994 would represent a significant shift in the method used to develop the system and could give rise to serious equity issues vis-à-vis other groups who were excluded on a compulsory basis from coverage over significant periods since 1953. The self-employed, higher earning non-manual workers, and certain part-time workers are among the groups who could, with certain justification, argue that they too were excluded from cover in the past and that they too should have their social insurance records enhanced. Any such special arrangements for other groups would inevitably have cost implications.

6.73 Backdating the Homemaker’s Scheme could be very beneficial for a certain group of older women, i.e. those who were in insurable employment at standard rates and who managed to accumulate the basic paid requirement of 260 contributions. For instance, a woman who started work at 16 years of age in 1956, worked for 5 years (260 contributions) and then left employment on marriage would have no pension entitlement at age 66. Her 260 contributions would be averaged over 50 years giving a yearly average of just over 5 contributions (an average of 10 is required for a minimum pension). Applying the homemakers disregard of 20 years still leaves this person without an entitlement as the record is averaged over 30 years giving a result of 8.5 which is also short for a minimum pension. However, the addition of 20 years credits to the basic paid requirement of 260 brings total contributions to 1,300 which averaged over 50 years gives a result of 26 contributions which, at present, entitles a person to a pension of 98% of the maximum rate.

6.74 Accordingly, it must be understood that backdating the Homemaker’s Scheme will only benefit a certain cohort of women, i.e., those who were in employment at standard social insurance rates and who worked long enough to accumulate the basic paid requirement of 260 contributions. It will not benefit those, mainly public servants, who left employment as a result of the marriage bar. As outlined at paragraphs 6.58 and 5.18, other avenues of redress may be required for this group if it is considered that action is required in this area. A factor in this regard would be the comparative position of those who left as a result of the marriage bar and those who left the public service prior to the mid-1970s for reasons other than marriage and who did not have preserved pension entitlements (as there were no vesting requirements at that time). Further considerations would be (i) the marriage gratuity paid in lieu of pension entitlement to women who resigned because of the marriage bar and (ii) the fact that occupational pension benefit is only payable in respect of actual service with a relevant employer.

6.75 If, having considered all of the implications, including those for other groups excluded from the social insurance system over the years, it was decided that the scheme should be backdated, there are a number of options which could be considered. Clearly, the further the scheme is backdated, the more impact it would have on the position of older women generally. The options which could be considered are as follows:

- **1953** which coincides with the introduction of the unified system of social insurance in this country. Backdating to 1953 potentially benefits the most women including those who are already over pension age. From an administrative point of view, and based on the Department’s experience in operating the pre-53 pension scheme, such backdating would be difficult to operate as records from then until 1979 are mostly paper/micro-film based;

- **1973/1974** when the marriage bar was abolished and the upper income limit on eligibility to contribute to social insurance was removed. Operating the scheme from 1973/74 would certainly benefit existing pensioners and those nearing pension age, though the extent to which they would benefit would be considerably less than if the scheme operated from 1953. Pensioners currently at or just over
pension age were born around 1940 and it is possible that some of their children would be past the current qualifying age of 12 years by 1973/74 (and, for older women, most likely all of their children would have been over the qualifying age) and so the scope for accumulating credits is much reduced;

- **1979** was another milestone in the development of the social insurance system with the replacement of the flat rate contribution with one based on a percentage of earnings. The central records system was also computerised which made the maintenance and retrieval of a person’s contribution record from 1979 much easier. By 1979, existing pensioners will have generally been in their forties. At that stage, their children would be expected to be in their early teens and past the stage where they would qualify for Homemaker’s Credits. Accordingly, the main beneficiaries of backdating to 1979 would probably be people who have not yet reached pension age. People caring for older/sick relatives could possibly benefit. However, as over 70% of this group is caring for less than 3 years, the impact on their pension entitlements would be limited;

- **1988, 1990, 1991.** There are a number of options around this time which could be considered as dates from which the scheme could operate including: 1988 - Compulsory social insurance extended to the self employed; 1990 - Introduction of the Carer’s Allowance which was the first payment made directly to carers; 1991 - Social insurance extended to part-time workers. Backdating to these dates would be unlikely to benefit existing pensioners or those near pension age. The benefit would almost all accrue to those who still have relatively young families. Accordingly, it would be some time before the effect of such backdating would be felt in terms of pension payments.

6.76 The cost of backdating the scheme will obviously be an important factor in deciding what action, if any, should be taken in this area.

In the absence of any information on those involved, including their family circumstances, their work record or their insurance record, it is extremely difficult to estimate with any degree of certainty what the likely impact of backdating will be. Accordingly, the following estimates are extremely tentative. Also, it should be noted that a large part of the additional cost involved would go towards improving the position of those who are already receiving reduced rate pensions or are being supported as qualified adults on the pension of their spouse or partner.

### Table 6.5: Cost of backdating the Homemaker’s Scheme

<table>
<thead>
<tr>
<th>Backdating Option</th>
<th>Estimated Immediate Annual Cost € millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td>160</td>
</tr>
<tr>
<td>1973/74</td>
<td>150</td>
</tr>
<tr>
<td>1979</td>
<td>10</td>
</tr>
</tbody>
</table>

6.77 Having regard to the pre-1953 experience, it would also be prudent to make allowance for the eligibility of women currently abroad but who may have established an insurance record here before emigrating. Allowing for perhaps 13,000 such claims with people qualifying for pensions at say 75% of the maximum rate the annual cost would be an additional €107 million on backdating to 1953 or 1973/74.

6.78 As can be seen, backdating this scheme could be quite costly. While a number of options are presented, if backdating was to occur on an equity principle alone, then it should probably go back all the way to 1953. To do otherwise would be to discriminate against older women without any objective reason. As already indicated, however, there is a view that backdating the Homemaker’s Scheme would be inequitable in the context of the wider Social Welfare insurance system, in that it only deals with one section of the population (mainly women) who were excluded from social insurance coverage for many years and ignores the position of others who were also affected by earlier policies on social insurance coverage.

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93 Department of Social and Family Affairs (1998)
*Review of Carer’s Allowance*
Reform D: Replacing the Average Contribution Test with a Total Contributions Approach

6.79 The current qualifying conditions were set out in 1961 when contributory pensions were first introduced. They were designed to ensure that people could qualify for pensions from day one and to reflect the less than comprehensive nature of social insurance at that time, the result of which could be significant gaps in a person’s insurance record. While some changes have been made down the years by changing the average number of contributions required for different rates, the basic principles that applied then are still in operation.

6.80 At present, in order to qualify for State Pension (Contributory) or State Pension (Transition), a person must have a yearly average of at least 10 or 24 contributions respectively (in addition to satisfying the other conditions). As already indicated, this Yearly Average Test gives rise to what some consider are anomalous situations, as people with the same overall number of contributions may receive different levels of payment. A person with, for example, 500 contributions could, depending on when they became insured, qualify for a higher pension than someone with 1,000 contributions. The key is the length of time over which the contributions are averaged.

6.81 The Review of Qualifying Conditions for Old Age Contributory and Retirement Pensions suggested that the possibility of switching to a system based on the total number of contributions, paid and credited should be considered. The report concluded 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.”

6.82 A key issue in any decision to change the basis of assessment from average to total contributions is to set an appropriate level of contribution which takes account of the potential people now have, as a result of improved social insurance coverage and increased workforce participation, to accumulate contributions over their working lives. In this regard, a Social Welfare pension is a valuable asset, which could cost €250,000 to purchase by way of a (price-indexed) annuity. While there is a significant amount of redistribution in operation via the PRSI system, it would still seem reasonable to insist that those qualifying for a pension should have contributed towards that pension to the maximum extent possible. At the same time, we must be conscious of the fact that those qualifying for pensions today, and for some time to come, will have worked through an era when social insurance was less than comprehensive and also societal norms limited access to labour markets for women.

