A Universal State Social Welfare Pension: Recognising the Contribution of all our Senior Citizens

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Introduction

This study proposes the introduction of a universal pension, provided as a right to every Irish citizen and resident over the eligible age, to replace all other Social Welfare Pension payments to individuals over the State Pension Age. Such a proposal would achieve five key objectives:

- it would provide older residents, regardless of their means or social insurance record, with a guaranteed income during old age as protection from poverty;
- it would achieve universal coverage, providing those older people who do not receive any support through the State Pension system with a pension;
- it would provide a secure and certain framework around which individuals can plan for their retirement;
- over time it would distribute income from the wealthiest in society to the poorest, creating a more egalitarian society;
- it would ensure the long-term sustainability of the state pension system.

It would also broaden the principle of what constitutes a contribution to Irish society[1].

Taking account of the existing structure of the Irish pensions system, as well as the National Pensions Framework, we propose a feasible and sustainable universal pension, provide a full costing for such a proposal, and propose a funding framework for this universal payment. This study draws heavily on research by Adam Larragy in a previous proposal document published by *Social Justice Ireland* from September 2013.

The OECD's *Review of the Irish Pension* system in 2013 concluded that the State Pension should move to either a flat-rate universal basic pension, or to a means-tested basic pension on the grounds that '[b]oth of these options would have the advantage, compared with the existing scheme, of introducing a much simpler, more transparent and less costly public pension scheme' (OECD, 2013: 11). *Social Justice Ireland* believes a universal pension must be higher than that implicitly envisioned by the OECD, with less emphasis on individual private pensions as a means of providing post-retirement income.

Ireland's private pension system has, for too long, been the central focus of attention of policymakers when considering methods to increase pension coverage and adequacy. Fluctuating asset prices, opaque fee structures, and poor value-for-money annuities, among other problems, mean that the private pensions industry has failed to either reach its relatively modest coverage targets, or to provide an adequate retirement income for the majority of retirees.

With these problems in mind, *Social Justice Ireland* recommends a re-structuring of the system of tax reliefs on private pension contributions and a modest increase in the rate of Employer PRSI in order to fund the Universal Pension.

Such a move would reflect an acknowledgement that despite large tax subsidies to the private pensions industry, most of which is appropriated by high earners who need it the least, the industry is failing to achieve the stated policy goals of the pensions system.

It would also reflect that employers are, broadly speaking, now making a much reduced contribution to the retirement income of employees because of the trend away from Defined Benefit pension schemes. The rate of Employer PRSI in Ireland is substantially lower than in most equivalent countries in Western Europe. *Social Justice Ireland* believes that an increase in the Employer PRSI rate from 10.85 per cent to 11.35 per cent would represent a sensible and justified way to help fund a Universal Pension for all retirees.

The State Pension has been the greatest tool for combating poverty in Ireland. In the words of Professor Cormac Ó'Gráda (2002: 160), '[no] other welfare measure in twentieth-century Ireland would match what Sir Henry Robinson dubbed "the greatest blessing of all"'. Increasing private pension coverage will not provide an adequate post-retirement income for all. However, reducing tax expenditure on private pension contributions in order to fund an adequate universal pension would certainly help to achieve this.

Over the coming decades, the Irish population will age considerably, albeit at a far slower pace than our European neighbours. This must not be seen as a cause for concern, but a challenge to be met. The lesson of the last decade is that our economic and social challenges must be faced collectively, and our policies constructed upon the principles of solidarity, sustainability and justice.

We are also experiencing significant changes in the structure of the labour market. Increased automation, reduced job security, and a greater instance of precarious working mean that government needs to reconsider how employment, income, taxation and social welfare interact. Reconsidering the way pension rights are accumulated is only a small part of this.

In the words of the 1919 Democratic Programme of the First Dáil, the nation's elderly should "not be regarded as a burden, but rather entitled to the Nation's gratitude and consideration".

As part of a new social contract for Ireland's new century (post-1916), *Social Justice Ireland* believes that every adult and child should receive a guaranteed income. This study focuses on a guaranteed income for older people. This study is part of a wider project *Social Justice Ireland* has been developing in which the desirability, viability and technical challenges of ensuring every person in society has a guaranteed basic income is analysed in detail.

1 The existing system views a contribution only in terms of social insurance contributions, and therefore values little more than paid employment.

1 Executive Summary

This study was carried out to ascertain the cost of introducing a residency-based universal pension system to replace the current social insurance and means test-based State Pension system. 2019 is chosen as Year 1 of the new system for illustration purposes and costs are projected to 2046. The objective of the Universal Pension is to provide an adequate and sustainable post-retirement income for all citizens and residents of Ireland. To fund the universal pension, it is proposed that tax expenditures on private pension contributions be reduced, and Employer PRSI be increased.

The key characteristics of the system proposed are detailed below:

- The Universal Pension would replace the State Pension (Contributory), State Pension (Non-Contributory), the Death Benefit and the Widow's, Widower's or Surviving Civil Partner's (Contributory) Pension for all those above the State Pension Age. It would also be paid to those who had reached the State Pension Age who are currently only receiving an income through their spouse or partner's State Pension as Qualified Adults.
- The rate at which the Universal Pension is paid would be the current rate of the State Pension (Contributory), which is €243.30 per week. This would immediately raise the payments to those on the State Pension (Non-Contributory), of whom two-thirds are women, by at least €11.30 per week. It would also provide a pension in their own right to those receiving the Qualified Adult payment for those aged 66 and over.
- The Universal Pension would be residency-based. For each full year an eligible individual is resident in Ireland between the ages of 16 and the State Pension Age they would accumulate 1/40th or 2.5 per cent of the Universal Pension. For example, if the State Pension Age was 66 and an individual had been legally resident for 30 years between the ages of 16 and 66 they would receive 75 per cent of the full rate of the Universal Pension.
- A minimum of 10 years of residency, for 25 per cent of the full rate Universal Pension, is required to receive the benefit. All of these 10 years must be before the State Pension Age.
- On the introduction of the Universal Pension, all pensioners who had been in receipt of a full state pension – contributory or non-contributory – at that point would be allocated a full pension at the rate of €243.30 per week.
- Those pensioners who had then been in receipt of no state pension or reduced pension amounts – as Qualified Adults, or based on a means-test, or because of an incomplete PRSI contribution history – would initially receive their current amounts. However, they would be entitled to apply to have their payment increased based on the length of residency in Ireland.
  - If they have been resident in Ireland for 40 years, from age 16 to the State Pension Age, they would receive the full Universal Pension.
  - If they have less than 40 years residency, they would receive as their Universal Pension the more favourable of the following:
    - A residency-related pension (2.5 per cent of the full Universal Pension per year of residence)
    - Their current pension amount.
- This means that no existing pensioner would lose out and many would experience an increase in their payment. In particular, those adults aged 66 years and older, in respect of whom reduced payments are now made due to their status as Qualified Adults, would receive a Universal Pension in their own right.
- Increases for qualified adults under the age of 66 would continue to be paid on the basis that they are currently paid; that is the rate that they are paid would be a percentage of the Universal Pension rate. Qualified children's increases would also continue to be paid.
- The additional allowances for those aged over 80, those living alone, and those living on designated islands would remain. They would be maintained at the current percentage of the Universal Pension rate.
- Currently, carers over the age of 66 who are in receipt of the state pension while also providing full-time care can keep their full pension entitlement and receive a half-rate Carers Allowance. This payment should also be maintained.
- Under our proposal, the annual Christmas Bonus would be restored to 100 per cent of the relevant payment, as opposed to the current rate of 85 per cent, from 1 January 2019.
- The rate of the Universal Pension would gradually increase to 35 per cent of average earnings[2] by 2023 and would remain at a level at least equal to 35 per cent of average earnings thereafter.
- Many public servants recruited prior to 6th April 1995 do not receive the State Pension (Contributory) as they were members of the public service's occupational pension scheme and so paid a modified rate of PRSI. It is proposed that this remains the case at the outset of the Universal Pension, but that these public servants may apply for the Universal Pension if their service record or salary at retirement has resulted in them receiving a public service pension below the amount of the Universal Pension. Public servants recruited on or after 6th April 1995 would receive the Universal Pension as their occupational pensions have been integrated with the state pension system.

2 This figure is in line with the National Pensions Framework (Department of Social and Family Affairs, 2010)

Key aspects of the costing of the Universal Pension are detailed below:

- While full comparisons between the scope of the proposed Universal Pension and the current state pension are difficult, it is estimated that the additional cost of introducing the Universal Pension in 2019 would be €727m[3].
- The cost of the Universal Pension system as a percentage of national income would rise from about 3.4 per cent of GNP to about 8.4 per cent in 2046 in the base scenario used in this study. The number of people in receipt of the state pension is predicted to rise to about 1.3 million people in the same period.
- The M2F1 scenario used by the Central Statistics Office in their *Population and Labour Force Projections, 2011-2046* is utilised for the base scenario.
- It is assumed that a number of European and other citizens who reside in Ireland and retire abroad, perhaps in their own country, could claim a portion of the Universal Pension upon reaching the Irish State Pension Age.

It is proposed that the Universal Pension is funded by a reform of the structure of tax relief for private pensions and through Employer PRSI:

- The marginal rate of tax relief on private pension contributions should be reduced to the standard rate of 20 per cent and this measure should also apply to the Public Service Pension Related Deduction (or 'pension levy'). It is estimated that together these measures could raise €483m. This would be a strongly progressive change, given that at present over 70 per cent of the tax relief for private pensions accrues to the top 20 per cent of earners, with more than 50 per cent accruing to the top 10 per cent of earners.
- The earnings contribution cap should be reduced from €115,000 (one of the highest in the OECD) to €72,000. This would raise an additional €44m approximately.
- The Standard Fund Threshold (SFT) should be reduced from €2m to €500,000.
- The rate of Employer PRSI should be increased from 10.85 per cent to 11.35 per cent to yield €422m.
- These measures combined would raise approximately €949m in a full year in 2019.

The Exchequer has historically provided funding to the SIF when in deficit. It is proposed that the Universal Pension be paid for from general taxation. Given that pension-related expenditure is projected to continue to be the predominant component of the SIF's expenditure on a no-policy-change basis (Department of Employment Affairs and Social Protection, 2017a), this would naturally leave the SIF with a significant surplus, particularly given our proposed increase of 0.5 per cent in the current rate of Employer PRSI. It is proposed that this surplus be appropriated by the Exchequer annually to assist in the funding of Universal Pension payments, meaning that effectively money that was already destined to be spent on pension benefits remains so.

This study contains a number of long-term projections based on numerous assumptions. We encourage readers to focus on the trends emerging, rather than on the absolute results for individual years in the period measured.

The proposals contained herein represent the best way available for government to recognise the different contributions that all our elderly have made to society, and ensure that everybody over the State Pension Age has sufficient income to live life with dignity.

3 There would also be a small additional cost to restoring the Christmas Bonus to 100% for certain beneficiaries under age 66.

2 Policy Context

2.1 Introduction

Ireland's pensions system consists of three pillars. The first pillar comprises a flat-rate state pension, which varies slightly depending on social insurance contributions (see Table 2.6). There are additional payments where pensioners have dependants. A means-tested pension is provided to those who have not made the requisite social insurance contributions.

The second pillar is occupational pensions, where employers and/or employees make contributions (generally earnings-related) to a common fund which pays out a pension on retirement.

The third pillar is composed of personal private pension policies. Individuals make contributions to a fund, and pension entitlements are determined by the size of the fund on retirement.

The first pillar is funded through the Social Insurance Fund (SIF) and general taxation, while the second and third pillars are funded by employee and employer contributions and are generally invested in a mixture of equities, bonds, property and cash. Each attracts significant tax expenditures.

