

REVERSING THE 2012 STATE PENSION CUTS

Introduction

The pensions of around 36,000 older people were cut by hundreds, even thousands, of euro each year because of changes introduced to the State Pension system in 2012.

By changing the eligibility criteria for the higher pension rates the Government made it more difficult for people with irregular PRSI contributions to get a decent pension. The overwhelming majority of people affected by these changes were women, aggravating an already serious inequality between the retirement incomes of men and women.

This Age Action briefing paper explains how and why tens of thousands of pensioners have had their incomes cut since 2012 and sets out the arguments for why the Government must reverse the changes brought in five years ago.

The context

The Irish pension system is made up of a number of different pillars. Pillar one is the State Pension system while occupational and private pensions make up pillars two and three respectively.

The size of the pension you will have in retirement is based on the amount you put in. It is critical, therefore, that gaps in employment are minimised and that where possible credited payments are available so that sufficient contributions are made to ensure a decent income in retirement.

The State Pension is the most important income support for the majority of older people in Ireland but there is no automatic entitlement to a State Pension. Eligibility is based on either the average number of PRSI contributions made throughout an individual's working life for the State Pension (Contributory) or on the basis of a means test for the Non-Contributory payment.

The surviving spouse or civil partner of a deceased person may also be entitled to a Widow's, Widower's or Surviving Civil Partner's (Contributory) Pension provided either party has enough social insurance contributions to qualify.

According to the latest figures from the Department of Social Protection in 2015 there were **361,725** recipients of the State Pension (Contributory), **95,179** recipients of the State Pension (Non-Contributory) and **90,630** recipients of the Widow's, Widower's or Surviving Civil Partner's (Contributory) Pension.

Your State Pension is calculated by adding up the total number of PRSI contributions you make and then dividing it by the number of years between when you started work and when you are entitled to the pension.

But many older women can find themselves punished by this system for taking time out of the workforce to raise a family.

This is mainly because the weekly pension rate is calculated on the average number of contributions made over a working life.

For example, if an individual worked for a few months in 1968 and then left the workforce to raise a family (during which time she would not have made contributions) before going back to work in 2000, the average number of pension contributions would be divided by 48 (the number of years between 1968 and 2016). In effect, the weekly pension rate would be much higher if the individual had not worked that summer in 1968.

The Homemakers' Scheme partly addresses gaps in employment due to caring responsibilities. The scheme provides a disregard of up to a maximum of 20 years for those who take time away from the workforce, to care full-time for children (up to the age of 12) or a person with a disability (over 12 years). However, it only applies to periods of caring from 1994.

Prior to 2012 there were four payment bands as illustrated in Table 1. As can be seen, those with 48+ yearly averaged contributions received the top rate of the pension payment. Those with between 20 and 47 contributions received 98 per cent and so on for bands 3 and 4. Therefore, those with higher average contributions, receive a higher payment.

Table 1 – PRSI bands pre-2012

Band and yearly averaged contributions	Proportion of top rate of payment
1. Average of 48+ contributions	Maximum payment
2. Average of 20 to 47 contributions	98% of the maximum payment
3. Average of 15 to 19 contributions	75% of the maximum payment
4. Average of 10 to 14 contributions	50% of the maximum payment

In Budget 2011, the then Minister for Social Protection, Joan Burton TD, announced that the number of bands was to be increased to six as set out in Table 2.

Most particularly, band two was divided in three with the lowest band, 20 to 29 averaged contributions, getting just 85 per cent of the maximum payment, whereas before this it would have been 98 per cent.

The payments associated with what used to be bands three and four were reduced to 65 per cent and 40 per cent respectively.