6.83 Before assessing the current situation in relation to the contribution records of existing pensioners, and possible options for change, it is helpful to briefly examine the manner in which the current system of averaging operates.

Operation of the Yearly Average Test

6.84 The “Yearly Average” is arrived at by dividing the total number of reckonable contributions (i.e. full rate contributions which are either paid or credited) in the period from the person’s date of entry into social insurance or from 1953 (if the person entered insurance prior to that date) to the last complete contribution year prior to age 66 or 65, by the number of years in question. Currently, a minimum average of 10 contributions is required to qualify for a State Pension (Contributory) at age 66 and a minimum average of 24 contributions is required to qualify for State Pension (Transition) at age 65.

6.85 In addition to this yearly average, a person must have a minimum number of paid contributions in order to qualify for a pension. At present this is set at 260 contributions and will be increased to 520 in 2012. Prior to then, 156 was sufficient in certain circumstances.
potential divisor of up to 50 years when their yearly average is being calculated. However, they may also avail of the “alternative yearly average test” which was introduced in 1992. This allows a person to qualify for a full pension if s/he has a yearly average of 48 or over since 6 April 1979, when the PRSI system came into operation.

6.87 Special arrangements also apply to self-employed contributors that facilitate discounting earlier periods of insurance (if applicable) prior to 6 April 1988. These arrangements mean that 6 April 1988 is taken as the date of entry into social insurance (provided that the person actually entered compulsory social insurance on that date) for the purposes of calculating the yearly average.

6.88 Since April 1994, up to a maximum of 20 years spent homemaking can be disregarded when calculating the yearly average.

6.89 The present arrangement of a four rate band structure, i.e., 100%, 98%, 75% and 50% for State Pension (Contributory) (there are only 2 bands for State Pension (Transition)) dates from 2000. Prior to that there were six rate bands. The present 98% band replaced the previous 92%, 94% and 97% bands. The current rates of payment are presented in the following table.

6.90 The issues in relation to the average contributions test, and the anomalies it creates, have already been outlined earlier in this section. However, it is worth noting in relation to the above that a person with a yearly average of 20 contributions receives just €4.30 per week less than someone with an average of 48 contributions. This is despite the fact that the latter person could have had a much greater attachment to the social insurance system over the course of his/her career and a higher total number of contributions (paid and/or credited).

6.91 In a total contributions approach, the impact, or lack of impact, of additional contributions on the level of payment received is more obvious than in the yearly average test. In the circumstances, a more gradual rise in payment in line with the contribution levels achieved might be more appropriate.

### Contribution history of a sample of pension awards

6.92 A survey of about 9,000 cases where a State Pension (Contributory) or State Pension (Transition) was awarded in the period May to December 2006, was carried out in order to establish the level of contributions held by those people qualifying for pension. The results of the analysis of these data are presented in this section.

### Number of years with contributions

6.93 The following tables illustrate the numbers of years in which contributions were paid by the sample of 9,000 successful applicants for State Pension (Contributory) and State Pension (Transition) referred to in paragraph 6.92.

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**Table 6.6: Weekly Rates of Payment from January 2007**

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Average 48+</th>
<th>Average 20-47*</th>
<th>Average 15-19</th>
<th>Average 10-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Pension (Contributory)</td>
<td>€209.30</td>
<td>€205.00</td>
<td>€158.00</td>
<td>€104.70</td>
</tr>
<tr>
<td>State Pension (Transition)*</td>
<td>€209.30</td>
<td>€205.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*An average of 24 contributions is required to qualify for State Pension (Transition)
6.94 It is clear from this table that the number of people with contributions paid or credited in more than 40 years is quite small. The effective retirement age in Ireland is at present about 64 years of age which is, for a person starting work at 18, a working life of about 46 years. Accordingly, it seems inconsistent that only 7.6% of claimants have years of contributions approaching this level with just over 61% recording contributions from 10 to 24 years. Part of the explanation lies in the fact that the self-employed, who are only insurable from 1988, feature here. Furthermore, the qualifying conditions for State Pension (Contributory) are less stringent than those applying for State Pension (Transition) and so people with less than complete contribution records would be expected to feature here.97

6.95 The position improves significantly when applicants to State Pension (Transition) are examined. In order to qualify for this payment, a person needs a yearly average of at least 24 contributions (10 required for State Pension (Contributory)) and so it would be expected that records would be more complete. Also, this scheme is confined to employees who have been fully insured since 1974.

97 These are the years in which a contribution is recorded. Each year could include anything from 1 to 52 contributions.

<table>
<thead>
<tr>
<th>No of years with contributions, (paid or credited)</th>
<th>Males %</th>
<th>Females %</th>
<th>Total %</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;5</td>
<td>0.02</td>
<td>0.00</td>
<td>0.02</td>
</tr>
<tr>
<td>5 to 9</td>
<td>2.31</td>
<td>0.74</td>
<td>3.04</td>
</tr>
<tr>
<td>10 to 14</td>
<td>10.17</td>
<td>7.36</td>
<td>17.54</td>
</tr>
<tr>
<td>15 to 19</td>
<td>24.16</td>
<td>7.29</td>
<td>31.45</td>
</tr>
<tr>
<td>20 to 24</td>
<td>7.13</td>
<td>5.02</td>
<td>12.15</td>
</tr>
<tr>
<td>25 to 29</td>
<td>15.02</td>
<td>5.06</td>
<td>20.07</td>
</tr>
<tr>
<td>30 to 34</td>
<td>3.10</td>
<td>1.41</td>
<td>4.51</td>
</tr>
<tr>
<td>35 to 39</td>
<td>2.73</td>
<td>0.83</td>
<td>3.57</td>
</tr>
<tr>
<td>40 to 44</td>
<td>2.73</td>
<td>0.45</td>
<td>3.18</td>
</tr>
<tr>
<td>45+</td>
<td>3.86</td>
<td>0.62</td>
<td>4.48</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>71.23</strong></td>
<td><strong>28.77</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>No of years with contributions, (paid or credited)</th>
<th>Males %</th>
<th>Females %</th>
<th>Total %</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;5</td>
<td>0.00</td>
<td>0.04</td>
<td>0.04</td>
</tr>
<tr>
<td>5 to 9</td>
<td>0.08</td>
<td>0.08</td>
<td>0.16</td>
</tr>
<tr>
<td>10 to 14</td>
<td>0.46</td>
<td>0.84</td>
<td>1.30</td>
</tr>
<tr>
<td>15 to 19</td>
<td>1.30</td>
<td>1.34</td>
<td>2.64</td>
</tr>
<tr>
<td>20 to 24</td>
<td>3.37</td>
<td>2.72</td>
<td>6.09</td>
</tr>
<tr>
<td>25 to 29</td>
<td>37.63</td>
<td>12.83</td>
<td>50.46</td>
</tr>
<tr>
<td>30 to 34</td>
<td>5.78</td>
<td>5.02</td>
<td>10.80</td>
</tr>
<tr>
<td>35 to 39</td>
<td>5.02</td>
<td>2.76</td>
<td>7.77</td>
</tr>
<tr>
<td>40 to 44</td>
<td>6.81</td>
<td>1.26</td>
<td>8.08</td>
</tr>
<tr>
<td>45+</td>
<td>10.87</td>
<td>1.80</td>
<td>12.67</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>71.32</strong></td>
<td><strong>28.68</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>
6.96 In the case of State Pension (Contributory), some 16% of claimants have contributions in more than 30 years with almost 40% reaching this level in the case of the State Pension (Transition), with 90% having contributions in excess of 25 years against 36% for State Pension (Contributory). Females comprise about 28% of applicants for both pensions and their records follow a broadly similar pattern.