Irish pension policy was, from 1998 to 2010, guided by the recommendations of the *National Pensions Policy Initiative* (The Pensions Board, 1998). The Board recommended a social welfare pension of 34 per cent of Gross Average Industrial Earnings (GAIE) to sustain a minimum income, while 'measur[ing] adequacy of gross retirement income from all sources against a benchmark of 50 per cent of gross pre-retirement income'. While this is not a binding target, government policy has broadly followed this metric. The Board also set an ultimate target of 70 per cent supplementary pension coverage of the workforce aged over 30.

In 2010, the Government published the *National Pensions Framework*, which recommended a social welfare pension of 35 per cent of average earnings and an auto-enrolment scheme for employees[4]. While there have been only tentative steps towards auto-enrolment, it now seems that it forms the greater part of the Government's plan for pensions.

2.2 The History of the State Pension in Ireland

The Irish State Pension – or social welfare pension – comprises the first pillar of the Irish pensions system. The State Pension, then called the Old Age Pension, dates from the *Old Age Pensions Act* of 1908, when the British Chancellor of the Exchequer, David Lloyd-George, introduced a means-tested, tax-financed state pension for those aged over 70 years (Murray, 1980).

In 1924, the new Free State government cut the Old Age Pension and tightened some of the conditionality attached to receiving the pension (McCashin, 2005: 95; O'Gráda, 151-152). The cut was reversed in 1928, and from 1932 the means-test became less onerous indeed the Local Government Department in practice relaxed the means-test, much to the chagrin of the Department of Finance with the removal of the 'benefit and privilege' clause and the Poor Relief disqualification.

The 1949 White Paper *Social Security* – strongly influenced by the approach of the Beveridge Report in Britain – introduced the contributory principle to the Irish pension system (Carey, 2007). The 1952 Social Welfare Act laid the basis for, and the 1960 *Social Welfare Act* introduced, a contributory system in which all workers except for the self-employed, public servants, and those above the Pay-Related Social Insurance (PRSI) threshold would pay social insurance contributions and in return would receive a flat-rate contributory state pension from the age of 70 (McCashin, 2005: 97).

In the 1970s, the PRSI ceiling was removed and the age of eligibility for the State Contributory and Non-Contributory pensions was reduced to 65.

In 1985 the National Pensions Board was established, and in 1989 the self-employed were included in the social insurance system (Schulze & Moran: 770). Since 6th April 1995, new public servants have been 'integrated' into the state pension system, and as such post-April 1995 public servants are entitled to the State Pension (Contributory).

The development of the Irish pension system has left significant historical gaps in the coverage, arising from breaks in social insurance contributions. The *Green Paper on Pensions* (Department of Social and Family Affairs, 2007a: 69) estimated that at the time some 47,000 people on average – including predominantly those previously self-employed and women affected by the 'marriage bar' in the public service – were outside the state pension system.

Though the Homemaker's Scheme[5] – a means of recognising the contribution of homemakers to society by "disregarding" up to 20 years spent caring for children under 12 or an incapacitated child or adult from the calculation of average social insurance contributions – was introduced in 1994, it was not backdated, and so provided little relief for those affected by the more conservative societal norms that prevailed in the 1960s and 1970s.

4 This scheme would be Defined Contribution in nature.

5 Under the Homemaker's Scheme any years spent as a homemaker (since 6 April 1994) are ignored or disregarded when calculating yearly average contributions for the State Pension (Contributory). The *National Pensions Framework* proposed changing the disregard to a credit system from 2012. (This has not been introduced). This was to be capped at 520 contributions or 10 years (Age Action, 2017).

2.3 The Current State Pension

The State Pension (Contributory) and Widow's, Widower's or Surviving Civil Partner's (Contributory Pension) are financed through the SIF which is funded by PRSI, with the Exchequer making up any shortfall. The State Pension (Non-Contributory) and Pre-Retirement Allowance (PRETA)[6] are funded through the Exchequer. In 2016, expenditure on the state pension system totalled over €7bn (see Table 2.1) with around 593,000 recipients.

The State Pension consists of six mutually exclusive payments: the State Pension (Contributory); the State Pension (Non-Contributory); the State Pension (Transition)[7]; the PRETA; where it is higher than the State Pension (Contributory) for an individual, the Widow's, Widower's or Surviving Civil Partner's (Contributory Pension); and finally, a small number of individuals receive the Death Benefit[8].

Table 2.1 illustrates the breakdown of expenditure by payment type.[9]

Table 2.1 – Irish Pension Expenditure by Gender and Payment Type of Recipients, 2016

	Male	Female	Total	Expenditure (€m)
State Pension (Contributory)	239,253	137,809	377,062	4,662
State Pension (Non-Contributory)	36,544	58,677	95,221	982
State Pension (Transition)	93	56	149	0.25
Widow's, Widower's, or Surviving Civil Partner's Pension (Contributory)	17,724	102,949	120,673	1,437
Death Benefit	-	-	686	8.6
Total	293,614	299,491	593,791	7,090

Source: *Statistical Information on Social Welfare Services 2016*, Department of Employment Affairs and Social Protection (2017b).

In 2009, the Christmas Bonus[10], paid to those receiving the state pension and other benefits, was removed. This constituted a cut in the State Pension of 1.9 per cent. This has since been restored to 85 per cent of the weekly payment. Table 2.2 displays the current maximum weekly rates.

Table 2.2 - Irish State Pension Rates, 2018[11]

Pension Scheme	Age of Eligibility	Maximum weekly payment (€)	Maximum Increase for Qualified Adult (€)	Maximum increase for Qualified Child (€)
State Pension (Contributory)	66+	243.30	162.10	31.80
State Pension (Non-Contributory)	66+	232	153.30	31.80
State Pension (Transition)	65	243.30	162.10	31.80
Widow's, Widower's, or Surviving Civil Partner's Pension (Contributory)	N/A	243.30	N/A	31.80
Death Benefit (over 66)	66	226.50[12]	N/A	31.80

Source: www.citizensinformation.ie

6 Since 2007, no new applications for Pre-Retirement Allowance have been accepted. As 55 was the youngest age at which an individual could apply, the last recipients would transfer to the proposed Universal Pension in 2018.

7 The State Pension (Transition), paid to certain individuals between the ages of 65 and 66, in theory ceased to exist in from 1 January 2017. However, according to the most recently available statistics on social welfare from the Department of Social Protection (2016), there are still a number of active recipients of this benefit though the numbers are quite insignificant.

8 The most recently published *Statistics on Social Welfare* from the Department of Social Protection provide highly incomplete information for this benefit in 2015, making it difficult to model.

9 The schema utilised here differs slightly from the classification of the schemes used by the Department of Social Protection in 2015. It does not include the Widow's, Widower's, or Surviving Civil Partner's Pension (Non-Contributory) as this payment is not paid to those aged 66 and over.

10 Under our proposal, the annual Christmas Bonus would be restored to 100 per cent of the relevant payment, as opposed to the current rate of 85 per cent, from 1 January 2019. Our projections include this cost.

11 These rates apply from the end of March, 2018.

12 As previously noted, the most recent statistical information regarding this benefit is incomplete. This is therefore an estimation, based on State Pension increase trends since 2014.

Reduced rates of the State Pension (Contributory) are payable to those with broken records of social insurance contributions, and the State Pension (Non-Contributory) is payable on a means-tested basis. Table 2.3 takes data from the *2015 Actuarial Review of the Social Insurance Fund* (Department of Employment Affairs and Social Protection, 2017a: Appendix 3) regarding the State Pension (Contributory)[13] and the proportion of recipients who receive reduced payments.

Table 2.3 – Estimated distribution of Weekly Personal Rates for the State Pension (Contributory), 2015

Percentage of Full Rate	Male	Female	Weekly Pension Rate (€)
100%	148,308	54,769	230.30
98%	46,525	33,128	225.80
90%	4,934	6,497	207.00
85%	3,902	8,220	196.00
75%	5,869	6,614	172.70
65%	1,478	2,304	150.00
50%	15,749	16,164	115.20
40%	840	1,039	92.00
Other Pensions	3,408	1,921	37.60
Total	231,013	130,656	

Note: the weighted average payment is €210.88. (Department of Employment Affairs and Social Protection, 2017b: Appendix 3).

Means-tested increases are provided in respect of Qualified Adult Dependants whose income is below €310 per week. A full increase is given in respect of those earning below €100, with payments decreasing proportionately for every €10 up to €310. Means-tested increases for child dependants are also available, either at the full rate or half-rate, depending on the result of the means-test.

Table 2.4 – Number of Recipients by Pension Payment, 2016

	State Pension (Contributory)	State Pension (Non-Contributory)	State Pension (Transition)	Widow's, Widower's, or Surviving Civil Partner's Pension (Contributory)
Personal Rate No Qualified Adult	309,458	91,969	43	121,359
With Qualified Adult[14]	67,604	3,252	123	0
With Qualified Children	2,108	596	3	11,164

Source: *Statistical Information on Social Welfare Services 2016*, Department of Employment Affairs Social Protection (2017b: Table B1).

The state pension system provides additional payments for those over 80 years, those living on specific islands, and those living alone. Total expenditure on those allowances in 2016 can be estimated at nearly €150m (see Table 2.5 and Table 4.1).

13 The figures in Table 2.3 are based on the most recently available from the Statistics Department at the Department of Employment Affairs and Social Protection.
14 Previous statistical reports from the Department of Social Protection indicated both the number of Qualified Adults aged 66 and over, and those 65 and younger. This information for 2016 was not available at the time of printing.

Table 2.5 - Number of Recipients of Living Alone Allowance, Over 80 Allowance and Island Allowance by Pension Type, 2016

Pension Type	Living Alone Allowance	Over 80 Allowance	Island Allowance
State Pension (Non-Contributory)	33,391	32,299	255
State Pension (Contributory)	70,756	79,685	170
Widow's, Widower's, or Surviving Civil Partner's Pension (Contributory)	52,622	40,349	48
Total	156,769	152,333	473

Source: *Statistical Information on Social Welfare Services 2016,* Department of Employment Affairs and Social Protection (2017b: Table G8).

Budget 2012 contained changes to the eligibility criteria for the State Pension (Contributory) which resulted in the pensions of around 42,000 older people being reduced (Age Action, 2017). Table 2.6 gives details of these alterations.

While these changes were intended to better align State Pension (Contributory) payments to levels of social insurance contributions in accordance with the Total Contributions Approach to be introduced in 2020, the system as it currently operates does not necessarily produce these results.

This is because the averaging method used in calculating the benefit covers an individual's entire employment history. All contributions made from age 16 are taken into account. Therefore, people with fewer contributions over a relatively short working life can end up on a higher payment than someone with more contributions made over a longer employment history.

This naturally has particular implications for women, as they are more likely to have interrupted contribution histories. It is also unfair that many will receive a higher payment than others with more contributions simply because they happened to retire before the changes were implemented.

In answering a parliamentary question[15] in November 2017, Minister for Employment Affairs and Social Protection Regina Doherty noted that 42,278 – 26,598 of whom are female – had been affected by the rate band changes introduced from September 2012.

Table 2.6 – State Pension (Contributory) Bands and Payment Levels, pre and post 2012

Band and Yearly Averaged Contributions	Level of Payment pre-2012	After the 2012 alteration	Change in weekly amount
48+	€230.30 (max)	€230.30 (no change)	None
40-47	€225.80 (98%)	€225.80 (no change)	None
30-39	€225.80 (98%)	€207.00 (90%)	€ 18.80
20-29	€225.80 (98%)	€196.00 (85%)	€ 29.80
15-19	€172.70 (75%)	€150.00 (65%)	€ 22.70
10-14	€115.20 (50%)	€92.00 (40%)	€ 23.20

Source: Adapted from Age Action (2017: 14)

The indexation of the rates of the State Pension to the GAIE or average earnings is not official policy and increases in the State Pension have remained at the discretion of the Minister for Finance (The Pensions Board, 2005: 32). In 2016, Minister for Social Protection Leo Varadkar noted that the best way to protect the value of social welfare payments was to index weekly social welfare payments to the cost of living or to average earnings, and enshrine that principle in legislation[16].