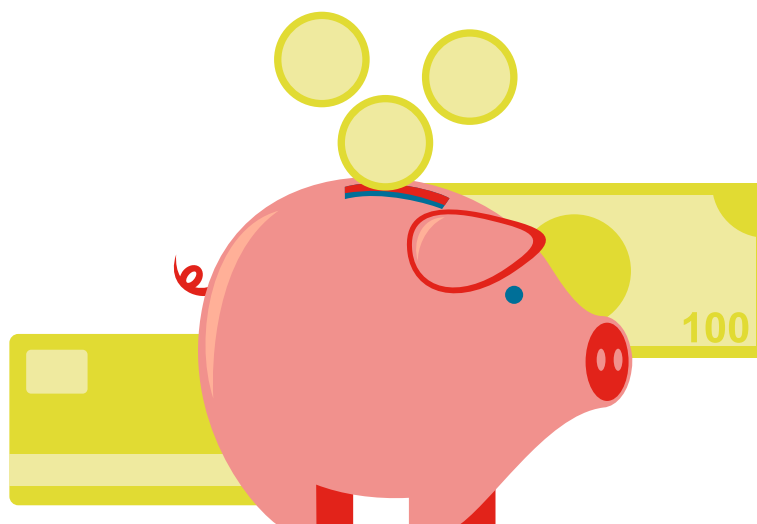


Table 2 – PRSI bands post-2012

Band and yearly averaged contributions		Proportion of top rate of payment	
		Pre-2012	Post 2012
1.	Average 48+	100%	100%
2.	Average 40-47	98%	98%
3.	Average 30-39		90%
4.	Average 20-29		85%
5.	Average 15-19	75%	65%
6.	Average 10-14	50%	40%

It is evident from Table 3 that the two groups of pensioners this change would affect the most, in real terms, are those with between 20 and 29 yearly averaged contributions and those with between 10 and 14 such contributions.

For those in the former group, the changes introduced mean a weekly difference of just over €30 per week based on 2016 rates.

Applicants with just 10 to 14 contributions face a weekly difference of €23.50. There are also significant changes for those who now fall into band 3 and 5.

Table 3 – Comparison between Band Changes

Band and Yearly Averaged Contributions	Weekly rate for those qualifying pre-2012 ¹	Weekly rate for those qualifying post-2012	Difference
1. Average 48+	€233.30	€233.30	No difference
2. Average 40-47	€228.70	€228.70	No difference
3. Average 30-39		€209.70	(€19.00)
4. Average 20-29		€198.60	(€30.10)
5. Average 15-19	€175.00	€152.00	(€23.00)
6. Average 10-14	€116.70	€93.20	(€23.50)

Source: Adapted from Citizens Information website (accessed, 03/01/2017) http://www.citizensinformation.ie/en/social_welfare/social_welfare_payments/older_and_retired_people/state_pension_contributory.html

¹ These relate to the 2016 weekly rates of payment.

Women and the State Pension

Women pensioners lose the most under the amended State Pension system. They are far more likely to have a smaller State Pension than their male counterparts and less likely to have occupational or private pensions.

A closer examination of the gender breakdown of the individual payment schemes highlights greater gender inequality and is indicative of the challenges that women face in accessing higher rates of payments in their own right.

- Almost two-thirds of recipients of the Contributory payment are male (64 per cent) versus one-third female (36 per cent). Of those receiving the full rate of this payment, 79 per cent are male and 21 per cent are female.

- The trend is reversed for the lower rate and means tested Non-Contributory payment – 38 per cent male and 62 per cent female.
- Recipients of the Widow's, Widower's or Surviving Partner's (Contributory) Pension are predominantly female (90 per cent).
- In relation to the last, it is difficult to ascertain if the female majority of recipients have obtained the payment in their own right or on the basis of their spouse's PRSI contributions.

The difference between the pension entitlements of men and women is even more pronounced when we examine the individual payment bands for the State Pension (Contributory). Table 4 shows that the majority (64 per cent) of male recipients fall into the top rate of payment, with a further 12 per cent in band 2 (i.e. receiving 98 per cent of the top rate). In contrast to this only a little over a third of women pensioners get the top rate of the payment, with just 9 per cent falling in to band 2.

Table 4 – Gender Breakdown of recipients of State Pension (Contributory) 2016

Band and Yearly Averaged Contributions	Proportion of female recipients	Proportion of male recipients
1. 48 +	35%	64%
2. 40 to 47	9%	12%
3. 30 to 39	17%	10%
4. 20 to 29	24%	7%
5. 15 to 19	9%	4%
6. 10 to 14	7%	4%

Source: Department of Social Protection (2016) Correspondence to Community and Voluntary Pillar November

Women lost most from 2012 changes

As part of our research on the changes to the eligibility criteria introduced in 2012, the Department of Social Protection provided a breakdown of the number of new applicants for the State Pension (Contributory) from September 2012 to June 2016. As noted earlier those in bands 3 to 6 are affected by the changes introduced.