6.100 The results of this analysis are generally consistent with other tables presented and show that the majority of claimants have less than 30 years paid contributions. One area of concern is the number with less than 520 contributions paid which account for 13% of the total. Under legislation enacted in 1997, the basic paid requirement for qualification for pensions will increase to 520 contributions in 2012. Accordingly, unless this position improves in the next 5 years, significant numbers will not qualify for a contributory pension. The position should improve given improved social insurance coverage and workforce participation but it is a situation that will require monitoring in the run up to 2012.

Table 6.9: Total Contributions (Paid and Credited) State Pension (Contributory) and State Pension (Transition)

<table>
<thead>
<tr>
<th>Total Contributions (paid and credited)</th>
<th>Male %</th>
<th>Female %</th>
<th>Total %</th>
</tr>
</thead>
<tbody>
<tr>
<td>156-259</td>
<td>0.04</td>
<td>0.01</td>
<td>0.05</td>
</tr>
<tr>
<td>260-519</td>
<td>3.01</td>
<td>1.96</td>
<td>4.97</td>
</tr>
<tr>
<td>520-1039</td>
<td>24.33</td>
<td>11.54</td>
<td>35.87</td>
</tr>
<tr>
<td>1040-1559</td>
<td>28.43</td>
<td>11.45</td>
<td>39.88</td>
</tr>
<tr>
<td>1560-2079</td>
<td>7.73</td>
<td>2.66</td>
<td>10.39</td>
</tr>
<tr>
<td>&gt;2080</td>
<td>7.72</td>
<td>1.12</td>
<td>8.84</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>71.26</strong></td>
<td><strong>28.74</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Table 6.10: State Pension (Contributory) and State Pension (Transition) - Paid Contributions Only

<table>
<thead>
<tr>
<th>Total Paid Contributions</th>
<th>Male %</th>
<th>Female %</th>
<th>Total %</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;156</td>
<td>0.02</td>
<td>0.01</td>
<td>0.03</td>
</tr>
<tr>
<td>156-259</td>
<td>0.13</td>
<td>0.10</td>
<td>0.23</td>
</tr>
<tr>
<td>260-519</td>
<td>8.08</td>
<td>4.93</td>
<td>13.01</td>
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<tr>
<td>520-1039</td>
<td>29.95</td>
<td>13.78</td>
<td>43.73</td>
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<tr>
<td>1040-1559</td>
<td>24.31</td>
<td>8.44</td>
<td>32.75</td>
</tr>
<tr>
<td>1560-2079</td>
<td>6.00</td>
<td>1.24</td>
<td>7.23</td>
</tr>
<tr>
<td>&gt;2080</td>
<td>2.78</td>
<td>0.24</td>
<td>3.02</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>71.26</strong></td>
<td><strong>28.74</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

6.97 The total number of contributions (paid and credited) held by those awarded both pensions was examined and the results are presented in Table 6.9.

6.98 The majority (75%) of those who received a pension had between 520 and 1,559 contributions. This is equivalent to between 10 and 30 full years of social insurance. About 53% of those in this bracket were men and 22% women. Only 19% of people awarded a payment had more than 1,560 contributions (30 full years of social insurance).

6.99 The number of paid contributions [excluding credits] held by those who were awarded a pension was also examined and the results are presented in Table 6.10.

6.101 The tables on the following page demonstrate the way in which, under the present system, people with different levels of contribution can receive the same rate of payment, or how those with the same contribution levels can receive different levels of payment.
6.102 Tables 6.11 and 6.12 show how people with a similar number of contributions receive different levels of payments. For example, 21.44% of those in receipt of State Pension (Transition) or State Pension (Contributory) receive a 98% pension, having made between 1040 and 1559 contributions. Almost 41% receive a full pension, having made a similar number of contributions. The tables also show that people are, at present, being awarded full rate pensions for relatively low levels of contributions. 21% of those being awarded a full State Pension (Contributory) have less than 1,040 (20 years) contributions, while 7% of those on a State Pension (Contributory) are receiving the full rate for 30 years’ contributions or more. This highlights the anomaly whereby, under the current yearly average system, higher pensions can be paid to those with a lower number of contributions.

### Table 6.11: State Pension (Transition): Total number of Contributions (Paid and Credited) by pension rate

<table>
<thead>
<tr>
<th>Average No. of Contributions</th>
<th>260 – 519 (%)</th>
<th>520 - 1039 (%)</th>
<th>1040 –1559 (%)</th>
<th>1560 –2079 (%)</th>
<th>&gt;2079 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>24-47</td>
<td>0.46</td>
<td>2.99</td>
<td>21.44</td>
<td>10.87</td>
<td>2.79</td>
</tr>
<tr>
<td>48+</td>
<td>0.04</td>
<td>2.07</td>
<td>40.70</td>
<td>5.63</td>
<td>13.02</td>
</tr>
</tbody>
</table>

### Table 6.12: State Pension (Contributory): Total Number of Contributions (Paid and Credited) by Pension rate

<table>
<thead>
<tr>
<th>Average No. of Contributions</th>
<th>260 – 519 (%)</th>
<th>520 - 1039 (%)</th>
<th>1040 –1559 (%)</th>
<th>1560 –2079 (%)</th>
<th>&gt;2079 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10-14</td>
<td>4.13</td>
<td>8.08</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>15-19</td>
<td>0.56</td>
<td>10.00</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>20-47</td>
<td>2.34</td>
<td>12.81</td>
<td>12.28</td>
<td>4.67</td>
<td>0.93</td>
</tr>
<tr>
<td>48+</td>
<td>0.21</td>
<td>20.58</td>
<td>16.33</td>
<td>2.64</td>
<td>4.38</td>
</tr>
</tbody>
</table>

### Table 6.13: State Pension (Contributory) and Credited Contributions

<table>
<thead>
<tr>
<th>Total Contributions (paid and credited)</th>
<th>Average Paid and Vol Con Total</th>
<th>Number with credits as a % of all awards</th>
<th>Average number of credits</th>
<th>Credits as a % of total contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>156-259</td>
<td>174</td>
<td>0.09%</td>
<td>32</td>
<td>15.70%</td>
</tr>
<tr>
<td>260-519</td>
<td>342</td>
<td>1.07%</td>
<td>754</td>
<td>13.79%</td>
</tr>
<tr>
<td>520-1039</td>
<td>632</td>
<td>10.04%</td>
<td>149</td>
<td>19.15%</td>
</tr>
<tr>
<td>1040-1559</td>
<td>1,086</td>
<td>53.51%</td>
<td>256</td>
<td>19.09%</td>
</tr>
<tr>
<td>1560-2079</td>
<td>1,317</td>
<td>25.78%</td>
<td>479</td>
<td>26.67%</td>
</tr>
<tr>
<td>2080+</td>
<td>1,606</td>
<td>9.51%</td>
<td>717</td>
<td>30.87%</td>
</tr>
</tbody>
</table>

6.103 Credited contributions play an important role in determining eligibility for pension. While a person must satisfy a basic paid requirement (currently 260 contributions), credited contributions can be added to paid contributions for the purposes of the yearly average test. Table 6.13 shows the position in relation to credits in respect of claims for State Pension (Contributory), using the long average test, i.e. from 1953.