15 Question Reference 46182/17
16 From the Minister's speech at the MacGill Summer School, 2016. Full text available here: https://www.welfare.ie/en/pressoffice/Pages/sp210716.aspx

Table 2.7 compares GAIE and the State Pension. The CSO has discontinued their *Industrial Earnings and Hours Worked* dataset in 2007 which measured GAIE and replaced it with a more comprehensive *Earnings and Labour Costs* (Collins, 2011). As such, the earnings data for 2007 is from the CSO's *National Employment Survey* and the data from 2008 onwards the weekly average earnings data are taken from the CSO's *Earnings and Labour Costs*.

Table 2.7 – Irish State Pension Maximum Weekly Rates as a % of Weekly Average Earnings, 2002-2016

Year	Weekly GAIE/ Average Earnings	Maximum State Pension (Contributory)	Maximum State Pension (Non-Contributory)	SP (C) as % of GAIE/ average earnings	SP (NC) as % of GAIE/average earnings
2002	€ 501.51	€ 146.05	€ 132.72	29.1	26.5
2003	€ 535.74	€ 157.30	€ 144.00	29.4	26.9
2004	€ 560.77	€ 167.30	€ 154.00	29.8	27.5
2005	€ 580.88	€ 179.30	€ 166.00	30.9	28.6
2006	€ 601.95	€ 193.30	€ 182.00	32.1	30.2
2007	€ 687.51	€ 209.30	€ 200.00	30.4	29.1
2008	€ 721.27	€ 223.30	€ 212.00	31.0	29.4
2009	€ 723.72	€ 230.30	€ 219.00	31.8	30.3
2010	€ 705.78	€ 230.30	€ 219.00	32.6	31.0
2011	€ 699.19	€ 230.30	€ 219.00	32.9	31.3
2012	€ 693.21	€ 230.30	€ 219.00	33.2	31.6
2013	€ 694.50	€ 230.30	€ 219.00	33.2	31.5
2014	€ 703.91	€ 230.30	€ 219.00	32.7	31.1
2015	€ 712.02	€ 230.30	€ 219.00	32.3	30.8
2016	€ 716.86	€ 233.30	€ 222.00	32.5	31.0
2017	€ 714.41	€ 238.30	€ 227.00	33.4	31.8

Source: CSO (2018), CSO (2007), CSO (2003-2007)

At present, the State Pension (Contributory) is around 33 per cent of Average Earnings. This should be increased to 35 per cent, in line with the National Pensions Framework. Furthermore, this should be benchmarked against Average Earnings to ensure that older people do not fall behind the rest of society.

The current state pension constituted the main source of income for over 70 per cent of those aged 66 and over in 2014 (Collins and Hughes, 2017). As Table 2.8 indicates, in 2014 the State Pension and associated transfer payments accounted for 85 per cent of income for the third and fourth deciles and 81 per cent for the second decile of pensioners. Only the highest earning 30 per cent of pensioners did not rely on the State Pension for at least half of their retirement income.

Recent research as part of the *Irish Longitudinal Study on Ageing* which focused on retirees found that 'the most consistent and statistically significant findings that hold for both men and women are that individuals with third level education, home-owners, Dublin residents, employees of large firms or the public sector and white-collar workers are more likely to have supplementary pension arrangements' and therefore have larger post-retirement incomes (Nivakoski & Barrett, 2012: 25).

Table 2.8 – Sources of income for pensioners in Ireland by income decile, 2014

Income Category	Low	2nd	3rd	4th	5th	6th	7th	8th	9th	Top
Employee income	0.0	0.6	1.5	0.0	1.2	2.1	0.3	1.3	1.9	5.7
Self-employed income	2.2	1.4	1.7	0.9	3.0	1.8	4.7	8.0	5.5	10.3
Private pension income	2.6	1.2	0.2	2.8	1.4	3.3	3.5	3.5	5.4	12.0
Occupational pension	7.8	8.9	2.5	3.7	14.4	18.0	32.0	42.1	54.8	44.9
State Old-Age payments	65.4	81.3	85.0	85.4	72.5	60.2	53.9	40.0	27.7	17.6
Rental income	3.7	1.6	0.9	1.1	0.7	0.7	1.3	2.4	1.5	4.3
Investment income	2.8	0.1	0.5	0.1	0.6	6.9	1.1	1.0	2.2	4.5
Other direct income	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Housing allowances	10.6	4.1	5.1	4.2	2.8	2.3	1.3	1.4	0.7	0.4
Other social transfers	4.8	0.9	2.7	1.8	3.5	4.8	1.9	0.4	0.3	0.2
Gross Income	100	100	100	100	100	100	100	100	100	100

Source: Collins and Hughes (2017)

2.4 The State Pension and Poverty in Old-Age

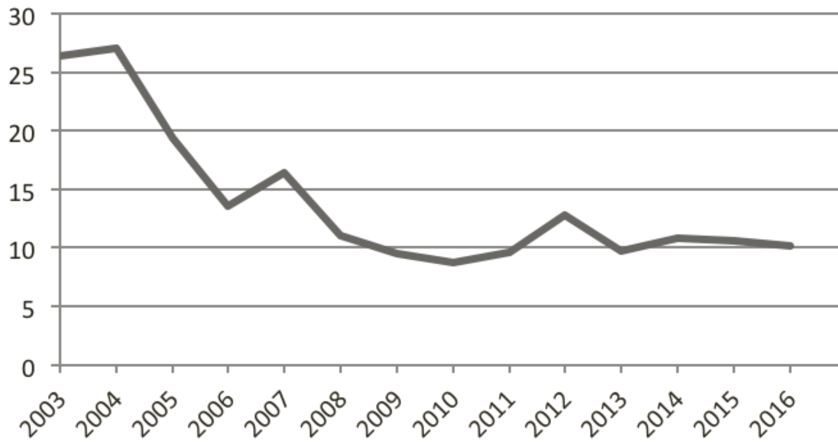
Increases in the state pension from 2004 played an important role in reducing the percentage of those aged 65 and older that were at risk of poverty (see Chart 2.1). In 2004 the elderly were the single largest group of people at risk of poverty (27.1 per cent) while consistent poverty was at 3.9 per cent (CSO, 2012c: 8). Between 2004 and 2009, thanks to a concerted effort to increase the State Pension, many recipients were taken out of poverty as the rate fell to 9.6 per cent (Age Action, 2017). By 2010, poverty levels had fallen to 8.7 per cent and consistent poverty fallen to 0.9 per cent (CSO, 2017a).

Both these indicators saw increases over the following years and in 2016 the at-risk-of-poverty rate amongst those aged 65 and over was 10.2 per cent, with consistent poverty at 2 per cent. An estimated 65,000 older people were living at risk of poverty, with approximately 13,000 in consistent poverty. It is estimated that almost 85,000 people aged 65 and older are experiencing deprivation (CSO, 2017b).

These increases were due, in large part, to several austerity measures that affected older people. These included cuts to elements of the Household Benefits Package, including a reduction in the electricity element of the payment and removal of the telephone subvention. The number of weeks that the Fuel Allowance was paid was shortened, the Bereavement Grant was abolished, and there were further changes to the Medical Card conditions for those over 70. Other changes that also affected older people included the introduction, and rapid rise, of prescriptions charges and the removal of the Christmas Bonus[17] which was later partially restored (Age Action, 2017).

17 Under our proposal, the annual Christmas Bonus would be restored to 100 per cent of the relevant payment, as opposed to the current rate of 85 per cent from 1 January 2019. Our projections include this cost.

Chart 2.1 – The at-risk-of-poverty figures for those aged 65 and over, 2003-2015

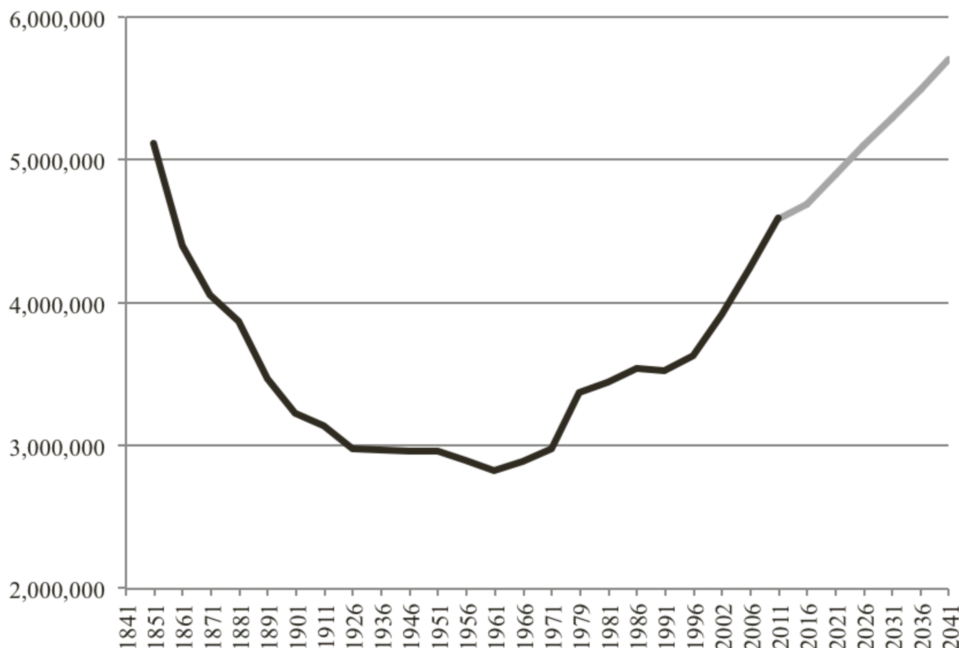


Source: CSO (2017a).

2.5 Ireland's Demographics

Ireland's demographic history has been, and continues to be, dominated by the Great Famine of 1845-1852. The Famine transformed social and economic behaviour, and the consequences were later marriage ages and persistent outmigration. Despite gains from the natural increase of the population, the population of what became the Republic of Ireland continued to decline due to outmigration until 1961 when the population of the South finally began to rise (see Chart 2.2). During the 1960s and 1970s, declines in outward migration led to an increase in the population.

Chart 2.2 Population[18] of the Republic of Ireland, 1841-2046



Source: CSO (2013). Projected rise in grey. Using M2F1 assumptions.

18 As soon as more up-to-date population projections become available, we will update our numbers. However, we are confident that changes will not significantly change our conclusions on the viability of the universal pension.

Persistently high unemployment in the late 1980s led to higher levels of outmigration, and the population fell between 1987 and 1990 (CSO, 2013). One of the effects of persistent outmigration – which tended to be concentrated amongst those aged 18-44 – was an increasing old-age dependency ratio, and an increasing total dependency ratio. As outmigration slowed, this effect reversed. Total fertility in Ireland was also higher than the European average, falling dramatically in the late 1970s and early 1980s. Therefore, by the 1980s Ireland had completed the 'demographic transition' towards low fertility rates and low mortality rates characteristic of advanced economies.