Table 5 shows that approximately 36,000, one-third, of new applicants since 2012 have received smaller pensions than they would have got had they retired before 2012. Of this figure, 22,248, or 62 per cent, are women. In Bands 4 and 6, the categories most affected, the proportion of recipients who are women is 68 per cent and 55 per cent respectively.

With regard to Band 4 it can be seen that almost 15,000 individuals, 68 per cent of whom are women, are €30.10 worse off each week. For Band 6, 2,355 individuals, 55 per cent of whom are women are €23.50 worse off each week.

Table 5 – Numbers affected September 2012 to end of June 2016 by Gender

Gender	Band 1	Band 2	Band 3	Band 4	Band 5	Band 6	Total
	48+	40-47	30-39	20-29	15-19	10-14	No.
Male	42,806	8,205	5,952	4,739	1,943	1,048	64,693
Female	15,546	2,265	7,769	10,119	3,053	1,307	41,159
Total				35,930			105,852

Source: Communication from Department of Social Protection summer 2016

Finally Table 6 provides an overview of the weekly, annual and lifetime income losses of those who been affected by the changes. The annual losses vary from €23,478 for those in band four to €14,820 for those in band three.

Table 6 - Weekly, Annual and Lifetime loss of income			
Band and Yearly Averaged Contributions	Difference in payment entitlement post 2012	Annual Difference	Lifetime Difference*
1. Average 48+	No difference	No difference	No difference
2. Average 40-47	No difference	No difference	No difference
3. Average 30-39	(€19.00)	(€988)	(€14,820)
4. Average 20-29	(€30.10)	(€1,565.20)	(€23,478)
5. Average 15-19	(€23.00)	(€1,196)	(€17,940)
6. Average 10-14	(€23.50)	(€1,227)	(€18,330)

*Based on receipt of the pension at age 66 and life expectancy of 81 years

Voices of women pensioners affected by the band changes²

“ We should have been given more notice. The meanness of it, this is not the way to treat people who have contributed all their lives. I wish they could put themselves in our shoes, to work all our lives and then treat us like this.

Barbara (name changed)

“ I was so shocked, angry and annoyed when I first heard the amount i was to be awarded. It brought back the anger I felt in 1972 when I had to leave my job. I believe I am being penalised for caring for my children.

Liz (name changed)

“ I was devastated when I received the letter outlining how much I would receive. I am so angry that they have taken the few contributions I made while a student into the averaging. The system is grossly unjust and it is not there to ensure a just and adequate pension but rather to reduce the State’s obligation as far as possible.

Margaret (name changed)

² The names of individuals referred to in the case studies have been changed.

Next steps

Ireland needs a fair State Pension system, one that ensures older people can live with dignity and with independence and that addresses inequality between men and women.

Age Action has published a detailed report, which is an expanded version of this briefing paper, setting out a number of recommendations that will help to reform our pension system and we have set out our key priorities below.

We want to work with elected representatives, ageing groups, organisations representing women and other stakeholders to build a first-class State Pension system in Ireland.

Minister for Social Protection

1. Remove the band changes and backdate the changes so that those currently affected are placed in the bands which applied before the 2012 change.
2. Urgently address the inequalities caused by the averaging out method that have financially punished pensioners and ensure the introduction of the proposed Total Contributions Approach does not lead to reduced pensions.
3. Prioritise reform of pillar one of the State Pension system rather than the current focus on pillars two and three, ensuring gender equality and income adequacy are a priority.
4. Develop data collections systems within the Department of Social Protection, including gender disaggregation on the levels of payments under all State Pension schemes, and include the data in Annual Statistical Reports.
5. Backdate the Homemakers' Scheme to ensure all women retiring from now on and who cared for children will benefit.

Minister for Justice and Equality

1. Ensure the new (forthcoming) National Women's Strategy includes objectives and actions to address pension inequalities for women.

Taoiseach

1. Develop a cross-departmental comprehensive long-term strategy to address the gender pension gap for current and future generations of women. The strategy should include targets, resourcing, implementation strategy, oversight and reporting and monitoring mechanisms.



**Coimisiún na hÉireann um Chearta
an Duine agus Comhionannas**
Irish Human Rights and Equality Commission

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