6.104 The number with credited contributions at the various levels varies from less than 1% to as high as 53% with credits ranging from 14% to 30% of total contributions. This confirms the very significant role which credited contributions play in securing pension awards. A similar pattern is seen in relation to claims for State Pension (Transition). The high incidence of credits can, to some extent, be explained by the fact that many people are transferring from other Social Welfare schemes when they claim pension.

### Suggestions for a total contributions approach

6.105 As already indicated, it is clear that people qualifying for pensions at present do not, in many cases, have very robust records - with maximum rate pensions being paid on the strength of as little as 10 years contributions. Given that the working life of a person retiring today can span 46 years it is not clear why so few people qualifying for pensions are achieving this level of contributions. There can be many reasons for this including
absence from the State and periods spent working full-time in the home. The fact that social insurance coverage was less than comprehensive until relatively recently could also be an important factor.

6.106 However, with increased workforce participation and a comprehensive system of social insurance which has now been in place for almost 20 years, the insurance records of those who are still contributing should show an improvement on existing pensioners. This suggests that the number of contributions required in a total contributions approach should be based on the potential of current contributors rather than the level of contribution achieved by those qualifying for pension today. The comprehensiveness of the social insurance system, the existence of voluntary contributions, the Homemaker’s Scheme and the facility for awarding credited contributions to employees in times of unemployment or illness all mean that, unless a person goes abroad or operates in the informal economy, s/he will have the potential to achieve a 100% insurance record.

6.107 With people starting full-time permanent work at any time from 16 years of age to 25 years of age, it should be possible to achieve a contribution record of anything from 40 to 50 years. However, the number of younger people at work has been falling because of greater involvement in education. In the circumstances, allowing for those who attend third level education, it is probably reasonable to assume that most people will enter the workforce at about 20 to 23 years of age. That would give a potential record of about 42 to 45 years at retirement age. Allowing for some intermittent/part-time employment and possibly a short time abroad it is considered that a target of 40 years would not be unreasonable to set for a maximum pension. This would be in line with the requirements of many pension systems in the EU and would also be in line with the service requirements of many occupational pension schemes. This requirement could be kept under review as longevity improves and/or working after normal retirement age becomes more prevalent.

6.108 It would also be necessary to set some minimum level of paid contribution to qualify for a pension. Again, such a requirement is not unusual in the context of other pension schemes. As already indicated, legislation enacted in 1997 provides for a minimum paid requirement of 520 contributions from 2012 and in the context of our comprehensive social insurance system as it now exists, this seems a reasonable target. However, as indicated at paragraph 6.100, this situation will require monitoring.

Role of Credits

6.109 When a person is in insurable employment, PRSI deductions are made from his/her earnings each week and recorded on his/her behalf. However, if an employee is absent from work due to illness, unemployment or early retirement PRSI deductions may not be made but the person may be eligible for credits. Credits are similar to the contributions paid as an employee and protect a person’s future entitlement to Social Welfare benefits and pensions as they ensure that the social insurance record remains unbroken during periods of, for example, illness or unemployment.

6.110 To qualify for credits, a person must have worked and paid at least one PRSI contribution at PRSI class A, B, C, D, E, H, or P and have paid or credited contributions in either of the last two complete tax years. If there is a gap of more than two complete tax years in a person’s social insurance record, s/he will need to work and pay PRSI contributions for a further 26 weeks before becoming eligible for credits. Credits are usually awarded at the same rate as the last paid PRSI contribution.

6.111 Subject to the qualifying conditions outlined above, credits are automatically awarded when an employee claims Jobseeker’s Benefit; Illness Benefit; Maternity Benefit; Adoptive Benefit; Health & Safety Benefit; Invalidity Pension; or State Pension (Transition). People in receipt of Jobseeker’s Allowance; Pre-Retirement Allowance; Injury Benefit or Carer’s Allowance may be entitled to credits. Those participating in a Back to Education Programme or on courses run by FÁS, CERT, Bord Iascaigh Mhara (BIM) or Teagasc may also be eligible for credits. Certain people
not on a Social Welfare scheme may also be entitled to credits.

6.112 When a person first starts work, Pre-Entry Credits are given from the beginning of that income tax year up to the date the work begins and for the previous two income tax years. These credits are normally only given once but if someone is a student s/he may be given these credits again on commencing full-time employment. These Student Credits may be given to cover periods in full-time education subject to certain qualifying conditions.

6.113 The extent to which credits can be used to support qualification for a pension is an important issue. The Working Group which reviewed Credited Contributions found that some 12.5% of claimants for the State Pension (Contributory) would have no entitlement to this pension if credits were not reckonable. Furthermore, the existence of credits enabled a significant number of claimants to secure a higher payment than their paid contributions alone would have entitled them to.

6.114 There are at least two ways in which the issues associated with credits can be approached. Firstly, credits could continue to be treated as they are today with an unlimited number allowed for qualification once the basic paid requirement is satisfied. Another view would be that there should be more emphasis placed on paid/employment contributions in the qualifying conditions, with restrictions placed on the amount of credits which can be used. This approach would be broadly consistent with the situation in some other EU countries where the qualifying conditions for pensions are being tightened to encourage longer working amongst older workers through measures such as increasing the contribution requirement for full pensions and raising State Pension age.

6.115 It is suggested, in the context of a change to credits in the Homemaker’s Scheme, that up to 20 years, or 1,040 credited contributions, should be allowed for someone who leaves the workforce to undertake caring duties. As already indicated this is, by international standards, quite a long time for which to award credits in respect of caring duties. Most other countries generally only take account of the first 3 to 4 years, possibly until a child enters pre-school care. If it were decided to limit the role of credits in the context of pension qualification and 20 years were retained as the benchmark for Homemaker’s Credits then, in equity, it would also have to apply to other situations where credits are awarded.

6.116 As an alternative the value of credited contributions could be reduced so that when a person’s total contribution record is being assessed the credits would not be of the same value as paid contributions. The objective would be to ensure that qualification for pension was, to the greatest extent possible, based on the use of paid contributions. For example, this could mean that one paid contribution would equal two credited contributions.

6.117 The review of credited contributions referred to did not propose that the value of credits should be reduced as outlined above. However, it did suggest that if the restrictions were to be imposed it should be to

“limit the extent to which people can qualify based on credited contributions”\(^98\).

6.118 Adopting such an approach could strike a reasonable balance between recognising periods outside the paid workforce and at the same time emphasise the need to maximise the paid element in the contribution conditions required for pension purposes. The suggestion of placing a cap on the total number of credited contributions which could be used in establishing entitlement to a pension would be in keeping with this approach. In the past, concerns in relation to limiting the use of credited contributions focused on the position of long-term Social Welfare recipients and the impact it could have on their pension entitlements, in particular those qualifying for Invalidity Pension. However, from 2006, recipients of Invalidity Pension are automatically transferred to State Pension (Contributory) at 66 years of age so limiting the use of credits in a pensions context would have no impact.

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98 Department of Social, Community and Family Affairs (1999:14) Review of Credited Contributions
Rate Structures which could be considered

6.119 There are currently four rate bands for the State Pension (Contributory), i.e. 50%, 75%, 98% and 100% and two for State Pension (Transition), i.e. 100% and 98%. As already suggested, in a total contributions context, there would be a need for a more gradual increase in the rates paid as the number of contributions achieved increased. The following tables outline a couple of approaches that might be considered for a system of total contributions. One model requires a minimum of 10 years paid contributions for a basic payment with an overall requirement of 40 years (paid/credited) for a full rate. A maximum of 20 years credits can be utilised. Therefore, a person would require 40 years’ contributions, of which at least 20 years would be paid, for a maximum rate pension. The second model requires a higher contribution level for a minimum payment and also sees a greater emphasis on the necessity for paid contributions at each rate band. In this regard it is again worth mentioning the concerns in relation to the paid contribution element in pension claims currently being received, with 13% having less than 520 contributions i.e. the new benchmark which will apply from 2012 under legislation passed in 1997.

