Submission to the Total Contributions Approach Consultation 2018

September 2018

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*The work of the Age Action policy team is supported by the Scheme to Support National Organisations, funded via the Department of Housing, Planning, Community and Local Government, and administered by Pobal.*

## 1. Introduction

Age Action is the leading advocacy organisation on ageing and older people in Ireland. Our mission is to achieve fundamental change in the lives of all older people by eliminating age discrimination, promoting positive ageing and securing their right to comprehensive and high-quality services.

We want to make Ireland the best country in the world in which to grow old and we work with older people to build a society free of ageism where their rights are secured. A central feature of our work is raising awareness about the lived experience of growing old in Ireland.

We are grateful for the opportunity to make a submission to the Total Contributions Approach Consultation 2018.

## 2. Context

### *i. Policy Context*

By 2041 there will be an estimated 1.4 million people over 65, representing 20-25 per cent of the population. Even with the retirement age due to rise to 68 by 2028 there is a legitimate question about the sustainability of the State Pension system. People are living longer, healthier, more active lives.

We do not face a demographic crisis but rather a policy crisis as short-term thinking prevents us developing the solutions to funding a State Pension that enables people to age in dignity and to support older people who want to continue working but fall victim to ageism and discriminatory mandatory retirement clauses.

A fair State Pension enables older people to age with dignity and with independence, keeping them out of poverty. An increasing number of older people are experiencing fear about retirement due to worries about income adequacy. Less than half of those aged between 20 and 65 have a private pension.[1] Three out of four private sector workers have no pension apart from the Contributory State Pension.[2]

Latest CSO SILC figures show a largely unchanged 'at risk of poverty' and 'consistent poverty' rates for the over 65s. One in 10 older people are living in poverty in Ireland (10.7 per cent). In 2016, 13.1 per cent of those aged over 65 years experienced deprivation. This means that approximately 83,500 were unable to afford basic goods and services, or one in ten older people were living on less than 60 per cent of the national median income of €20,597 (€12,358 or €237.35 per week[3]). A State Pension for those with an average of 39 or fewer contributions is below the at risk of poverty rate. Many older people survive on incomes only just above the poverty line: the non-

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[1] CSO (2016) *QNHS Pension Provision Q4 2015*. Available at www.cso.ie.
[2] Irish Life pension research quoted in https://www.independent.ie/business/personal-finance/half-of-workers-have-no-access-to-pension-35654880.html. 26 April 2017.
[3] Equivalised disposable income per individual.

contributory State Pension is slightly over this figure and amounts to €12,064 per annum while the full contributory State Pension stands at €12,651.

While it is welcome that the top rate of the State Pension is set above the poverty rate, the aspiration should be for a State Pension that enables older people to grow old in dignity.

While the State Pension remained largely unchanged in times of austerity during the Recession, vital secondary income supports for older people were devastated. Between 2009-2015 an older person on the State Pension and Household Benefits Package lost the equivalent of €13.18 per week. Some of the cuts to secondary income supports have been partially restored and this is very welcome but a lot more progress is needed.

There has been a 200-300% increase in prescription charges, new taxes on water and property, rising energy and medicine costs. These new taxes, charges and rising prices in recent years have a greater impact on older people generally living on a fixed income than on younger people who have more opportunities to improve their income.

### *ii. Ageing Demographics*

According to the most recent Census figures, the number of people aged over 65 saw the largest increase of population since 2011. This age group has increased since 2011 by 19.1 per cent (to 637,567). The number of people aged over 85 increased by 15.6 per cent (to 67,555).[4]

At present, just over 13 per cent of the total population is over 65 years of age.[5] Each year in Ireland, the over 65 age group increases by 20,000 people. The number of people aged over 65 is projected to increase very significantly to close to 1.4 million by 2041,6 from one-fifth to over one-third of the working population over the next two decades. The number of people over 80 is set to rise even more dramatically, increasing by over 250 per cent to between 470,000 and 484,000 in 2046.[7]

### *iii. 2012 State Pension Cut*

Any discussion on the introduction of a new Total Contributions Approach to the state pension must reflect on the impact of the changes introduced in September 2012 to the eligibility criteria for the Contributory State Pension.