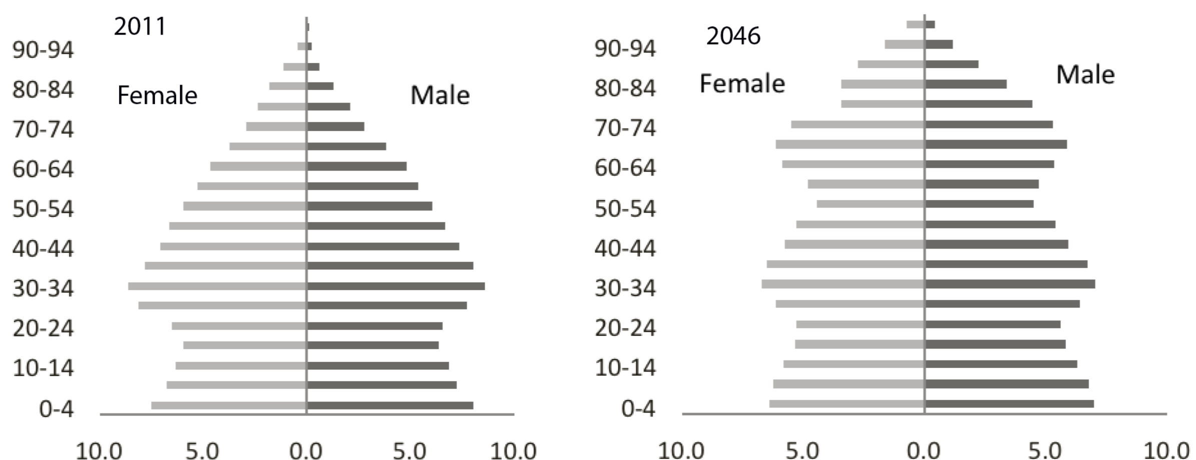
During the 1990s Ireland reaped the benefits of a 'demographic dividend' as the total dependency ratio fell to its lowest level since the 1950s and women entered the labour force in much greater numbers, substantially increasing economic activity. Table 2.9 illustrates the changing total and old-age dependency ratios in this period due to the dual effects of a growth in population and a declining total fertility rate.

Table 2.9 - Total Dependency Ratio (<15 & 65+)/(15-64) and Old-Age Dependency Ratio (65+)/15-64, Ireland, 1950-2015

Date	Total Dependency Ratio	Old-Age Dependency Ratio[19]
1950	1.53	5.5
1955	1.47	5.41
1960	1.38	5.21
1965	1.38	5.22
1970	1.39	5.28
1975	1.4	5.52
1980	1.44	5.56
1985	1.46	5.58
1990	1.59	5.56
1995	1.85	6
2000	2.13	6.45
2005	2.25	6.54
2010	2.14	6.12
2015	1.86	4.95

Source: United Nations (2015)

Chart 2.3 – Population Pyramid for Ireland in 2011 and 2046 by age group and % of population



Source: CSO M2F1 Projections (2013).

19 As an example, an Old-Age Dependency Ratio of 5.5, as per 1950, means that there are 5.5 people of working age for every person over the State Pension Age.

Under the M2F1 assumptions used in this proposal (see Chapter 4 for more details), the age structure of the population will change over the next three decades; a larger share of the population will be aged 65 and over (see Chart 2.3). In 2011, those aged 65 and over made up 11.6 per cent of the population; by 2046 they are projected to comprise over 24 per cent of the population. This population shift poses significant challenges in nearly every area of public policy, as society must re-orientate itself in multiple areas to take account of the ageing population.

Table 2.10 indicates projected old-age dependency ratios for selected European countries. According to projections carried out by the United Nations Department of Economic and Social Affairs, Ireland will have one of the most favourable old-age dependency ratios in Europe. This assertion also holds if the M2F1 CSO projection is used instead of the United Nations projections.

Table 2.10 - Projected Old-Age Dependency Ratios[20] for Selected European Countries, 2015-2045

	2015	2020	2025	2030	2035	2040	2045
Austria	3.6	3.3	2.9	2.5	2.1	2.0	1.9
Belgium	3.6	3.3	2.9	2.6	2.4	2.3	2.2
Denmark	3.4	3.2	2.9	2.7	2.5	2.4	2.4
EUROPE	3.8	3.4	3.0	2.7	2.5	2.3	2.2
France	3.3	2.9	2.7	2.5	2.3	2.2	2.2
Germany	3.1	2.8	2.5	2.1	1.8	1.8	1.8
Ireland (UN)	5.0	4.3	3.9	3.4	3.1	2.7	2.4
Ireland (M2F1)	5.0	4.3	3.8	3.4	3.1	2.7	2.4
Italy	2.9	2.6	2.4	2.1	1.8	1.6	1.5
Netherlands	3.6	3.1	2.7	2.4	2.1	2.0	2.1
Sweden	3.1	3.0	2.8	2.7	2.5	2.5	2.5
United Kingdom	3.6	3.4	3.2	2.9	2.6	2.5	2.5
WESTERN EUROPE	3.3	3.0	2.6	2.3	2.1	2.0	2.0

Source: United Nations (2015)

Comparison with other European countries suggests that Ireland's old-age dependency ratios are far more favourable than many of our European counterparts, for example Austria and Germany. They are also more favourable than the European and Western European averages respectively.

Duvvury, quoted in *Towards a Fair State Pension for Women Pensioners* (Age Action, 2017: 28), has stressed the need to consider sustainability within a framework of equality. She also pointed out that the discourse around pension sustainability is often heightened and out of proportion to reality. This discourse is in danger of creating intergenerational conflict and promoting an ideology that older people are eating up state resources.

It is certainly notable that despite some of the rhetoric surrounding the sustainability of the Irish pension system, Ireland has a far more favourable demographic profile than many of our European counterparts.

2.6 Funding Ireland's State Pension Liabilities

Ireland's State Pension liabilities have generally been funded on a Pay As You Go basis. The State Pension (Contributory) is one of several benefits paid out of the Social Insurance Fund (SIF), while the State Pension (Non-Contributory) is paid out of general taxation.

20 As an example, an Old-Age Dependency Ratio of 5.0, as per Ireland in 2015, means that there are 5.0 people of working age for every person over the State Pension Age.

The Department of Employment Affairs and Social Protection has been statutorily obliged to carry out an actuarial review of the SIF since 2005[21]. The *2015 Actuarial Review of the Social Insurance Fund* set the position of the SIF as at 31 December 2015 and was released in late 2017. Previous iterations have set the position at 31 December 2005 and 31 December 2010.

The 2005 *Actuarial Review* estimated the expected growth in the cost of the State Pension (Contributory) as shown in Table 2.11.

Table 2.11 - Total Cost of State Pension (Contributory) in the 2005 Actuarial Review

Year	Linked to Earnings Growth (€bn)	Linked to Inflation (€bn)	Pension at 40%[22]GAIE (€bn)
2010	3.2	3.0	3.3
2011	3.4	3.2	3.6
2016	4.7	3.9	5.3
2021	6.7	5.0	7.7
2026	12.7	8.2	14.6
2031	21.5	12.0	24.8
2036	33.8	16.3	39.0
2041	42.0	17.5	48.5

Source: *2005 Actuarial Review of the Social Insurance Fund*, Department of Social and Family Affairs (2007b: 80-83).

In the *2005 Actuarial Review of the Social Insurance Fund* the long-run sustainability of the Fund with unchanged rates of PRSI (at 2005 levels) was considered. However, a prolonged economic downturn, beginning in 2008, has significantly changed this outlook, and the SIF moved into deficit as the income collected through PRSI fell and unemployment-related outgoings such as Jobseeker's Benefit increased.

The *2010 Actuarial Review*, published in 2012, presented a smaller shortfall than the *2005 Review*, as the new review took account of reforms to the pension age and PRSI, and changed macroeconomic and demographic assumptions. Table 2.12 presents the estimates for pension expenditure contained in the *2010 Actuarial Review*.

Table 2.12 – Pension Expenditure, Total Expenditure and Total Receipts for SIF, 2010-2060 in the 2010 Actuarial Review[23]

	Total Receipts (€bn)	Pension Related Expenditure (€bn)	Other expenditure (€bn)	Total Expenditure (€bn)
2010	6.7	4.9	4.5	9.4
2011	7.5	5.1	3.9	9
2016	7.9	6.7	3.5	10.1
2020	8.9	8.6	3.5	12.1
2030	11.8	13.2	4.1	17.3
2040	14.3	20.9	5.1	25.9
2050	16.9	30.5	5.9	36.4
2060	20.7	38	6.6	44.7

Source: *2010 Actuarial Review of the Social Insurance Fund* (Department of Social Protection, 2012c: 60)

Historically, the Exchequer has provided funding to the SIF, but between 1996 and 2007 the Fund was in surplus due to a rapid increase in the number of people employed in the economy in the 1990s and early 2000s.

21 The Social Insurance Fund pays benefits related to unemployment, illness, bereavement and maternity, among others, and not just retirement. Its sustainability, or extent to which PRSI payments can cover expenditure from the fund, is therefore not directly reflective of the sustainability of the State pension system. However, as pensions make up the majority of payments from the Fund, it is instructive to analyse trends in relation to it.

22 Our proposal is for the Universal Pension to be linked to 35 per cent of Average Earnings, as per the National Pensions Framework (Department of Social and Family Affairs, 2010).

23 This is based on the *2010 Actuarial Review's* base case assumption that the State Pension (Contributory) would remain at 33 per cent of average earnings.

Table 2.13 - Social Insurance Fund Projected and Actual, 2004-2014

Year €m	Income €m	Expenditure €m	Surplus/Deficit €m	Actuarial Review Expected Surplus/Deficit[24] €m
2004	5,649	5,273	376	
2005	6,159	5,663	496	
2006	6,974	6,325	649	
2007	7,833	7,251	582	
2008	8,144	8,400	-256	
2009	7,304	9,746	-2,442	
2010	6,717	9,462	-2,745	-2,700
2011	7,543	9,004	-1,461	-1,500
2012	6,785	8,869	-2,084	-1,800
2013	7,309	8,619	-1,310	-2,000
2014	7,872	8,417	-545	-2,000

Sources: *2010 Actuarial Review of the Social Insurance Fund* (Department of Social Protection, 2012c: 57). Income and Expenditure information from *Staff Paper 2015 Vote Management and the Social Insurance Fund* (Department of Public Expenditure and Reform, 2015: 16).

To date, the general trend has been for the Actuarial Reviews to overestimate the extent of the fund's deficit. The *Actuarial Review of the Social Insurance Fund 2015* (Department of Employment Affairs and Social Protection, 2017a) covers a 55-year period from 2016-2071 and notes that following the most recent review, it is apparent that the medium term outlook for the SIF is "much healthier" than the findings of the 2005 and 2010 reviews suggested:

- The Fund currently has a modest surplus of income over expenditure: approximately €400m in 2016. This compares with a shortfall of €1.5bn in 2011;
- The 2010 Review projected a shortfall in 2015 of €2bn but this turned out to be only around €100m.
- The 2005 Review predicted that by 2021, the yearly shortfall is projected to be €2.8 billion (in real terms) but the 2015 Review had revised this to just over €200m by 2020;

As noted, the Exchequer has historically provided funding to the SIF when in deficit. It is proposed that the Universal Pension be paid for from general taxation. Given that pension-related expenditure is projected to continue to be the predominant component of the SIF's expenditure on a no-policy-change basis[25] (Department of Employment Affairs and Social Protection, 2017a), this would naturally leave the SIF with a significant surplus, particularly given our proposed increase of 0.5 per cent in the current rate of Employer PRSI. It is proposed that this surplus be appropriated by the Exchequer annually in order to assist in the funding of Universal Pension payments, meaning that effectively money that was already destined to be spent on pension benefits remains spent in this manner.

The Department of Public Expenditure and Reform's 2015 Staff Paper, *2015 Vote Management and the Social Insurance Fund Department of Public Expenditure and Reform*, concluded that the SIF has been in deficit for most of its existence since 1953, with a small 11-year window where it was in surplus, and that given indications that, long-term, the subvention to the SIF from the Exchequer will increase substantially as a result of the growing numbers of people who will become reliant on the State Pension (Contributory) scheme, the merit in sustaining the structure of a distinct fund where the majority contributor is the Exchequer is questionable.

The creation of the National Pensions Reserve Fund (NPRF)[26] in April 2001 constituted, albeit briefly, an attempt to create a quasi-funded approach to future pension liabilities arising from both public sector pensions and the social welfare system and meet those costs from 2025.[27]

24 Based on the *2005 Actuarial Review's* Central Scenario and the State Pension (Contributory) linked to earnings growth.
25 It was estimated to be approximately 70 per cent in 2016 (Department of Employment Affairs and Social Protection, 2017a).
26 See Irish Strategic Investment Fund (2017) for source material for much of this section, as well as further information.
27 Before the introduction of the NPRF the occupational pension of many public service pensions remained unfunded. In March 2009 the government introduced a

Under the *National Pensions Reserve Fund Act 2000*, the Minister of Finance was required to pay 1 per cent of Gross National Product (GNP) into the Fund until 2055. However, with the onset of the financial crisis, it was decided to utilise some of the NPRF's assets in the short-term.