6.120 A central consideration in determining what may constitute an appropriate banding structure is the cost implications for the Exchequer and the Social Insurance Fund. This is particularly important in the context of an ageing society. The relative costs of different models, two of which are presented here, will be very sensitive to the distribution of persons within the various bands - i.e. the variation within the pensioner population in terms of the number of paid and/or credited contributions which they hold. Further consideration in relation to this issue will be needed before a suitable structure could be decided upon.

6.121 In any system of total contributions and a more comprehensive rate structure, it would be important to ensure that claimants can derive the maximum benefit possible from the contributions made. At present, contributions are only counted up to the end of the last complete contribution year before a person reaches pension age which means that, depending on their birth date and when

<table>
<thead>
<tr>
<th>Rate of Payment*</th>
<th>Contributions Required</th>
<th>Of which paid contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>50%</td>
<td>520 (10 years)</td>
<td>520</td>
</tr>
<tr>
<td>65%</td>
<td>780 (15 years)</td>
<td>520</td>
</tr>
<tr>
<td>80%</td>
<td>1,040 (20 years)</td>
<td>520</td>
</tr>
<tr>
<td>85%</td>
<td>1,300 (25 years)</td>
<td>520</td>
</tr>
<tr>
<td>90%</td>
<td>1,560 (30 years)</td>
<td>520</td>
</tr>
<tr>
<td>95%</td>
<td>1,820 (35 years)</td>
<td>780</td>
</tr>
<tr>
<td>100%</td>
<td>2,080 (40 years)</td>
<td>1,040</td>
</tr>
</tbody>
</table>

* The bands in-between those shown here could be directly proportional.

<table>
<thead>
<tr>
<th>Rate of Payment*</th>
<th>Contributions Required</th>
<th>Of which paid contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>50%</td>
<td>1,040 (20 years)</td>
<td>520</td>
</tr>
<tr>
<td>65%</td>
<td>1,352 (26 years)</td>
<td>676</td>
</tr>
<tr>
<td>80%</td>
<td>1,664 (32 years)</td>
<td>832</td>
</tr>
<tr>
<td>85%</td>
<td>1,768 (34 years)</td>
<td>884</td>
</tr>
<tr>
<td>90%</td>
<td>1,872 (36 years)</td>
<td>936</td>
</tr>
<tr>
<td>95%</td>
<td>1,976 (38 years)</td>
<td>988</td>
</tr>
<tr>
<td>100%</td>
<td>2,080 (40 years)</td>
<td>1,040</td>
</tr>
</tbody>
</table>

* The bands in-between those shown here could be directly proportional.
they left employment, up to 52 contributions may not be counted in assessing eligibility for pension. This has very little impact, if any, in an averaging environment but additional contributions could have an affect on the final rate of payment where total contributions are involved. Accordingly, arrangements would have to be made to ensure that all contributions made are reckonable for pensions purposes. Suggestions are also made elsewhere in the report in relation to allowing contributions to continue after normal retirement age to afford people the opportunity to improve on their positions and to encourage longer working.

Implementation

6.122 As is evident from the various tables presented in this section, a change to a system of qualification based on total contributions, allied with a more comprehensive rate structure would be a more equitable and transparent way of awarding pensions. In deciding on an appropriate structure and, in particular the contributions for maximum and minimum pensions, it is also considered that this should have regard to the potential people now have to make social insurance contributions, rather than the less than complete records we see from existing pensioners and older workers. The former would suggest a requirement of up to 40 years’ contributions but, as is clear from the records of those qualifying for pension today, this could not be introduced without causing serious disadvantage. The alternative would be a much reduced contribution requirement but the result of this would be to qualify almost all claimants for a full rate pension. Apart from the additional cost involved, both immediate and long-term, this would not be in keeping with one of the objectives of the system which would be to ensure a close link between the level of contributions made and the benefits accruing.

6.123 Having considered all the implications of introducing a total contributions approach, it may well be considered that it might be prudent to postpone such a development for the present. The records of those qualifying for pension could continue to be monitored and a decision made on implementation when it was considered that people’s records were more in tune with the requirements of a system based on total contributions.

Reform E – Miscellaneous Issues relating to Social Welfare Pensions including indexing, the existence of two contributory pension schemes, the role of the Living Alone Increase, social insurance for spouses of farmers/self-employed

Indexing of Social Welfare Pensions

6.124 Social Welfare pensions are adjusted annually at budget time having regard to commitments or targets set by Government, available resources and economic conditions. Certainly, in recent years, this system has served pensioners well with increases in pensions which are ahead of both inflation and earnings. Over the last 10 years, pensions have increased by 119%, or 57% in real terms. This improvement in incomes is very apparent in poverty statistics based on the nationally agreed measure of consistent poverty, but it has not always been reflected in poverty statistics based on relative incomes because of other movements in the economy (reduced taxes and improved workforce participation). (See discussion in Chapter 4).

6.125 The National Pensions Policy Initiative (NPPI) suggested that contributory pensions should be set at a level of 34% of Gross Average Industrial Earnings (GAIE) and, while Government has never committed itself to this target, it has been taken account of in various commitments in Social Partnership Agreements and Programmes for Government. The most recent increases in pensions have actually brought pensions over this threshold and they now stand at about 35% of GAIE.

6.126 In the course of discussions on the preparation of the Green Paper, some have suggested that there should be a more formal indexing arrangement for pensions based on various percentages of GAIE or poverty thresholds.
In relation to the latter, a target pension rate which was linked to 60% of household median income would tie in with the EU poverty monitoring process and ensure, on an ongoing basis, retirement incomes which cleared the EU poverty thresholds. From the point of view of social equity, such measurements take account of changes in living standards generally, such as increased labour force participation, tax changes etc. However, the income definitions underlying the risk of poverty are complicated and subject to change, which could cause confusion in the monitoring process.

On the other hand, earnings data are easily understood and available quickly. While household income rose more quickly than earnings in the 1990s and early 2000s, this trend could be reversed if, for instance, unemployment rose, tax rates increased or, indeed, tax bands did not keep pace with inflation. Pensions linked to a household income measure could then decline in relation to earnings. In considering this aspect of the pensions system, the National Pensions Review considered that:

“first pillar pension targets should continue to use GAIE as a reference, as the median household income is too volatile year on year...”

Accordingly, it would appear that if a formal indexing arrangement were to be considered, then it should be based on some measure of earnings. In this regard, two suggestions have been made - 40% of GAIE and 50% of GAIE. At current levels, these would translate into pension rates of approximately €240 per week and €300 per week respectively at an additional cost of €720 million and €2 billion per annum99. In the longer-term, indexing pensions along these lines has implications for the sustainability of the system. The deficit in the Social Insurance Fund is projected to reach 6.4% of GNP under present policies by 2061 and this rises to 7.7% of GNP with indexing to 40% of GAIE, and 10% of GNP using 50% of GAIE as the benchmark.

