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Retirement Policy and Research Centre

Submission: The Irish state pension[1]

The Pensions Commission Consultation

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For all enquires please contact Susan St John
s.stjohn@auckland.ac.nz
+64 275 364536

[1]Drawn from Dale and St John (2020) Women and Retirement in a post COVID-19 world, Paper prepared by Dr M.Claire Dale, Research Fellow, and Associate Professor Susan St John, Director, Retirement Policy and Research Centre (RPRC), for TOR Financial Consulting Ltd. The RPRC acknowledges the support of David Harris, Managing Director of TOR Financial Consulting Ltd and RPRC Research Associate.

Submission Summary

This submission is made by the Retirement Policy and Research Centre, University of Auckland New Zealand. The RPRC has contributed to the Irish debate over pensions, especially auto-enrolment for more than a decade[2].

It argues that the Irish state pension relies on a contributory basis and a means-tested top-up, putting women at a disadvantage in retirement. Credits for time out of the workforce do not cover all the caregiving situations women experience and paid work contributions are still required. The complexity is daunting, making it very difficult for many to understand what their actual entitlement on retirement might be.

The Pensions Commission is not seeking submissions on the second tier. However, we note that occupational schemes in Ireland are fragmented and coverage is low. The average membership of occupational pensions in Ireland is just 24 people per scheme (excluding single member schemes) and is in sharp contrast to international practice where schemes routinely achieve economies of scale with hundreds of thousands, and even millions, of members. Reform is slow as is the implementation of a new auto-enrolment (AE) scheme.

The new AE scheme as proposed is also likely to be very complicated with many aspects that do not suggest that a gender lens has been well-considered (see Dale and St John (2020) Women and Retirement in a post COVID-19 world).

In focusing here solely on the tier 1 state pension, the RPRC urges the Pensions Commission to consider learning from New Zealand's successful non-contributory, inclusive approach. The two Irish state pensions could be joined up into one simple, adequate, comprehensive, wage-linked, individual, non-contributory taxable state pension, based on simple residency criteria. This provides an important acknowledgement of everyone's contribution regardless of whether it relates to paid or unpaid work. This would contribute to a more equitable pensions outcome for women.

Once that is done, along with the reform of tax incentives, a good centrally administered, auto-enrolment 'IrishSaver' second tier that is women friendly can be grafted on and begin to replace the multiple 'not fit for purpose' current employer-based schemes.

[2] For example, St John, S.M. (2005). 'Pensions taxation and retirement incomes in New Zealand', *Pensions taxation and retirement incomes in New Zealand*, SP2005-08, The Economic and Social Research Institute, *Dublin Ireland*, 8pp. 28 July. Available at http://www.cass.city.ac.uk/pi/ More recently the RPRC has been sponsored by ToR David Harris. Recent contributions of the RPRC are as follows to this ongoing conversation:

- Dale and St John (2020) Women and Retirement in a post COVID-19 world).
- St John, S (2018) Feedback on the 'strawman' proposal for Irish pension reform from New Zealand experience, October 2018. Prepared for Insurance Ireland and TOR Financial Consulting for Consultations by the Department of Finance and Department of Employment Affairs and Social Protection
- St John, S (2016) Time for Ireland to bite the bullet, Irish Times 1 November 2016

St John, S (2016) New Zealand's Kiwi Saver Lessons for Ireland. Paper presented to Insurance Ireland summit, A universal pension for Ireland, 13 September, Dublin, Ireland.

1. Women in the Irish retirement system

Overview

Ireland has around the same population as New Zealand, but unlike New Zealand, Ireland has a piecemeal and complex pension system comprising a plethora of traditional workplace pension schemes and a complex, first tier state pension scheme based on a contributory record and means-tested top-ups.

Women in Ireland face similar issues of gender pay gaps, high cost child-care, lower contributions to savings schemes that are found in other countries. These disadvantages are compounded for Irish women in retirement by the design of pension policy.

Many efforts have been made to reform the Irish pension system. In particular, since 2006, the intention has been to move Ireland to an auto enrolment system for private savings from 2022 (see for example Government of Ireland, 2007, 2010a, 2010b). Reforms however have stalled with the Government of Ireland's roadmaps and strawman consultation resulting in little firm political action (St John, 2018). In 2020, the new coalition government is making auto enrolment a priority, but while increased coverage and streamlining of administration are worthy goals there is little recognition of the specific issues that distort retirement savings schemes for women.