An extension of band rates and minimum qualifying contributions saw the top rate for the contributory state pension left alone but it became harder to qualify for it and easier

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[4] http://cso.ie/en/media/csoie/newsevents/documents/pressreleases/2017/prCensussummarypart1.pdf
[5] http://www.cso.ie/en/releasesandpublications/er/q-cv/qnhscrimeandvictimisationq32015
[6] http://rebuildingireland.ie/Rebuilding%20Ireland_Action%20Plan.pdf
[7] Based on 2011 base figures. http://www.cso.ie/en/csolatestnews/pressreleases/2013pressreleases/pressreleasepopulationandlabourforceprojections2016-2046

to qualify for the lower payment rates. While those with a full PRSI contribution record and thus entitled to a full pension were unaffected, many of those with a reduced record lost out.

Under the old system, for example, if you had an average of 20 to 47 contributions you would be entitled to €238.70 but in September 2012 this band was divided in two, so that people with 20 to 29 contributions now only get €207.10 while those with 30 to 39 Contributions only get €218.70. These changes represent a drop of €31.60 and €20 per week respectively.

Research commissioned by Age Action on this issue shows that this change, combined with the averaging rule used to calculate contributions, is punishing women who took time out of work to care for their children or for other reasons. Of the initial 36,000 people estimated initially (now believed to be around 50,000) affected by these changes between September 2012 and June 2016, more than 62% were women. They will continue to be affected in the years to come, receiving smaller pro rata increases in the pension.

Age Action welcomed the announcement in January 2018 by the Department that those affected by the 2012 changes would be offered the option of reassessment under a Total Contributions Approach (TCA) including a new ‘Home Caring Credit’ of up to 20 years and 10 years for ‘Other’ reasons. At the time of announcement, it was noted that the Total Contributions Approach for 2012 (TCA2012) system will ‘address anomalies from the yearly averaging scheme’.

However, thousands of people (both men and women) who lost out because of the 2012 changes will not benefit from the announced initiatives. Among this group are people who worked in countries without bilateral agreements and the self-employed who were not required to pay PRSI contributions prior to 1988.

At this moment in time, much uncertainty exists regarding implementation of the TCA2012 scheme. Callers to Age Action’s Information Line frequently express confusion as to how the new system will operate and whether there is an onus on them to contact the Department. Age Action understands that drafting of the legislation is underway, with letters to those affected expected in the Autumn and payments beginning early in Q1 2019 to be backdated to March 2018.

## 3. Recommendations

As part of the consultation process on the design of the TCA system, Age Action canvassed its members on their views. Two points appeared throughout the feedback:

1. Any new pension system must not interfere with those currently receiving state pensions
2. An information campaign should be undertaken to clearly explain any changes and to help new entrants through the process

The TCA consultation process was not felt to be older person friendly given its reliance on online correspondence (versus paper-based channels) and lack of regional face-to-face consultations. We are pleased to see that the process of the current autoenrollment consultation offers a greater opportunity for older people to meet with the Department and provide their views directly.

*i) Total Contributions Approach*

A guaranteed contributory state pension, with clear guidelines as to expected contributions and benefits, provides greater certainty to people in retirement. Promotion of the scheme in clear and accessible language should be a priority, to alert those affected and to offer a degree of security and certainty to those close to retirement after 2020.

Age Action welcomes the move from an 'averaging' to a Total Contributions Approach when calculating a contributory state pension. As evidenced by the impact of the 2012 pension changes, the Yearly Average system has seen the creation of several anomalies, including those with fewer contributions receiving a higher contributory state pension than those who have worked for longer.