As can be seen from Table 4.9 in Chapter 4, the various targets which have influenced pension policy in recent years (34% of GAIE, pension of €200 per week) would ensure (assuming that household incomes track earnings) that poverty measures based on relative incomes (as measured by the CSO) are exceeded. However, because the EU uses different equivalence scales, the poverty threshold is higher. Accordingly, if it was considered appropriate to benchmark pensions against EU poverty measures then a pension of 40% of GAIE would be required. The higher rate of pension suggested, 50% of GAIE, would exceed all poverty thresholds and provide a pension for those of average earnings, without supplementary pension coverage, which would be in keeping with targets suggested in the National Pensions Policy Initiative (1998) and reaffirmed in the National Pensions Review.

Two Contributory Pension Schemes

There are two main contributory pension schemes, State Pension (Contributory) and State Pension (Transition). The reasons for this are historical and relate to the qualifying age for Social Welfare which, up until the early 1970s, was 70 years of age. The Retirement Pension (the former name of the State Pension (Transition)) was introduced at that time to bridge the gap for employees who had to retire at 65. The qualifying age for Social Welfare pensions was subsequently reduced over a number of years to 66, which basically left the Retirement Pension effective for just one year. At this stage, there is a reasonable case to be made for reforming the system to provide for just one scheme.

While there are good arguments on cost grounds, particularly in the context of the future ageing of the population, for setting 66 years of age as the retirement age for Social Welfare pension purposes, it means that the Social Welfare pension system remains out of step with the current realities of the workplace. The standard retirement age for most employments is 65 years of age. Additional income tax age-related allowances are also applied at that age. In the circumstances, it could also be argued that the Social Welfare system should follow normal societal practice. Indeed, the Final Report of...
the National Pensions Board considered that “a standard qualifying age of 65 for retirement and old age pensions should be introduced”.

6.133 However, the Board regarded this as a low priority due to cost and the potential interaction with the other recommendations of its report, particularly in regard to the level of pensions. The estimated cost of standardising the payments at age 65 is about €156 million but this could also bring pressure for non-contributory pensions, higher rate qualified adult allowances, Household Benefits, and other supports to be paid from age 65 also. In the context of the demographic pressures we face, and the need to encourage longer working amongst older people, any downward movement in pension age would not be an appropriate course of action. Indeed, it may be necessary to consider raising pension age at some stage, as discussed in Chapter 14.

Social Welfare Pensions and Longer Working

6.134 Social Welfare pensions can play a part in encouraging longer working amongst older people. For instance, the retirement condition associated with the State Pension (Transition) could be removed or incentives offered to allow higher rates to be paid where people decide to defer claiming. In addition, employment after normal retirement age could be made fully insurable so that workers with deficient insurance records can improve these by remaining in work. However, measures such as these can only play a small role in encouraging longer working. Significant changes in the expectations of employees in relation to early retirement and employers seeking to retain older workers by creating the workplace conditions which will make this an attractive proposition are key in this area. These matters are discussed in more detail in Chapter 14.

The Living Alone Increase and Poverty

6.135 Pensions provided under the Social Welfare system are standard rate payments with a number of additional allowances or increases paid to different categories of pensioners. These increases include payments for adult dependants, through what is known as the increase for a qualified adult, the living alone increase and an allowance for those who are 80 years of age and over.

6.136 There have been ongoing developments in relation to the qualified adult payments and there is a commitment to increase these to the level of the State Pension (Non-Contributory) over the next three years. However, there has been little or no movement in relation to other additional payments with policy for many years focused on improving the personal rates of payment. The increase for living alone has remained at its present level (€7.70 per week) since 1996, and while the allowance for those over 80 years of age was increased to €10 per week in Budget 2006, this was the first such increase since 1996.

6.137 Since 1996, including increases granted in Budget 2007, the rate of contributory pensions has increased by about 119%, or 57% in real terms. At the same time, rates of payment for all schemes payable to people over 66 years of age were standardised at the State Pension (Contributory) rate, so some groups such as widows and widowers will have seen even greater increases in payments.

6.138 Until relatively recently, although pensions were increasing faster than both prices and wages, household incomes were growing even faster, with the result that the relative income position of older people continued to deteriorate. However, the growth in household income has slowed while pension increases have remained ahead of prices and wages and this is starting to manifest itself in an improving relative income position for older people.

6.139 In 2005, just over 20% of those aged 65 and over were at risk of poverty, representing a significant decline on the 27% recorded one year previously. Over the same period, the rates for persons under 65 remained relatively unchanged. At an overall level, 18.5% of the population were at risk of poverty, compared with 19.4% in 2004.

6.140 However, the poverty risk for older people is not uniform with particular groups having higher risks. Those who live alone have the highest risk of poverty. In 2004, 35.7% of this group were at risk of poverty and this declined to 28.8% in 2005. In the past, it would have been generally accepted that older women
had a higher risk of poverty than older men. However, more recent results from the EU-SILC survey for 2005 show very little difference, with risk of poverty at 20.3% for older men and 19.9% for older women. Also, there is no great divergence in risk when the ages of older people are examined. EU-SILC 2004 found that those aged 65 to 74 had a poverty risk of 27.9% against 26.2% for those aged 75 and over.

6.141 If the objective of the Social Welfare pensions system is to alleviate the poverty risk for older people, it would appear that more use could be made of instruments such as the Living Alone Increase to alleviate the risk of poverty for the more vulnerable groups of older people. (One disadvantage to this approach, however, is that it may act as a disincentive to older people moving in with family members.)

6.142 The Living Alone Increase is an additional payment of €7.70 per week to people who are in receipt of certain Social Welfare type payments and who live alone. Recipients are mainly those receiving pensions who are over 66 years of age but it is also available to those under that age receiving a number of long-term sickness payments.

6.143 As already indicated, the payment was last increased in 1996 and, at that time, the Living Alone Increase represented 8% of the personal rate for the contributory pensioners. Had the increase kept pace with the increase in pensions since then it would now be worth about €16.75 per week.

6.144 The number of people in receipt of the Living Alone Increase is as follows:

**Table 6.16: Recipients of Living Alone Increase**

<table>
<thead>
<tr>
<th>Recipients aged 66 years and over</th>
<th>Recipients aged under 66</th>
</tr>
</thead>
<tbody>
<tr>
<td>Widow/er’s Contributory Pension</td>
<td>44,637</td>
</tr>
<tr>
<td>Widow/er’s Non-Contributory Pension</td>
<td>6,694</td>
</tr>
<tr>
<td>Deserted Wife’s Benefit</td>
<td>462</td>
</tr>
<tr>
<td>Deserted Wife’s Allowance</td>
<td>260</td>
</tr>
<tr>
<td>State Pension [Contributory]</td>
<td>27,374</td>
</tr>
<tr>
<td>State Pension [Non-Contributory]</td>
<td>25,296</td>
</tr>
<tr>
<td>State Pension [Transition]</td>
<td>19,822</td>
</tr>
<tr>
<td>Blind Pension</td>
<td>405</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>124,950</strong></td>
</tr>
<tr>
<td>Invalidity Pension</td>
<td>10,611</td>
</tr>
<tr>
<td>Disability Allowance</td>
<td>15,713</td>
</tr>
<tr>
<td>Death Benefit Pension</td>
<td>206</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>26,530</strong></td>
</tr>
<tr>
<td><strong>Total Recipients of Living Alone Increase</strong></td>
<td><strong>151,480</strong></td>
</tr>
</tbody>
</table>

Source: Department of Social and Family Affairs

6.145 The annual cost of the increase is approximately €61 million. If the 1996 relationship between the Living Alone Increase and the maximum rate of the contributory pension was maintained, the cost would rise to €134 million.