Following the 2020 election negotiations, the two main Irish political parties Fianna Fáil and Fine Gael in coalition with the Green Party agreed to defer the increase in the State pension age that was set to rise from 66 to 67 years in 2021, allowing access to a retirement benefit without work-seeking requirements at age 66. The current Commission on Pensions is tasked with reporting back by June 2021. It is likely that the controversy over the age will be a focus with concerns that unless the age is raised the pension will be 'unaffordable'. For the significant proportion of the working population who have no private or employed-based pension plan, it is expected that an auto-enrolment, opt-out scheme with matching contributions from workers and employers will be phased in over a decade.

The advent of COVID-19 has changed the landscape. It is likely that the implementation of any new auto-enrolment scheme now could be much further away from the original 2022 start date,[3] and there appears to be little discussion of state pension changes. Issues of early access to locked-in retirement savings schemes under pressures from COVID-19 appear to be less of an issue in Ireland than Australia or New Zealand where such schemes are more dominant.

Pension poverty outcomes

The OECD figures in Appendix 1 do not show a markedly higher rate of poverty for women (7.7%) in older age than for men (5.7%). However, such figures do not reveal hidden poverty within households where women may have little financial autonomy. Many of the concerns around poverty outcomes for women focus on the shortcomings of the state pension discussed in the next section.

> *The state pension must provide a sufficient income to avoid poverty and guarantee a decent standard of life. As women disproportionally rely on the state pension, income certainty is crucial. Indexing must allow for women's longer life span.*

[3] https://www.mhc.ie/latest/insights/pensions-covid-19-the-post-pandemic-pensions-landscape.

10.8% of women over 65 are at risk of poverty according to latest CSO SILC data. An adequacy benchmark of 40% net average industrial earnings would ensure a quality of life and ensure pension income standard would increase in line with average living standards and earnings. (National Women's Council of Ireland, 2018)

Women who do not have a secure state pension are also likely to have unmet housing needs.

The scarcity of good quality, safe, secure, long term, affordable housing options contributes to instability and distress for many low income older women. Older women usually become homeless due to their low incomes, not because of having complex needs, so it is difficult for them to access priority social housing. They are marginalised in the housing market, in the private rental market, in the social and affordable housing markets, and even in the homelessness services sector (National Older Women's Housing and Homelessness Working Group, 2018, p. 7).

The State Pension (contributory)

The first tier comprises two state pensions. The first is contributory and requires compulsory pay-related social security contributions (PRSI) from employees and employers at a complex variety of different rates. It is the weeks of contributions that matter not the amount contributed, but for part-time earnings the PRSI rate is less than a full-time rate. To qualify for any state pension, 520 paid contributions must have been made. For the maximum personal rate of State Pension (Contributory) 2,080 or more PRSI contributions (or 40 years of employment) are required. The complex contributions rules for the contributory state pension are set out (in simplified form) in Box 1.

Box 1. Contributions required for state pension (contributory)[4]

The date of *entry into insurance* has complex rules and exemptions but is used to calculate the yearly average number of PRSI contributions. An average of 10 contributions a year is needed to get a minimum pension, and an average of 48 a year to get the maximum pension.

Since 6 April 1994, the Homemakers' Scheme has disregarded up to 20 years spent as a homemaker when calculating the yearly average. For those who reach pension age on or after 1 September 2012, the new Total Contributions Approach (TCA) may be used from 2020 instead of a yearly average.

To qualify for a homecaring credit a person must be full-time caring for a child under age 12 or an ill or disabled person aged 12 or over. The person being cared for must be so disabled or incapacitated as to need continuous supervision. Only one person can be regarded as the homecarer at any one time.

Under the new arrangements a person who has a 40 year record of paid and credited social insurance contributions, subject to a maximum of 20 years of the new HomeCaring credits, will qualify for a maximum contributory pension where they satisfy the other qualifying conditions for the scheme. (Department of Employment Affairs and Social Protection, 2019).

The 2020 rates of state pension vary according to contributions records as shown in Table 1. If there is a "dependant" adult (spouse, civil partner or defacto) an additional amount can be payable to that person. The principal applicant's income is not taken into account in this assessment but the income of that partner is, as is any property apart from the home.

These complex and limiting rules mean that women can fall far short of the contributions needed to gain a full state pension in their own right. For example, the National

4 https://www.citizensinformation.ie/en/social_welfare/irish_social_welfare_system/social_insurance_prsi/homemakers_scheme.html.