Any changes to the design of a state pension system should be fair, meet adequate needs and be sustainable. We are pleased to see the principles of adequacy, equity and sustainability underpinning the new system.[8] Any policy changes should be gender and poverty proofed.

It remains unclear how the self-employed will be dealt with under this system, as well any possibility for purchasing additional credits.

The Roadmap for Pensions Reform discusses a timeline for a review of life expectancy to ensure that any change to the State pension age after 2035 will be directly linked to increases in life expectancy. This will begin with an actuarial assessment of life expectancy in 2022 to include a review of the proportionality between time spent in working life and retirement. Clarity is needed as to who will conduct this review (e.g. qualifications and composition of any review group) and what methodology will be used

*ii) Minimum Contributions*

Arguably the primary policy lever within a TCA framework is the number of contributions required for a full contributory state pension.

Age Action members have expressed a preference for a 30 year time period, in line with the National Pensions Framework.

[8] Government of Ireland (2018) *Total Contributions Approach Consultation 2018*. Available at www.welfare.ie.

A 40 year qualifying period is too high for workers who may have worked during earlier years when contributions were not compulsory. Among this group are people who worked in countries without bilateral agreements and the self-employed who were not required to pay PRSI contributions prior to 1988.

We would not like to see a new set of anomalies created under the TCA system. A proposed requirement for 40 years of contributions to get a full State Pension will mean that people with fewer contributions could be worse off than they are today. For example, today someone with 50 per cent of the required number of average contributions gets 85 per cent of the State Pension. Under a new 40 year contribution system, this would fall to 50 per cent of the State pension rate.

Changes in 2012 saw an increase in the minimum level of contributions required for a State Contributory Pension from 260 to 520. This change has meant that many people are now excluded from the Contributory Pension, in some cases overnight. A return to a five-year (260 contributions) requirement initially would allow the phasing-in of a longer requirement to take place in a fairer manner. It would automatically cover those who may have broken insurance records, while simultaneously allowing future pensioners more time to build up a longer contributions record.

It is not clear how the TCA will apply on a pro-rata basis, for example will each additional year of contributions allow 2.5 per cent of the maximum rate?

*iii) Credited Contributions*

The Roadmap for Pensions Reform and TCA2012 discussed provisions for home carers and those who may have been out of the labour market for a variety of reasons such as study, time spent on Jobseeker's Benefit or illness, or volunteering abroad.

Age Action warmly welcomes 20 years of a new Home Caring credit for periods spent in homemaking/caring roles. The new 'Home Caring Credit' will have a real impact on people's lives and enable many more people to avail of a contributory state pension while recognizing the valuable contribution they have made to Irish society providing care to family members and others. Similarly, the introduction of up to 10 years of credited contributions for 'Other' reasons recognises that time spent out of the employment market may have been spent studying or during times of illness or poor prevailing conditions for the labour market.

How the Home Caring and Other credit system will operate is not yet clear. Age Action receives frequent calls to our Information Helpline from persons wondering how to show evidence of their time spent caring in the home. We would welcome clarity on how people applying for the Home Caring credit and (the 10 years of credits of 'Other' reasons) will show evidence of this time and what level of proof will be required.

We urge the burden of proof for those applying for the Home Caring Credits to be light, recognising that it may be difficult for people to obtain proof of caring responsibilities 30 years after the event. We welcome the commitment we recently received from Minister Regina Doherty that this will be the case for the TCA2012 cohort.

Backdating of Home Caring credits will also aid those who were in a caring role prior to 1994.

Concern has been expressed by our members that a limit of 12 years of age (as suggested in the National Pensions Framework and TCA2012) will be placed on the age of children covered by the Home Caring Credit. It was felt that this age limit should be extended to 15 years to cover those who remain in the home for longer.

A more generous system of credits for those reaching retirement age in the years following the TCA in 2020 will reflect the marriage bar, limited childcare availability in previous years and a decreased economy at various points.