**Social Insurance Coverage for Spouses working on family farms/business**

6.146 As outlined in Chapter 5 in relation to entitlements for qualified adults and the means testing of such payments, the question of PRSI cover for spouses assisting in family businesses or farms has been raised on numerous occasions, particularly by the farming community. While provisions introduced in Budget 2007 for the direct payment of qualified adult increases to spouses/partners will deal with some issues in this area, the result of means testing of the payments is that many fail to qualify for any support from the Social Welfare system. In such circumstances, it has been suggested that the PRSI system needs to be examined to provide a personal entitlement for such people. In this regard, it should be mentioned that those in question do have access to the Voluntary Contribution Scheme which will maintain pension entitlements for a person leaving standard employment to work on a farm/business.
6.147 The provision in the Social Welfare code whereby employment in the service of a husband or wife is not allowed for social insurance coverage is a long-standing provision. It mirrors similar exclusions under employment protection legislation. The provisions recognise the practical difficulties of establishing the nature of a genuine employment relationship in such circumstances.

6.148 There is, however, scope within the legislation to provide for spouses who work together in a family business to be covered for social insurance purposes. Under current Social Welfare legislation provisions, there are three different scenarios to be considered:

- First, where spouses are actively engaged in a commercial enterprise as a business partnership, they are treated as individual self-employed contributors and are liable to social insurance contributions once each of them has individual reckonable income of €3,174 per annum. These contributions enable them to build up an insurance record in their own right and to receive accruing benefits;

- Second, where a family business is incorporated as a limited company, spouses involved in the business can each establish a PRSI record either as employees or as self-employed contributors - depending on whether a contract of service exists or not. Employees are liable to PRSI Class A contributions once earnings are in excess of €38 per week and self-employed workers pay class S contributions through the PAYE system each week providing their annual emoluments are in excess of €3,174 in the year;

- Third, a person employed under a contract of service, that is, as an employee, directly by his or her spouse is viewed as an “excepted” contributor under Social Welfare legislation. He or she will not be liable for PRSI contributions and will not be able to accrue entitlement to social insurance benefits on the basis of this employment. This exception applies to both men and women in family employments and recognises the practical difficulties in establishing the nature of a genuine contract of employment in such circumstances.

6.149 Thus, where formal employment or partnership relationships are intended between spouses or assisting relatives, the legislation provides the scope necessary, as outlined above, to allow parties to enter into arrangements that will enable them to gain access to social insurance coverage. Arguments have been made that these provisions are discriminatory. However, the legislation applies equally to men and women. Nor is it in breach of the EU equality legislation as EU Directive 86/613/EEC leaves it to individual Member States to decide on the appropriate level of social security cover for assisting spouses through the accrual of their own rights or through derived rights.

6.150 An inter-departmental group (2002) considering the insurability of farm spouses concluded that the greatest scope for resolving the issue was for the couples concerned to conduct their business arrangements as a partnership. The social partnership group on Developing a Fully Inclusive Social Insurance Model (FISIM) (2005), which included members from trade unions, employers and the farming pillar, in noting the significance of the partnership option to enable farm spouses to build a social insurance record in their own right, recommended that more information on the tax and Social Welfare implications of working together in a partnership should be made available through a joint information leaflet published between the Department of Social and Family Affairs and the Revenue Commissioners.

6.151 A number of other options have been put forward to provide individual pension coverage for spouses. These include (1) optional co-insurance of spouses, (2) provision to enable those who have a shortfall in contributions at pension age to buy additional contributions and (3) amnesties for unpaid contributions.

6.152 These are suggestions which give rise to very fundamental issues of principle for the social insurance system. As with any insurance scheme, the member of an insurance scheme must fulfil a minimum number of conditions.
to enjoy the benefits of that scheme. The legislation is crafted to make persons who are in insurable employment or self-employment and have reckonable earnings or income in excess of a minimum threshold liable for social insurance contributions. Liability for social insurance contributions is based on a person’s employment or self-employment status. There is no provision in legislation to facilitate the payment of contributions that were not due in the first place; therefore, PRSI payments which are not properly due cannot be accepted.

6.153 Any departure from these principles could have wider implications. Certainly, it would be hard to refuse similar facilities to, for instance, an employee whose social insurance record was inadequate when she/he reached retirement or an employee in the State sector whose social insurance status was changed from a full rate contributor to a modified rate contributor and who alleges that she/he was not made aware of the voluntary contribution facility which they could have used to maintain their contributory pension entitlements. The latter is an issue frequently raised by former employees of the semi-state sector. Accordingly, changes in this area would need to be approached with great caution because of the implications for the financing of the Social Insurance Fund.

Reform F – Approaches to address sustainability

6.154 As outlined in paragraph 6.2, there is a significant projected rise in the cost of the Social Welfare pension system arising from demographic change, improvements in social insurance coverage [which will see more people qualifying] and ongoing improvements in pension rates. One response to this has been the creation of the National Pensions Reserve Fund which will be available from 2025 to partly offset the additional costs. It will be a matter for the Government to decide how best to deal with the costs issue, having regard to economic conditions and other demands on Government finances generally in the future. In a Social Welfare context, if it were decided that offsetting measures should be taken within the Social Welfare system itself, such measures could involve, for example, one, or a combination, of the following options, which are further discussed below.

- Introduce an indexing arrangement which would limit the growth in pension costs;
- Increase social insurance contributions;
- Defer payments by increasing the Social Welfare pension age;
- Extend means testing to all pension payments.

6.155 As with all reform approaches in this chapter, and elsewhere, there is a tension between financial and economic sustainability on the one hand and social sustainability on the other. The position chosen and the decisions made at any point in time will depend on social and economic factors and will be a matter for determination by the Government of the day.

a) Index pensions to growth in Consumer Price Index

6.156 In some EU countries, there are formal arrangements in place by which pensions are increased each year. Traditionally, such pensions are earnings related and have been indexed in line with earnings growth. However, in order to limit increasing costs, the indexing arrangements in some cases are being changed from an earnings basis to a mixed or demographically adjusted basis. Sweden, Italy and Germany have built in mechanisms to their pension systems to offset increases in life expectancy by providing lower pension benefits and/or late retirement.

6.157 While there is no formal indexation policy in Ireland, the State pension has broadly, over the long term, increased in line with earnings which normally rise faster than prices. Therefore, if the Social Welfare pension is indexed to earnings, its cost may grow more rapidly than if indexed to prices. If indexed to prices, however, it will fall in value relative to the average standard of living in society, which is set by earnings. The following table, based on results from the recently completed actuarial review of the Social Insurance Fund, illustrates the position of the fund using both earnings and prices indexation. The Social
Insurance Fund balance refers to income less expenditure in the fund. It can be seen that the fund remains more or less in balance under price indexation.

6.158 The downside of indexing pensions to prices is that, in relative terms, the value of pensions falls with obvious implications for the poverty risk faced by older people. It is projected that, under price indexation, the value of Social Welfare pensions would fall from a current level of about 35% of gross average industrial earnings to some 15% by 2061. Clearly, the sustainability tensions discussed earlier are evidenced here.

b) Increase social insurance contributions
6.159 On the basis of current policies, income to the Social Insurance Fund will equal or slightly exceed outgoings up to 2010. From 2011 onwards, outgoings will exceed income with the shortfall growing continuously both in real terms and as a percentage of GNP. For most of its history, the Social Insurance Fund has been financed by employees, employers, the Exchequer and more recently the self-employed. In recent years, the Fund has been in surplus. By the end of 2005, this surplus stood at €2.4 billion and, at end 2006, is estimated to have been approximately €3 billion. (This is a relatively small amount in terms of overall social insurance expenditure.)