Women's Council of Ireland (2017) found that:

- *On average, women's State pensions are more than a third smaller than men's*
- *Women account for just over a third of those receiving a full State pension;*
- *Six out of 10 women aged over 70 have to get by on the much lower State (non-contributory) pension;*
- *Older people living alone are at particular risk of poverty, and 7 out of 10 lone adults aged between 75 and 84 are women.*

Table 1. State Pension (Contributory) rates 2020 for people who qualified on or after 1 September 2012 (PRSI: pay-related social security contributions)

Yearly average PRSI contributions	Personal rate per week	Increase for a qualified adult* (under 66)	Increase for a qualified adult* (over 66)
48 or over	€ 248.30	€ 165.40	€ 222.50
40-47	€ 243.40	€ 157.40	€ 211.40
30-39	€ 223.20	€ 149.80	€ 200.50
20-29	€ 211.40	€ 140.10	€ 188.70
15-19	€ 161.80	€ 107.80	€ 144.50
8-14	€ 99.20	€ 65.70	€ 89.50

Social Justice Ireland (2019) give an example to illustrate how women can easily fall through the cracks and how complicated the system is.

> *Joan is 69 years old. She entered employment at the age of 16 in 1965. In 1974 her first child Mark was born with a disability. Joan was unable to return to work and devoted her life to caring for Mark who required fulltime care. Joan reached age 66 in 2015 and was advised by the Department of Social Protection that as she had only 460 paid contributions and 62 reckonable contributions she would not qualify for the State Pension (Contributory).*
> *Because Joan's husband was employed as a civil servant and paid a Class B stamp (pre-1995), his civil service pension was fully assessable in the means test of the State Pension (Non-Contributory) and so Joan didn't qualify for either the State Pension (Non-Contributory) or an increase for a Qualified Adult (IQA), nor could she make voluntary contributions. Therefore, despite caring fulltime for Mark for 43 years, Joan has no entitlement to Carers' Allowance or any State Pension and so relies entirely on her husband for financial support.*

The outcomes for women are a denial of financial autonomy:

> *…many older women in Ireland who receive a very reduced pension or are only recognised through a 'Qualified Adult' increase in their husbands' payment do not feel they can apply for the State Non-Contributory because it will involve a test of household assets - assets which they may have no control over or access to - and there is also a fear that it could jeopardize their husbands income.* (National Women's Council of Ireland, 2018, p. 5)

The State Pension (Non-contributory)

Women who do not received the State Pension (contributory) may gain access to a part pension as a qualified adult depending on their partner's record as shown in Table10, or qualify for a lower means tested non-contributory pension. The maximum non-contributory weekly pension in 2020 is €237 but it is essentially reduced dollar for dollar above the first $30 of other income.[5]

[5] See https://www.gov.ie/en/publication/6aec4d-current-rates-of-payment-for-social-welfare-payments-sw19/.

The two Irish state pensions discussion

Any system that relies on a contributory basis and a means-tested top up will put women at a disadvantage. It is especially so in Ireland as credits for time out of the workforce are rigidly defined and do not cover all the caregiving situations women experience. Paid work contributions are required as well as the care credits, limiting again their usefulness for women who do not have these. The complexity is daunting, making it very difficult for many women to understand what their actual entitlement on retirement might be.

While reforms of the state pension to adequacy and indexation were proposed in the 'Roadmap for pensions reform' (see Government of Ireland, 2018a), the contributory basis remains hard to dislodge in Irish discourse. The OECD's 2013 review of the Irish state pension system however suggested there were many signs of a weakening of the contributory principle (OECD, 2013, pp. 89-91). The OECD concluded:

> *This brief discussion shows that, contrary to public impression, the link between contributions and benefits in the current State pension scheme is very weak and that there are already numerous elements of redistribution in the system which have a more universal character. When the total contributions approach is adopted in 2020, some of these problems will be remedied. On the other hand, paying a full-rate pension on condition of 30 years of contributions will raise further questions on the contribution benefit link. The treatment of non-contributory periods, such as time out of work for reasons of childcare or unemployment, will be crucial. If, as planned, up to ten years will be credited for such periods, workers will receive the same benefit whether they pay contributions for 20 or 30 years. The system would then take more and more of the characteristics of a flat-rate universal pension system. At that point, there would appear to be a strong case for changing the logic of the scheme in a more transparent way by moving either to a universal or a means-tested pension system which is no longer based on contribution requirements*. (OECD, 2013, p. 91)

Subsequently, the 2020 reforms for the Total Contributions Approach may improve outcomes for some women with care giving years but do not constitute a fundamental rethink. There is a need to question the case for maintaining such a complex system that has such clear inequities for women. The contributory basis in Ireland contrasts with New Zealand's universal, residency-based state pension upon which other savings can be built. It is one of the factors that has made the introduction of the auto-enrolment (AE) scheme (KiwiSaver) more straightforward.[97]

In the case of Ireland, grafting on a second broad contributory scheme compounds rather than simplifies the retirement income system. Worse, it is not currently designed to address the morass of existing private pension arrangements.