In 2009 and 2010 the Minister for Finance, pursuant to the 2009 Act, directed the NPRF to invest a total of €10.7 billion in AIB and Bank of Ireland. In late November 2010, the Government announced that the NPRF would provide up to €10 billion of the State's €17.5 billion contribution to the EU/IMF Programme of Financial Support for Ireland.

The *Credit Institutions Stabilisation Act* was enacted in December 2010 and significantly amended the legislation governing the NPRF. The Minister for Finance subsequently suspended the Exchequer contribution to the NPRF.

The conversion from the NPRF into the Ireland Strategic Investment Fund (ISIF) was legislated for by the National Treasury Management Agency (NTMA) (Amendment) Act, 2014 which was enacted on 28 July 2014. The assets of the NPRF became assets of the ISIF upon the ISIF's establishment. The ISIF, managed and controlled by the NTMA, is now an €8 billion sovereign development fund. It is currently difficult to foresee what return there will be on the Fund's investment in the domestic banking sector. Either way, it is clear that this money is no longer earmarked to fund future pension liabilities.

2.7 Supplementary Private Pensions

Occupational and individual private pensions form the second and third pillars of the Irish pension system. The *National Pensions Policy Initiative* (NPPI) (1998: 11) set out a target of 62 per cent coverage of those aged between 30 and 65 by 2002 and a target of 66 per cent by 2008, with an ultimate target of 70 per cent coverage. It was envisioned in the NPPI that supplementary pensions should be adequate – when combined with the State Pension (Contributory) – to provide an individual with 50 per cent of their pre-retirement income. However, the 'coverage' target for supplementary pensions has suffered a setback. While coverage amongst those aged 30-65 increased from 57 per cent in Q4 2002 to 61 per cent in Q1 2008, it has subsequently declined significantly. Table 2.14 shows the changing levels of supplementary pension coverage amongst the population.

Table 2.14 – Supplementary pension coverage (%) for selected groups, 2005-2015

	Q1 2005	Q4 2005	Q1 2007	Q1 2008	Q4 2009	Q4 2015
General Population	51.9	55.9	53.0	53.6	51.2	46.7
Male	55.0	59.5	55.4	56.3	53.1	47.2
Female	47.7	51.0	49.8	50.0	49.0	46.2
Age 20-29	34.5	39.1	34.9	36.6	32.6	22.1
Age 30-65	58.9	62.8	60.7	60.6	57.5	52.1
Full-time	57.5	61.2	58.4	58.5	59.6	55.0
Part-time	26.5	29.9	28.2	31.7	23.7	22.3
Managers, directors, senior officials	-	-	-	65.4	63.9	53.1
Professionals	-	-	-	75.3	77.1	74.8
Ass professional and technical	-	-	-	64.8	62.6	60.0
Administrative and secretarial	-	-	-	61.3	62.2	57.1
Skilled trades	-	-	-	47.4	39.5	33.1
Caring, leisure and other services	-	-	-	36.3	38.8	32.3
Sales and customer service workers	-	-	-	28.9	24.2	17.8
Process and machine operatives	-	-	-	50.4	40.6	37.6
Elementary	-	-	-	33.2	28.5	22.3

Source: CSO (2016)

'public service pension related deduction' which applied an earnings related levy on public servants (http://www.finance.gov.ie/documents/guidelines/faqprdjul09.pdf). This payment does not fund public service pensions but operates as a pay cut for public servants. However, from a tax perspective, the PSPRD is treated as deductible.

Regarding the 'adequacy' target, there is great uncertainty about the adequacy of the income provided by Defined Contribution (DC) pensions, given the low levels of contributions and the volatility of financial markets. Cases such as that involving the members of the Waterford Crystal Pension Scheme highlight the vulnerability of Defined Benefit (DB) schemes for active members in cases where an employer faces insolvency. Many other Defined Benefit scheme members face the winding up of their schemes, and the vast majority that are not winding up are closed to new members and/or future accrual. The long-term trend of moving from Defined Benefit to Defined Contribution represents a transfer of risk from employers to individuals.

Social Justice Ireland believes that Ireland's private pension system has, for too long, been the central focus of attention from policymakers when considering methods to increase pension coverage and adequacy. Fluctuating asset prices, opaque fee structures, and poor value-for-money annuities, among other problems, mean that the private pensions industry has failed to reach its relatively modest coverage targets, or provide an adequate retirement income for the majority of retirees. In effect, the tax-based subsidy to private pension provision maintains a large pensions industry which does not satisfy any reasonable cost-benefit analysis.

According to Pensions Authority (2016) estimates, over 70 per cent of funded DB schemes did not meet the funding standard in January 2010. Since that time, a large number of these schemes have been wound up, and members of the remainder have faced increased contributions, often combined with reductions in benefits. By the end of 2015 over 60 per cent of the DB schemes still in existence met the funding standard, but this was 60 per cent of a significantly lower number of schemes[28].

The current focus on private pensions as a means to expand coverage and guarantee adequate post-retirement income to the population has failed. With these problems in mind, *Social Justice Ireland* recommends a re-structuring of tax reliefs on private pension contributions and an increase in the rate of Employer PRSI in order to fund the Universal Pension system being proposed by this study. Such a move would reflect an acknowledgement of the fact that despite large tax subsidies to the private pensions industry, most of which is appropriated by the people who need it the least, the industry is failing to achieve the stated policy goals of the pensions system.

It would also reflect the fact that employers are, broadly speaking, now making a much reduced contribution to the retirement income of employees due to the move away from Defined Benefit pension schemes. The rate of Employer PRSI in Ireland is substantially lower than in most equivalent countries in Western Europe. *Social Justice Ireland* believes that an increase in the Employer PRSI rate from 10.85 per cent to 11.35 per cent would represent a sensible and justified way to help fund a Universal Pension for all retirees.

DB occupational pension schemes remain the most subscribed schemes in the country, but the absolute number of members of DB schemes has been falling consistently since 2009. A majority of occupational DB schemes – including those used by post-April 1995 employees in the public service – are integrated with the social welfare system so that the State Pension (Contributory) is considered to contribute towards a targeted post-retirement gross income – usually 50 per cent to 66 per cent of retirement (or average) salary.

Table 2.15 indicates the percentage of the population covered by DB and DC schemes, including both Retirement Annuity Contracts (RACs) and Personal Retirement Savings Accounts (PRSAs).

RACs are DC schemes in the form of an insurance contract approved by the Revenue Commissioners and available to the self-employed and those in non-pensionable employment. In 2003, the Government introduced PRSAs, a form of individually funded pension scheme, in an attempt to raise coverage rates. However the number of employees participating has been low, as has the amount of contributions, with approximately 238,000 individual contracts (including individuals with multiple contracts) as of 31 December 2015 (Pensions Authority, 2016: 38).

Since 1999, RACs and PRSAs do not need to be used to purchase an annuity on retirement but can be placed in an Approved Retirement Fund (ARF) or Approved Minimum Retirement Fund (AMRF) net of a tax-free lump sum and following the setting aside of a certain sum for annuity purposes if post-retirement income is lower than €12,700 per annum. An imputed or actual withdrawal must be paid yearly from an ARF[29]; a measure introduced to prevent ARFs being used by high net-worth individuals for tax avoidance purposes. Individuals retiring from a DC occupational pension scheme, Personal Retirement Bond, Personal Pension or PRSA can opt to take 25 per cent of the fund as a tax free lump sum and invest the remainder in an ARF. Retiring members of DB schemes may invest their Additional Voluntary Contributions (AVCs) in an ARF. This allows those who retire to continue managing their investments following their retirement. AVCs were introduced to facilitate employees who sought to make additional payments to occupational pensions schemes and PRSAs to increase future benefits. All are covered by the tax reliefs set out in Section 2.8.

28 A review of Pensions Authority reports over the period suggests a reduction in scheme numbers of approximately 30 per cent.

29 This is a percentage of the fund, and is dependent on the age of the individual and the total value of all ARFs owned by that individual.

Table 2.15 – Pension Funds in Ireland: Member Numbers (thousands) and Coverage (%)

Year	Defined Benefit	Defined Contribution	Coverage (%)
2005	499	269	52
2006	522	255	56
2007	555	269	53
2008	580	272	54
2009	586	267	51
2010	550	260	-
2011	533	239	-
2012	528	233	-
2013	496	241	-
2014	470	263	-
2015	465	282	47

Source: Figures to 2010 from Stewart (2011: 6). Figures from 2011 onwards from Pensions Authority Annual Reports. 2015 figures from CSO (2016)

Supplementary pension coverage is highest amongst those at the higher end of the earnings distribution. Those without coverage tend to be on low-incomes, as well as in certain sectors of the economy (such as the hotel and restaurant sectors). The data in Table 2.16 is the most recently available on private pension coverage by decile. Though it dates from 2009, data analysis measuring other aspects of coverage and contribution levels suggests that the current spread of coverage is broadly in line with that recorded in 2009.

Data from the CSO (2016) indicates that the most common reason for individuals not having a private supplementary pension (39 per cent of those surveyed) was that they could not afford to make such provision. This is by far the most prevalent reason. Affordability was the main reason given by both full-time (36 per cent) and part-time (44 per cent) workers.

The economic reality is that many people have little or no ability to save to the extent required to provide an adequate income in retirement. Using annuity rates from Irish Life[30] as an example, a 66-year old man can expect an annuity rate of approximately 4 per cent[31]. At such a rate, pension savings of €100,000 (a significant amount to a very large proportion of the population) would yield an income for life of only €4,000 per annum.

Table 2.16 - Pension Coverage by Decile of Earnings, 2009

Decile	Pension Coverage Rate (%)
Lowest	19.6
2	17.6
3	23.2
4	34.1
5	45.2
6	55.2
7	62.5
8	74.5
9	83.7
Highest	94.2
Overall Coverage	51

Source: Callan, Keane, and Walsh (2009: 14).

30 https://www.pensionplanetinteractive.ie/ppi/public/loadPensionChoice.action
31 The annuity rate for a man aged 66 on 23 January 2019 was 4.088%.

As noted earlier, DB schemes (which promise a fixed post-retirement income dependent on age, earnings and length of service) are typically being replaced by those of the DC type (where contributions are fixed but benefits are dependent on the performance of investments, the level of contributions and the rate at which the final fund is annuitised), with an associated transfer of risk and responsibility to individuals (OECD, 2015: 9, 27-29).

Most DB schemes are closed or are considering closure to new members and no new DB schemes have been opened in the last 10 years (White and McDonald, 2016). DC schemes force workers to rely on the performance of pension fund managers and expose workers to market forces for provision of their supplementary pension.

Irish pension funds have exhibited a preference in the past towards investment in equities, with a particular bias towards domestic equities. Against official expectations of annual fund growth of between 3.5 per cent and 7 per cent for Irish managed pension funds, nominal returns were only 1.2 per cent per annum over a ten-year period ending November 2010 (Stewart, 2011: 15). Average annual returns have been much improved over the years since, reflecting strong equity performance over that period. However, the fluctuating nature of these funds underlines the uncertainty faced by savers in the private sector and the lack of reliability of the fund managers currently tasked with such an important – as well as well-remunerated and well-subsidised – element of providing retirement income for Ireland's elderly.

Another feature of the private pensions industry is the opacity of its various charges. The Department of Social Protection published a *Report on Pension Charges in Ireland* in 2012 in response to concerns about the potentially excessive charges levied by the private pension industry (Department of Social Protection, 2012b). The report attempted to gauge the size of the Reduction in Yield (RIY) in the various group and individual private pension schemes in operation in Ireland through the use of a survey of relevant stakeholders: life insurance companies, investment managers, and pension advisors. The report recommended more transparency in the reporting of charges but did not find charges were unreasonable (Department of Social Protection, 2012b: 19).