6.160 Current contribution rates are projected to be adequate to meet outgoings from the Fund until about 2010. In the period 2008 to 2017, an increase of 5% in contribution rates is projected to be adequate to meet benefit outgoings whereas this increases to 138% in the period 2048 –2057. Over the entire projection period an increase of 74% in contribution rates would be required to meet benefit payments.

c) Defer payments by increasing Social Welfare pension age
6.161 Increasing retirement ages can play a very significant role in reducing the effects of the demographic changes which the country will face in the years ahead. In some EU countries, raising both effective and statutory retirement ages are key reforms in helping to make pension systems sustainable in the years ahead. In relation to the former, the average exit age from the labour force in Ireland was 64.1 years in 2005, compared to the EU25 rate of 60.9 years.

6.162 While the position here is more favourable in this regard than in other EU countries, nevertheless, further improvements in the situation can make a significant improvement to the financing of pension costs in the future. A gradual increase in Social Welfare pension age to 70 years of age (see Chapter 14) can reduce overall costs. While the savings would take some time to build up, they are potentially quite significant in the longer term with a projected saving of 1.6% of GNP in 2056.

6.163 The issues surrounding longer working from both the employee and employer perspective, the barriers workers face in choosing to defer retirement and the contribution the Social Welfare system can make to encouraging people to defer pension are discussed in full in Chapter 14.

d) Reduce benefits by extending means testing to all pension payments
6.164 This approach would be considered to be a radical change in the way eligibility for pensions is decided. If implemented, it is envisaged that it would apply to new claimants for pensions at a future date. While it would be a significant change in current policy, it has a rationale, as set out below, and it represents one extreme of the range of possible reforms from universal pensions (Reform B) which was discussed earlier.
6.165 As already outlined, Government policy has for many years involved shifting Social Welfare supports from means tested payments to payments based on social insurance contributions. The latter are neutral in terms of other income sources and therefore are not affected by any supplementary pension income, or assets, a retired person might have. While this policy contributes to the process of improving older people’s income, it has also added to the growth in costs as it means that more people are qualifying for payments and at higher rates. The link with social insurance rates is discussed at (b) above.

6.166 In order to contain costs, consideration could be given to a change of policy in this area, with the intention of ensuring that resources are directed to those who are most in need. The extent of the savings which would accrue would depend on the decisions in relation to an acceptable minimum income level for older people. Currently, about 35% of contributory pensioners have a supplementary pension but coverage in the current workforce (55%) would undoubtedly be affected by the prospect of being means-tested. In addition, all incomes and savings/assets would be means tested, with considerable effect. The introduction of a system of means-testing would, in effect, involve abolishing the concept of social insurance pensions.

6.167 There is no doubt that introducing means testing for a group of pensioners would improve the exchequer position in the future. However, savings achieved would be at the expense of an increased income poverty risk for older people as overall retirement incomes would fall through a combination of reduced Social Welfare and voluntary supplementary pension provision. Means testing would affect the incentives for those in employment to save for retirement as, for many low to middle income people, there would seem no point in saving and this would lead to lower voluntary supplementary pension coverage. This latter point was a major issue in the context of the pension reforms planned in the UK.

**Conclusion**

6.168 All the possible reforms (A to F) discussed in this chapter, which are not mutually exclusive (with the possible exception of some type of universal pension), indicate the challenges that arise for the Social Welfare system both on the benefit and financing sides. The challenge for a future framework is to strike an appropriate balance that takes account of all aspects of pensions delivery. This is the approach envisaged in the guidelines adopted by the Economic Policy Committee and the Social Protection Committee of the EU in relation to pensions strategies in Member States.
Chapter 6: Social Welfare Pension: Reform Options

This chapter sets out a range of approaches, including pros and cons, that could be considered to deal with the issues set out in Chapter 5. The approaches are not mutually exclusive. Reform options discussed are:

“Reform” A: Maintain the Current Arrangements
The gaps in pension coverage are mainly the result of the structure of our social insurance system in the past and societal norms which existed through to the 1970s. Over the years, a range of measures has been introduced to deal with issues within the existing contributory and means-tested structure. While the impact of our earlier social insurance structures and societal norms will reduce in the years ahead, maintaining the status quo would mean that, in the short to medium term, about 47,000 people (mainly retired public servants and self-employed people) would remain outside the Social Welfare pensions system.

Reform B: Universal Pensions
This pension could take a number of forms, including a standard rate of payment to all on reaching pension age; a minimum payment to those without any existing welfare entitlement; or a minimum age-related payment to those without any existing welfare entitlement. A universal payment would, however, be a radical departure from the present system - but it would deal with many of the societal and equality issues associated with the current system.

Reform C: Reforming and Backdating the Homemaker’s Scheme
One of the main issues relating to the Social Welfare pensions system is the treatment of those who left employment to care for children or sick or incapacitated people. Issues continue to be raised regarding those who left employment before 1994, when the Homemaker’s Scheme was introduced. This reform examines options for changes to the Homemaker’s Scheme, including: changing the period covered by the scheme, replacing disregards with credits, and backdating the Homemaker’s Scheme.

Reform D: Replacing the Average Contribution Test with a Total Contributions Approach
A change to a system of qualifications based on total contributions, allied to a more comprehensive rate structure, would be a more equitable and transparent way of awarding pensions. In deciding on an appropriate structure and, in particular the contributions for maximum and minimum pensions, this should also have regard to the potential people now have to make social insurance contributions. Having examined the implications, it may be considered that it would be prudent to postpone a move towards a total contributions approach because of the varying levels of contribution which people qualifying for pension today have on their records. This will improve in future as improved social insurance coverage feeds into the system and brings more consistency into the insurance records of those applying for a pension.

Reform E: Miscellaneous issues relating to Social Welfare pensions
This reform examined issues relating to the indexation of Social Welfare pensions, the existence of two contributory schemes, the role of the Living Alone Increase, and social insurance for spouses of farmers and self-employed people.

Reform F: Approaches to address sustainability
There is a significant projected rise in the cost of the Social Welfare pension system, arising from demographic change, improvements in social insurance coverage, and ongoing improvements in pension rates. In a Social Welfare context, if it was decided that savings were required, these may be achieved by one or a combination of the following: introduce an indexing arrangement which would limit the growth in costs; increase social insurance contributions; defer payments by increasing Social Welfare pension age; introduce means-testing for Social Welfare pensions.
Questions for consideration

In view of the issues and challenges facing the Social Welfare pensions system and the approaches to reform discussed in this chapter, the key questions include:

1. In the light of the reforms to the Social Welfare system undertaken in the 1970s, 80s and 90s which will, in future, see most people qualifying for contributory pensions, are there implications for people who are at present not receiving support through the Social Welfare pension system?

2. Is the introduction of a universal pension arrangement a desirable and feasible option?

3. If universal provisions are not considered appropriate then what groups, if any, currently outside the Social Welfare pensions system should be targeted for action?

4. Policy in relation to pensions has, for many years, concentrated on improving the position of all pensioners. Is this the most appropriate way of improving pensioner incomes or should there be a more targeted approach using measures such as the Living Alone Increase?

5. If the basis of qualification for contributory pensions was changed from average contributions made, to one based on total contributions, what would be an appropriate level of contribution a person should be required to have to receive a full pension?

6. Should a formal indexing arrangement linking pensions to some level of prices, earnings or risk of poverty threshold be introduced? How would a formal indexation mechanism be operated having regard to the overall budgetary and economic position?

7. Given the issues raised in this chapter, in Chapter 3, and in the Green Paper in general in relation to the long-term affordability of existing arrangements, how can the challenge of the growing cost of Social Welfare pensions be addressed?