Persons coming close to retirement may wish to purchase additional 'credits' under the new TCA approach. It is not yet clear whether this may be possible.

*iv) Indexing and impact on the non-contributory state pension*

Indexing of current and future pension rates facilitates proper planning, it provides peace of mind for older workers and it depoliticises the budget process. A TCA formula must prioritise both the indexing of the pension to the cost of living for older people and ensure that any increases are also reflected in the rate of the current non-contributory state pension.

In the medium to long term the State pension system must be reformed, including by putting in place a system to govern the increases in the pension to ensure they are fair but also sustainable.

We welcome a commitment in the Roadmap for Pension Reform to benchmark the State Pension to 34 per cent of average earnings for the State pension, with future increases to depend on the Consumer Price Index (CPI) or average wages. This shows a welcome move away from setting the level of pension income provided to pensioners through the annual budget process. This will bring Ireland into step with most other countries in the EU that apply a formula for indexing the State Pension to some combination of prices, wages or GDP.[9]

[9] Department of Social Protection presentation to the Joint Oireachtas Committee on Social Protection (15 December 2016).

However, the National Pensions Framework contains a commitment to "sustain the value of the State Pension at 35 per cent of average weekly earnings" and clearly states that this is to prevent poverty among older people.[10] Age Action recommends a roadmap to get to this commitment of 35 per cent to reach this benchmark commitment and then to apply the indexing formula.

Preliminary CSO figures for the first quarter of 2018 indicate that average weekly earnings have increased to €742.19, which would indicate a State Pension of €259.77 and is substantially higher than the current rate. Taking current figures, a benchmark of 35 per cent would provide older people with an additional €846 per year.[11]

In addition, clarity is needed as to which formula will be used for this indexing. The Consumer Price Index (CPI) may not be the most relevant measure to use as it is not an effective guide to the specific purchasing habits of older people.[12] The Vincentian Partnership for Social Justice (VPSJ) Minimum Essential Budget Standards (MESL) provides useful quantifiable data on the costs of living for pensioners e.g. those living alone versus in a couple, rural and urban comparison etc. It is also not clear whether the contributory state pension may decrease in line with lessening CPI and average wage levels or whether there will be a commitment to maintain a minimum state pension regardless of this.

Clarity is needed around any implication arising from the indexing of the contributory state pension on the non-contributory state pension, and whether any protection for the non-contributory state pension rate will be applied.

*v) Transitional Measures*

The move from the Yearly Averaging to the Total Contributions Approach represents a significant change in the Irish pension system. We urge particular consideration of the situation of those due to retire within the coming years, who entered the system under one set of rules and may be disproportionately disadvantaged by changes introduced just before they retire.
Special arrangements should also be made for those who were self-employed before Class S contributions were introduced in 1988 and those who had no PRSI coverage before this time.

Those who qualify in the earlier years (e.g. 2020 to 2027 as suggested in the consultation document) will not have sufficient time to meet any new criteria. A longer phased in time will be needed for any time longer than a 30 year minimum timeframe.

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[10] Government of Ireland (2010) *National Pensions Framework.* Available at http://www.welfare.ie/en/downloads/nationalpensionsframework_en.pdf
[11] CSO (2018) *Earnings and Labour Costs Quarterly Q4 2017 (Final) Q1 2018 (Preliminary Estimates).* Available at www.cso.ie.
[12] See also VPSJ (2013) *Changes in the cost of a MESL in Comparison to CPI Inflation* – available at http://budgeting.ie.

It is not clear yet how the transition between the current system and the TCA approach will be handled and whether there will be leeway for those close to retirement at the time of TCA introduction. Consideration is needed as to whether there will be an option to remain permanently under the current system for those reaching pension age between 2020 and 2027.

Age Action calls for a phased transition between systems, with sufficient time given to both those who qualify close to 2020 and those who are unable to make up gaps in contribution history before retirement.

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