However, Stewart and McNally (2013:3-4) have pointed to difficulties in the report, both in terms of potential bias within the self-reporting survey used, opacity in the methodology by which the average RIY was calculated, and confusion as to the incidence of charges in DB schemes.

About 40 per cent of Irish DB pension schemes fail to meet the funding standard set out by the Pensions Board (Pensions Authority, 2016). The Government responded to funding shortfalls in the pension system by introducing a number of changes to the law surrounding DB schemes in the *Social Welfare and Pensions Act 2009* and by establishing a Pensions Insolvency Payment Scheme whereby the Exchequer will take responsibility for an insolvent pension fund provided the trustees pay a lump sum to the Exchequer (Department of Family & Social Affairs, 2010: 7).

In April 2013, the Court of Justice of the European Union ruled that Ireland had failed to correctly transpose European Directive 2008/94/EC, which requires the state to provide protection for employees whose pension scheme winds up in deficit in the event of the insolvency of their employer.

2.8 Tax Reliefs for Private Pensions

Supporting private pension savings via tax reliefs is a costly component of the taxation system with the various tax expenditures costing, in revenue forgone terms, the equivalent of around 5 per cent[32] of total annual taxation and social insurance revenue (Collins and Hughes, 2017).

Ireland operates an exempt/exempt/taxed (EET) model whereby pension contributions may be deducted from taxable income and investment income of pension funds is tax-free, but income tax is charged upon withdrawal.

The exception to the latter is the tax-free lump sum payment allowable upon retirement. From the late-1990s tax expenditures relating to private pensions rose rapidly as policy moved towards incentivising supplementary pensions. By 2006, spending on the State Pension (Contributory), State Pension (Non-Contributory), State Pension (Transition) and PRETA exceeded the net cost of tax reliefs on private pensions by only €379m.[33] In 2008, the OECD reported that the EET model in Ireland functioned more like an "'exempt-exempt-exempt" (EEE) system where income channelled through pensions is unlikely to be taxed at any point of the life-cycle" (OECD, 2008: 90).

OECD studies have ranked Ireland very high when comparing the extent of revenue foregone on tax expenditures on pensions. At one point they noted that the tax subsidy to private pensions, if left unchanged, would rise rapidly as a percentage of GDP with a fiscal outlay of over 2.5 per cent of GDP by 2040 (OECD, 2008: 90). However, the years since the report have witnessed some reductions in eligibility for tax reliefs on private pensions, though significant tax expenditures remain in place. The OECD estimated in 2009 that by 2050 taxation supports to private pensions in Ireland will be the highest of all countries in the OECD (OECD, 2009). Indeed, the OECD has encouraged reform of the current system in part because it is inequitable.

Before 1996, the limit set to tax-free pension contributions was that they could not exceed 15 per cent of the contributing individual's salary. In 1996, age-related limits were introduced (Hughes, 2011: 12). The age-related limits were later adjusted significantly upwards between 1999 and 2005 (see Table 2.17).

32 This varies from year to year. According to Collins and Hughes (2017), the figure was 4.9 per cent in 2005, 6.4 per cent in 2010, and 4.8 per cent in 2013.

33 The Commission on Taxation gives a net expenditure of €2,900m on pension tax relief for 2006 (Commission on Taxation, 2009: 309). The total outlay on those payments then categorised as state pensions by the Department of Social and Family Affairs for that year was €3,279m.

Table 2.17 - Age-Related Maximum Pension Contribution as a Percentage of Earnings Eligible for Tax Relief, 1996-present

Age Band	1996-1999	1999-2005	2006-present
Under 30	15	15	15
30-39	15	20	20
40-49	15	25	25
50-54	15	30	30
55-59	20	30	35
60+	20	30	40

Source: Hughes (2011: 13). No change has been made since 2006.

In 1999, an earnings contribution cap of £200,000 was placed on contributors to RACs but no limit was placed on the size of a fund which could be accumulated. From 2002, the limits also applied to PRSAs. However, because there was no limit on the size of pensions following the introduction of ARFs, extremely large funds were accumulated by company directors. The Department of Finance reviewed the introduction of ARFs in 2006 and reported that some individuals had circumvented the annual contributions cap by utilising employer's contributions (Department of Finance, 2006; Hughes 2007, 2011: 13). The Department reported that 116 individuals accumulated ARFs worth more than €5m each and two individuals had accumulated funds worth around €100m each (Department of Finance, 2006: G22). Although it was considered that employer's contributions should be included within the annual contributions earnings cap this option was rejected in lieu of creating a limit on the lifetime size of an individual pension fund (Hughes, 2011: 15).

Subsequent decisions have reduced significantly the maximum tax relieved on employee contributions (see Table 2.18).

Table 2.18 - Limits on Annual Pension Contributions and the Size of the Pension Fund, 1999-2014

Tax Year	Annual Contribution Earnings Cap	Limit on Size of Pension Fund	Maximum Tax Relieved Employee Contribution
1999	€ 254,000	No limit	€ 76,000
2006	€ 254,000	€5m or value of fund at 7 December 2005	€ 101,600
2007	€ 262,382	€5.165m or indexed value of the personal fund threshold (as agreed with Revenue)	€ 104,953
2008	€ 275,239	€5.418m or indexed value of the personal fund threshold (as agreed with Revenue)	€ 110,095
2009	€ 150,000	€5.418m or indexed value of the personal fund threshold (as agreed with Revenue)	€ 60,000
2013	€ 115,000	€2.3m or indexed value of the personal fund threshold (as agreed with Revenue)	€ 46,000
2014	€ 115,000	€2m or indexed value of the personal fund threshold (as agreed with Revenue)	€ 46,000

Source: Hughes (2011: 15) and www.citizensinformation.ie.

Estimates of the total cost of tax expenditures on private pensions have varied. The *Green Paper on Pensions* estimated a gross cost of €3,220m for 2006 while the Department of Finance's Tax Strategy Group estimated a gross cost of €3,035m for 2007 (Department of Social & Family Affairs, 2007a; Department of Finance, 2010c: Appendix 1).

The *National Recovery Plan 2010* gave the total gross cost of pension tax expenditures as €2,500m for 2010, comprising: the costs of tax relief on employee/employer/individual contributions to pension savings at €1,000m; the cost of the tax exemption for employer contributions as Benefit-in-Kind (BiK) in the hands of employees at €500m; and the cost of exempting from tax the accrued income and gains growth of pensions funds at €1,000m (Department of Finance, 2010b: 93).

Collins and Walsh (2010: 24-25) estimated the total cost of tax expenditures allocated to private pensions in 2007 was €3,100m. In 2010, the Revenue Commissioners estimated a gross cost of €2,929m for pension tax expenditures (Revenue Commissioners, 2011).

The *National Recovery Plan 2010* estimated that cumulative savings of €865m could be achieved over 2011-2014 through the reduction and removal of a number of tax expenditures (Department of Finance, 2010b: 91). In 2011, these were to include the reduction of the annual earnings cap for employee/personal pension contributions from €150,000 to €115,000[34], and elimination of the PRSI and the health levy exemption on pension contributions for employees, both of which were subsequently included in Budget 2011 (Department of Finance, 2010a: B10).[35]

Further to these measures, the Employer PRSI tax exemption on employee pension contributions was reduced by 50 per cent in Budget 2011, and the maximum tax-free lump sum was reduced to €200,000.

Additional savings of €165m annually, with a full year saving of €500m, were to come from the phased reduction of income tax relief on private pensions from 41 per cent to 34 per cent in 2012, to 27 per cent in 2013 and 20 per cent in 2014 and an additional €240m was expected due to the consequential reduction of tax relief on the public service pension levy. The reductions on the rates at which tax relief was available were, however, not implemented. Tax relief on pension contributions is still available at the marginal rate, which is now 40 per cent.

In May 2011, the Government introduced a Jobs Initiative; a package of measures including a temporary reduction in Employer's PRSI relating to low-wage employees and VAT on certain goods and services, which was funded by a levy of 0.6 per cent – expected to yield €470m per annum – applied to the capital value of assets under management in Irish-based pensions funds. These included occupational pension schemes, Retirement Annuity Contracts, and Personal Retirement Savings Accounts. The levy increased to 0.75 per cent in Budget 2014, before falling to 0.15 per cent in Budget 2015. The levy was not renewed in subsequent budgets.

In Budget 2012, the 50 per cent relief on employer PRSI for employee contributions was removed completely. This comprised €90m of the €94.7m of measures targeted at restricting pension tax relief that year.

In Budget 2013 the Government committed to raise €250m from cutting tax expenditure related to pensions. Government believed it could raise €250m by reducing the maximum tax-subsidised pension to €60,000 and raise up to €200m (provisionally €100m) by allowing a once-off withdrawal by individuals from AVC accounts (Department of Finance, 2012: B10). The Minister for Finance announced in Budget 2012 that "although the EU-IMF programme commits us to move to standard rate relief on pension contributions, I do not propose to do this or make changes to the existing marginal rate relief at this time". He confirmed this policy in Budget 2013 when he announced that "tax relief on pension contributions will continue at the marginal rate of tax". Though the May 2011 *Review of the Memorandum of Understanding* included commitments to reduce private pension relief, subsequent reviews did not (IMF, 2011: 78: IMF, 2012).

As well as the aforementioned increase in the pension levy, Budget 2014 also included a reduction in the SFT[36] from €2.3m to €2m. The structure of the system for pension tax reliefs in Ireland has remained static since then.

Table 2.19 illustrates estimates from the Revenue Commissioners (2016) of the cost of revenue foregone on pension tax expenditures by component for selected years.

34 Despite this reduction, it is worth noting that Ireland's current earnings cap of €115,000 is double that of the United Kingdom and remains one of the highest in the OECD.

35 In Budget 2011 the health levy and income levy were replaced by the Universal Social Charge.

36 The Standard Fund Threshold is the limit on the total capital value of pension benefits that an individual can draw in their lifetime from tax-relieved pension arrangements.

Table 2.19 – Revenue foregone: The cost of pension tax expenditure by component, 2006-2014

	2006	2008	2010	2012	2014
Employee Contributions to Occupational Schemes	543	655	598	560	549
Employer Contributions to Occupational Schemes	120	165	141	137	138
Exemption of Employer Contributions from BIK	510	595	515	516	520
Exemption of Investment Income and Gains	1200	685	835	765	n/a*
Contributions to RACs and PRSAs	492	427	253	237	210
Tax Relief on tax free lump sums	130	140	136	135	134
Total	2995	2667	24786	2350	1551*

Source: Revenue Commissioners online statistics. *2014 total is incomplete due to the lack of an estimate from the Revenue Commissioners for the tax expenditure on the investment income exemption.

2.9 The National Pensions Framework

The *National Pensions Framework*, published by the Government in 2010, seeks to 'deliver security, equity, choice and clarity for the individual' (Department of Social and Family Affairs, 2010). In relation to the social welfare pension, the Plan proposed to:

- retain mandatory coverage;
- maintain the social welfare pension rate at 35 per cent of average weekly earnings;
- move from an Average Contributions to a Total Contributions Approach in 2020;
- replace the homemakers' disregard with credits for new pensioners from 2012;
- increase the State Pension Age to 66 in 2014, 67 in 2021, and 68 in 2028;
- make provision for the postponement of receipt of the State Pension to make up contribution shortfalls.

Under the proposed Total Contributions Approach an individual needs a total of 30 years contributions to qualify for the maximum State Pension (Contributory). An individual would receive the minimum pension – one third of the maximum State Pension (Contributory) – if they have paid 520 full-rate contributions (10 years) and would receive a further 1/30th of the pension for each additional year over the minimum they have paid.

The *Social Welfare and Pensions Bill 2011* has already given effect to the increase in the State Pension Age, as per the IMF/EU Programme (IMF, 2011: 19).

The National Pensions Framework recognised that a significant number of older people[37] do not receive any income from the state pension system but did not propose any changes to remedy this (Department of Social and Family Affairs, 2010: 25).