The critical decision is the relative importance in the pension system of the first-tier state pension. If the core of the pension system is an adequate, individual, comprehensive state pension, the lower poverty is likely to be and the greater the access women have to an independent income in old age.

Women's groups have been vocal in calling for change. The National Women's Council of Ireland has argued for state pension reform that greatly simplifies and is more equitable for women by putting in place either a universal basic pension or a means-tested basic pension (National Women's Council of Ireland, 2018).

Social Justice Ireland (2019)[6] have also strongly supported the view that a universal,

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6 https://www.socialjustice.ie/content/policy-issues/programme-government-misses-opportunity-pension- reform.

individual state pension based on residency is a critical first step in achieving pension equality.

One of the ways in which a lack of fairness has long permeated the Irish pension system is manner in which entitlement to a pension from the State has been based on social insurance contributions. This ties pension entitlements to an individual's labour market participation history and has historically resulted in lower pension payments (and sometimes no pensions at all) for people (mainly women) who have spend long periods away from the labour force raising families or caring for elderly family members.

2. Conclusions

New Zealand has chosen a simple non-contributory, universal Tier One state pension, and a comprehensive opt-out auto enrolment scheme - KiwiSaver - as a quasi-compulsory Second Tier. Over time KiwiSaver is likely to replace other legacy employment-based schemes ensuring improved simplicity, portability and better governance.

Ireland has a complex mix of a contributory state pension and a non-contributory means-tested state pension as Tier One. There is a highly tax-incentivised array of traditional occupational defined contribution and pension schemes for a minority, especially in the public sector. It is actively investigating a comprehensive Auto Enrolment employment scheme similar to KiwiSaver in New Zealand. If grafted on the top of the other traditional schemes, the overall expense and complexity of an already complex system will increase.

It is nigh impossible to develop efficient, effective policies without reliable data. New or improved policies that will lift retirement outcomes for women who will otherwise fall further behind should, where possible, reflect principles of simplification, adequacy, inclusion and sustainability.

Improved policies would acknowledge the value and range of the unpaid work, largely performed by women, that sustains our economies.

First, and most critically, given emerging poverty and diminishing prospects for older women, there must be one secure, simple, comprehensive, inclusive, non-contributory state pension. This provides an important acknowledgement of everyone’s contribution regardless of whether it was paid or unpaid. The following aspects need to be considered:

- **Adequacy.** The Tier One basic state pension must be sufficient, along with suitable housing policy, to protect older women against poverty.
- **Indexation.** The state pension must be supported by suitable indexing (such as to wages) so that living standards for women reliant on this tier do not fall relative to the average.
- **Individual entitlement**. Women’s needs are best served when the state pension is an individual entitlement that is not reduced for their partners’ income.
- **Tax-based income test.** If the state pension is taxable, a progressive tax system can ensure some clawback if that is desired. Care should be taken with an asset test as it adds complexity. An income test should be based on the individual’s own income alone, including any shared income from relationship property if applicable.
- **Qualifying Age**. Any lifting of the qualifying age in the short-term is unlikely

to be women-friendly. If it is used to save money, women may pay the price in other ways such as reliance on an inadequate and stigmatising welfare system. The adverse distributional consequences of raising the qualifying age may justify a search for other techniques, such as improved clawback through the tax system.

Final comments

Women have been systematically disadvantaged in the Irish pension system, both state and occupational. It would be a pity to introduce an AE scheme that further entrenches this disadvantage with thresholds and exemptions that are too onerous. It is not only women who will be disadvantaged as the modern labour market becomes more precarious, and casual work and self-employment become more common.

The reform of pensions in Ireland, if well designed to take into account the changing labour market and the changes brought about by COVID-19, will enhance outcomes for both genders. But to make meaningful change for women, two sacred cows may first need to be relinquished: the contributory basis for the state pension with its means-tested non-contributory pension for those who fail the contributions test, and second the design of existing and proposed tax subsidies for private schemes.

The two Irish state pensions could be joined up into one simple, adequate, comprehensive, wage-linked, individual, non-contributory taxable state pension, based on simple residency criteria. This provides an important acknowledgement of everyone's contribution regardless of whether it relates to paid or unpaid work. This would contribute to a more equitable pensions outcome for women.

Once that is done, along with the reform of tax incentives, a good centrally administered, auto-enrolment 'IrishSaver' that is women friendly can be grafted on and begin to replace the multiple 'not fit for purpose' current employer-based schemes.