The National Pensions Framework indicated a desire to modify the existing pension framework and integrate employees into DC schemes with the intention of supplementing the State Pension and increasing pensions coverage. It proposed the auto-enrolment of workers aged 22 and over (when not in existing schemes) into a DC scheme managed by private pension managers, with funding split equally between employee, employer and government (Department of Social and Family Affairs, 2010: 35).

However, the National Pensions Framework does not establish a target replacement rate for the combined State Pension and auto-enrolled DC scheme. The proposal seems part-inspired by the philosophy of the World Bank's (1994) report *Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth*, which pointed to funded private DC pensions as a panacea for ageing populations *and* stagnant economic growth, combined with the incorporation of some behavioural economics insights. Though there has been much discussion and public consultation on the matter, policymakers have yet to introduce the required legislation to implement auto-enrolment.

37 The Green Paper of 2007 estimated 47,000 older people, and the National Pensions Framework cited the same figure, but it is difficult to believe that this hasn't changed somewhat in the intervening years. The Green Paper stated that this group is made up mainly of retired public servants and self-employed people, together with their spouses and partners.

2.10 Insights from the European Union

The European Commission White Paper on Pensions was published in 2012 in the context of an ageing population in the European Union, particularly in central European member-states such as Germany. The paper noted the divergence in pensions spending – both the state pension and public service pension – as a percentage of GDP in the EU today, with Ireland spending just 6 per cent of GDP on pensions compared to Italy's 15 per cent of GDP in 2010, and projected an overall increase in expenditure on pensions from 10 per cent of EU GDP in 2010 to 12.5 per cent of GDP in 2060 (European Commission, 2012: 4).

The White Paper recommended:

- linking the retirement age with increases in life expectancy;
- restricting access to early retirement schemes and other early exit pathways;
- supporting longer working lives by providing better access to life-long learning, adapting work places to a more diverse workforce, developing employment opportunities for older workers and supporting active and healthy ageing;
- equalising the pensionable age between men and women;
- supporting the development of complementary retirement savings to enhance retirement incomes' (European Commission, 2012: 9).

Table 2.20 provides a comparison between plans to increase the state pension age in different EU countries. Ireland, despite having the most favourable demography, has shown the greatest alacrity in planning increases to the State Pension Age. However, it is notable that the retirement age in almost all countries has increased since the publication of the Commission's White Paper.

Social Justice Ireland discourages further increases to the State Pension Age. By definition and design, old age insurance – of which pensions are a primary form – is a mechanism that transfers income from those with shorter life expectancy to those with greater life expectancy (Myles, 2002: 158). Therefore, rising retirement ages disproportionately disadvantage people with shorter life expectancies, usually lower earners[38] who have less financial capacity to save for an earlier retirement. The result is an effective transfer of wealth from poor to rich for every one-year increase in retirement age, contravening the aim of greater equity in the system.

38 Low earnings have been consistently linked to health problems (LeGrand, Propper & Smith, 2008: 77)

Table 2.20 – Relative pension ages for the purpose of receiving the state pension in the EU-25

Member-State	Pension age (M/F) 2017	Future Pension Age (Year)	Notes
Austria	65/60	65/65 (2033)	-
Belgian	65/65	67/67 (GP 2030)	-
Bulgaria	65/62	-/63 (2020)	-
Croatia	65/61y 9m	67 (2038)/65 (2030)	Both M & F retire at 67 by 2038
Cyprus	65/65	See notes	Linked to life expectancy (2018)
Czech Republic	63y 2m/62y 4m	Will be harmonised for men and women at 67 by 2041	
Denmark	65/65	67/67 (2022)	Linked to life expectancy (2030)
Estonia	63y 3m/63y 3m	65/65 (2026)	-
Finland	65/65,63-68	65/65 (2027)	Linked to life expectancy (2030)
France	65y 4m/65y 4m	67/67 (2023)	Can retire (with reduction) at 62
Germany	65y 5m/65y 5m	67/67 (2031)	-
Greece	67/67	See notes	Linked to life expectancy (2021)
Hungary	62y 6m/62y 6m	65/65 (2022)	-
Ireland	66/66	68/68 (2028)	-
Italy	66y 7m/65y 7m	67/67 (2022)	Linked to life expectancy (2022)
Latvia	62y 9m	65/65 (2025	-
Lithuania	63y 6m/62	65/65 (2026)	-
Luxembourg	65/65	-	-
Malta	62/62	65/65 (2027)	-
Netherlands	65y 9m/65y 9m	67/67 (2022)	Linked to life expectancy (2022)
Poland	65y 7m/60y 7m	In October 2017, the pension ages will fall to 65/60	
Portugal	66y 3m/66y 3m	-	Linked to life expectancy (2016)
Romania	65/60y 8m	-/63 (2030)	-
Slovakia	62y 2m/62y 2m	-	Linked to life expectancy (2017)
Slovenia	65/65	65/65	-
Spain	65y 5m/65y 5m	67/67 (2027)	-
Sweden	65/65	65/65	-
United Kingdom	65/63y 7m	67/67 (2028)	Linked to life expectancy (2028)

*GP: Government proposal or plan of equivalent administrative level. In Czech Republic, Pension Age is increasing by 2 months per year without upper limit.

Source: The Finnish Centre for Pensions, http://www.etk.fi/en/the-pension-system-2/the-pension-system/international-comparison/retirement-ages/

2.11 The OECD Review of the Irish Pension System 2013

In 2013 the OECD conducted a review of the Irish pension system on behalf of the Minister for Social Protection. It concluded that the State Pension should move to a flat-rate universal basic pension, or to a means-tested basic pension on the grounds that '[b]oth of these options would have the advantage, compared with the existing scheme, of introducing a much simpler, more transparent and less costly public pension scheme' (OECD, 2013: 11).

It also noted, in relation to the tax expenditure schemes, that 'there is a misalignment to correct between the existing tax deferral structure in Ireland that provides higher incentives to high-income earners and the policy goal of increasing coverage, especially for middle to low-income people'.

Social Justice Ireland welcomed the OECD's recognition of the role that a Universal Pension could play but recognised that its proposal places greater emphasis on the Universal Pension's role in providing post-retirement income than the OECD report, which implicitly envisions a lower rate for the payment than our proposal. Additionally, *Social Justice Ireland* argues strongly for the maintenance of the Household Benefits Package and the Free Travel Pass.

2.12 The Current Policy Environment

Many of the documents referred to in this chapter were drafted and published in an economic environment quite different to the one in which we find ourselves. Improved economic fundamentals in Ireland (Department of Finance, 2018) mean that there are more resources available to implement radical policy changes, while there is more acknowledgement from policymakers of the need for such change; In 2017, the Taoiseach (then Minister for Social Protection) Leo Varadkar TD, acknowledged that "there are anomalies in the yearly averaging system" which need to be replaced by a fairer approach[39]. He has also acknowledged, as previously noted, that the best way to protect the value of social welfare payments is to index weekly social welfare payments to the cost of living or to average earnings and enshrine that principle in legislation.

In 2015, the Department of Social Protection invited submissions on a Universal Retirement Savings System. Many bodies within the industry (IAPF, 2015) used this opportunity to call for a system of auto-enrolment to increase private pension coverage. *Social Justice Ireland* feels that examples contained within this study clearly show that despite considerable time, support and monetary subsidisation, the private pension industry in Ireland has failed to meet even the modest targets set regarding coverage, not to mention its poor record in delivering retirement income adequacy.

Indeed, introducing auto-enrolment as a means of achieving "universality" of pension coverage would seem to be doubling down on a system that is failing to achieve its targets and fail to satisfy any reasonable cost-benefit analysis. As pointed out, the cost of this system as presently constituted is significant, and it has been estimated that auto-enrolment would increase this cost further, by around €700m-€800m per annum[40] for the Exchequer.

Encouraging people to save for their retirement is a noble enough policy goal. However, the costs and benefits should be weighed against each other, and it is clear that auto-enrolment would make an already expensive – not to mention poor value for money – policy even more so. The main responsibility of the State in the area of pensions policy is the State Social Welfare Pension. Universalising this benefit is the only way to ensure that pension benefits are available to all our senior citisens..

Also in 2015, a report by Milliman on behalf of the Society of Actuaries in Ireland concluded that the State pension system is unsustainable in its current form[41]. The report suggested that increases in the retirement age should be part of the solution, but only provided life expectancy continues to increase. It also suggested a reduction in the level of the State pension that could be offset by the introduction of a universal second pillar pension system, similar to that advocated by the IAPF (see above). Finally, the report noted that it may also be possible to increase PRSI contribution rates to some extent, to fund future pension liabilities. It is worth noting that the projections in the Milliman report were based on the 2010 Actuarial Review, which greatly overestimated the deficit on the Social Insurance Fund at the start of the projections.

In 2017, a report by the European Parliament (2017) noted that Ireland is a "moderate high risk" in relation to the gender gap in pensions. It noted that "in order to increase women's pension entitlements, policies aimed to reduce labour market differences are crucial" (2017: 9). However, while policy initiatives aimed at reducing labour market differences will assist in dealing with some broader gender issues, they cannot comprehensively deal with the pension coverage and adequacy issues that exist due to societal expectations about the role of women and women's position as child-bearers. A system that does not have universality as a feature will always leave individuals – both male and female, but particularly female – who will lose out due to the

39 Extract from the speech by Minister for Social Protection, Leo Varadkar, at the Pensions Authority Conference on Future Global Trends in Pensions and their Impact for Irish Pension Policy Planning https://www.welfare.ie/en/pressoffice/Pages/sp020317.aspx

40 Initial estimates by Collins and Maher indicate that auto-enrolment could have cost an additional €807m in additional tax expenditures in 2014, or €698m if enrolment was limited to those earning more than €25,000 (Collins & Maher, 2017).

41 Indeed, the SIF is unsustainable in its current form, in part because employers in Ireland make a comparatively small contribution to it, in comparison to the European norm. See Table 7.3 for more.

attitude that “a contribution” to society mainly means being active in the labour market. The European Parliament report suggests the “allocation of pension credits for career breaks, related not only to childcare, but also to care of other family members, particularly in the light of an ageing population and the rising numbers of older people requiring care or support” (2017: 10). *Social Justice Ireland* supports this but believes that universality of state pension benefits is the only way to truly counter the effects.

Many other aspects of the pension system require alteration too – aside from the above-mentioned averaging system and the need for index-linked pensions – as is clearly outlined within this document. *Social Justice Ireland’s* proposal for a Universal Pension would solve many of the problems inherent in the system as it would provide a guaranteed income during old age for all older residents on an individual basis, without regard to anomalies in their social insurance history. It would also provide a secure and certain framework around which individuals can plan for their retirement and, over time, it would distribute income, creating a more egalitarian society. Finally, as this study shows, it would ensure the long-term sustainability of the Irish pension system.

3 Why the Universal Pension

3.1 What is the Universal Pension?

A Universal Pension is a universal flat-rate entitlement paid as a matter of right to all residents over a defined qualifying age, regardless of previous social insurance contributions or means. The final amount of the Universal Pension would depend on years of residency in Ireland. The Universal Pension would replace all other social welfare pension payments to individuals over the State Pension Age and act as Ireland's first tier pension. A Universal Pension proposal would constitute a dramatic break from the contributions-based approach implemented in Ireland by the 1949 White Paper *Social Security*.

3.2 Universal Pension Proposals in Ireland

A scheme for a universal pension was originally examined by the National Pensions Board in its report *Final Report of the National Pensions Board - Developing the National Pensions System* (1993: 96). The National Pensions Board argued that despite the simplicity of a universal pension the current system better met the Board's criteria of entitlement, consistency, financial sustainability, simplicity, equality of treatment and comprehensiveness.

The TASC/Trinity College Dublin Pensions Policy Research Group and the National Women's Council of Ireland proposed the introduction of a universal pension as part of wider reform of the Irish pension system in their respective submissions to the 2007 *Green Paper on Pensions* (Connell, Hughes, McCashin & Stewart, 2008: 33; National Women's Council of Ireland, 2008: 60). Both submissions argued for an additional second-tier pension based on contributions to supplement the first-tier universal pension. Both advised that the State Pension should aim to replace at least 40 per cent of the average wage[42].

In 2017, Age Action published *Towards a Fair State Pension for Women Pensioners*. It noted the option of a universal pension to address a number of the anomalies faced by women in old age when it comes to accessing a State Pension. The report also noted that an increasing emphasis on pillars two and three could be to the detriment of pillar one, on which the majority of people depend for their retirement income.

The 2007 *Green Paper on Pensions* rejected the idea of a universal pension on the grounds that it threatened the long-term financial sustainability of the pensions system, could undermine the contributory principle[43] and the SIF by breaking the link between contributions and eligibility, complicate the operation of current bilateral and EU pension agreements, and posed administrative challenges in the form of implementation of the residency test (Department of Family and Social Affairs, 2007a: 71-72). The Green Paper also objected to the immediate costs of introducing the Universal Pension, an issue which will be examined in Chapter 5. The objections contained in the Green Paper are discussed in the conclusion in Chapter 10.

3.3 Problems with the Current Pension System

There are serious flaws in the current Irish pensions system. These include:

i. the substantial indirect subsidisation of high-income earners by the current structures of tax expenditure;

ii. the combination of limited coverage and inadequacy;

iii. gaps and anomalies in coverage in the State Pension system, many of which are gender biased;

iv. the shifting of risk from employers and the pensions industry onto employees through DC schemes, and through the underfunding of DB schemes.

v. i) The Irish pension system favours those on higher incomes. Private pension provision remains highly unequal as high-income earners have benefited, and continue to benefit proportionately and absolutely more, from the provision of tax reliefs by the Government.

As Table 3.1 shows, the net cost of contributing to a private pension fund for higher rate taxpayers is lower than that for standard rate taxpayers. Collins and Hughes (2017) noted that while only 42 per cent of all individuals with work income in 2014 paid tax at the higher rate – which was 41 per cent at the time – 70 per cent of all pension contributors received relief at this rate. While successive Ministers for Finance have taken measures to limit the cost of these reliefs in recent years the fundamental inequality between higher rate and standard rate taxpayers persists.

Callan, Walsh and Kelly (2009) noted that up to 80 per cent of pension tax relief accrued to taxpayers in the top 20 per cent of the income distribution. Collins and Hughes (2017) estimated that in Ireland in 2014, between 72 per cent and 74 per cent (depending on whether or not employer contributions are included) of pension tax reliefs accrued to individuals in the top income quintile.

42 Our proposal, that it should replace 35 per cent of average earnings, is even more modest and affordable, and is in line with the 2010s National Pensions Framework.

43 As noted in Section 2.2, the "contributory principle" as currently constituted was introduced by the 1949 White Paper *Social Security* (Carey, 2007). It is *Social Justice Ireland's* view that this principle takes far too narrow a view of what constitutes a "contribution". Our proposal for the State Pension system is part of an expansion of the way a contribution to society is understood; to include not just paid employment, but also caring work, work in the home, and other contributions that are not directly remunerated.

Table 3.1 – Exchequer Contribution where pension contributions made, 2009, 2012 & 2018

	2009		2012		2018	
	Higher Rate	Standard Rate	Higher Rate	Standard Rate	Higher Rate	Standard Rate
Employee pension contribution of €100						
Employee gets - tax relief of:	41	20	41	20	40	20
PRSI & health levy relief:	8	8	0	0	0	0
Employer gets PRSI relief of:	10.75	10.75	0	0	0	0
Exchequer contribution	59.75	38.75	41	20	40	20
Savings by employee	49 (41+8)	28 (20+8)	41	20	40	20
Savings by employer	10.75	10.75	0	0	0	0
Amount in pension fund	100	100	100	100	100	100
Net cost to employee	51	72	59	80	60	80

Source: Commission on Taxation, (2009: 398).

While the recent changes to the treatment of private pension contributions noted in Section 2.7 are to be welcomed, the inequality between the higher rate taxpayer and standard rate taxpayer remains.

ii) The NPPI set a target of increasing supplementary private pension coverage amongst 30-65 year olds to 70 per cent by 2013 and ensuring that combined state and occupational or private pensions were adequate to cover 50 per cent of pre-retirement income. However, despite the existence of a generous tax regime, pension coverage in 2009 amongst 30-65-year olds was only 58 per cent (OECD, 2013: 48). Broadening the sample to workers aged 20-69, the coverage rate is even lower at 51 per cent. This represents a fall as compared with 2008 Q1 (54 per cent) and 2005 Q4 (56 per cent). Coverage has continued to fall. By 2015 it was estimated to have fallen to 47 per cent (CSO, 2016b).

As well as this, pension coverage does not imply pension adequacy. A study by Collins and Hughes (2017) found that taking the median contribution of €3,300 per annum as an example, contributing to a pension for 40 years will provide an annual income in retirement of approximately €5,200. Combined with the State Pension, this gives a replacement rate of 37.5 per cent for a median pension contributor[44]. The current system has a very high fiscal cost, while it is currently failing to meet the targets identified in the NPPI.

Research (TILDA, 2016) indicates that retirement income replacement rates[45] were not associated with quality of life after retirement. The report found that it is actual income in retirement, rather than the proportionate change in someone's income from that received before retirement, that most affects quality of life. All aspects of quality of life, including control, autonomy, self-realisation and pleasure, increase consistently with household income. This would suggest that policies aimed at achieving a certain rate of replacement to pre-retirement income should not be given as much priority as policies seeking to achieve a minimum income floor for retirees.

iii) Gaps and anomalies in the coverage of the pensions system have already been identified. The average contributions approach to social insurance has been poorly equipped to facilitate those who have worked in the home or had a mixed contributions record. The consequence is a system where women outnumber men 2 to 1 in terms of the numbers of recipients of the State Pension (Non-Contributory), and where over 53,000 of those aged 66 and older (in 2015) rely on the status of their spouse or partner to receive an income from the State as a qualified adult.

Additionally, Ireland's post-independence economic performance indicates that a period of prolonged macro-economic stability over the period of a citizen's or resident's lifetime is particularly unlikely. Gaps in an individual's social insurance record may occur during such periods of macro-economic instability – even if the move to a Total Contributions Approach occurs – thus punishing citizens and residents who work in more precarious parts of the economy. Additionally, the logic of the average contributions system is, at present, very unfair. Retirees who started making social insurance contributions early in their lives and have sporadic employment later in life receive a lower state pension

44 Even for the median contributor, 70 per cent of this retirement income is the state pension.
45 The replacement rate is expressed as the ratio of post-retirement pension income to pre-retirement labour income. The median replacement rate is 51.4 per cent.

than those who took up employment late in life but paid continuously into the social insurance system for the ten years approaching the State Pension Age.

This failure of the pension policy of the last twenty five years can be attributed, in large part, to a policy fixation on private pensions rather than on the more important – from a pensioner income perspective – State Pension (see Table 2.8). This has led to a taxation policy that sought and largely failed to encourage the growth of private pensions provision by means of Exchequer subsidy.

The high levels of tax expenditures on private pensions represent an enormous subsidy from the Exchequer to the private pensions industry (see Table 2.19). From the late 1990s to the present day, pension policy has provided large tax subsidies to those who needed them least, at significant cost to the Exchequer, while failing to guarantee adequate post-retirement incomes to the majority of the population. Utilising Exchequer resources to fund a universal and adequate pension that combats pensioner poverty would be a far more effective use of resources than an expensive subsidisation of private pension provision.

iv) Professor Jacob Hacker has termed the transfer of risk from corporations and governments to individuals as the 'Great Risk Shift' (Hacker, 2008). One of the mechanisms through which this has occurred has been through the shift from a DB approach to a DC approach. Another has been pervasive underfunding of DB schemes (Cotter, Blake & Dowd, 2012).

Both of these phenomena are present in the Irish case, with DB schemes closing to new entrants, and existing DB schemes facing serious funding shortfalls due to inadequate contributions and poor performance of pension funds. DC schemes will subject scheme members to the ebb and flow of global markets, placing the risk of dramatic changes in financial markets – now more common than previously anticipated – on the shoulders of those with DC pensions.

In this context, it is vitally important to have an adequate State Pension capable of supporting all pensioners.

3.4 Why Introduce a Universal Pension?

The National Pensions Framework seeks to provide 'security, equity, choice and clarity for the individual' (Department of Social and Family Affairs, 2010). To these aims must be added the principles of solidarity and social justice. All of these aims can be met by a reform of the tax system as it relates to pensions and a transition to the Universal Pension proposed by this study. Furthermore, a Universal Pension would be sustainable, predictable and administratively efficient. The arguments in favour are outlined below.

- **Security:** The minimum number of paid contributions to be considered eligible for the State Pension (Contributory) has been increased from 260 to 520 for those who reached 66 on or after 6 April 2012 (Department of Social and Family Affairs, 2010: 20). Recipients must also have begun to pay PRSI contributions before the age of 56.

  If the National Pensions Framework is implemented in full, then anyone born after 1 January 1954 would be required to pay 30 years of social insurance contributions to receive the full State Pension (Contributory). However, the required legislation is yet to be enacted.

  Even if Credited Social Insurance Contributions are provided to the unemployed it is possible given the increasing incidence of long-term unemployment – and consequently, those individuals receiving Jobseeker's Allowance – that gaps would emerge in an individual's contribution records.

  Moreover, those out of employment would obviously be unable to save for a private pension and would be forced to utilise savings that they might otherwise have used to fund their retirement.

  In an economy increasingly characterised by short-term and part-time employment on the one hand and an inability to sustain full employment on the other, a Universal Pension would provide security to all residents.

- **Equity & Gender Equality**: The introduction of a Universal Pension would provide those excluded from the current pension system for historical reasons with a pension from the State in their own right, for the first time, thus recognising their contribution to society.

  Women are particularly penalised for the societal norms that have prevailed – and been enforced by the state and society – in the past. A report by Duvvury et. al. (2012) has indicated that gender differences remain entrenched in Ireland to this day, as many individuals are penalised for taking on caring roles for adults and children. The majority of this work has, historically, been taken on by women.

  This leads to lower contributions to the social insurance system, and a difficulty in entering occupational pension schemes and paying into other forms of private pension. The unpaid nature of this socially and economically necessary work has historically led to issues with female eligibility for State benefits. Many women are now being penalised a second time for this unjust and discriminatory approach (Murphy, 2014). Table 2.1 illustrates that the ratio of women to men receiving the State Pension (Non-Contributory) is nearly 2:1 while the ratio of women to men receiving the State Pension (Contributory) is nearly 1:2.

- **Clarity/Certainty**: All individuals can be assured they would receive the Universal Pension, which would be at least 35 per cent of national average earnings. With this knowledge, individuals can plan for their retirement with an element of certainty.

- **Solidarity**: A Universal Pension would be an expression of society's determination to provide a guaranteed income to ensure our older people have a decent standard of living. For those on lower incomes, a universal pension of at least 35 per cent of average earnings would provide a relatively high replacement rate without the need for a high private pension contribution.

- **Social Justice**: A Universal Pension would be progressively redistributive as it would be funded in part by removing tax reliefs for higher-income earners, and the State Pension would be increased for many pensioners who now receive the Non-Contributory pension or the Qualified Adult amount.

- **Administrative Efficiency:** The Universal Pension would be more efficient than current arrangements, eliminating the cost of administering the means-test and calculating social insurance contributions over time. The OECD has pointed to the efficiency gains to be made from moving to a universal pension (OECD, 2013).

- **Predictability:** The future cost of the Universal Pension is predictable as the eligible population can be estimated in a simple manner using population projections. The projected costs of the current system are heavily dependent on the contribution records of employees. Unexpected economic contractions of great intensity have been a feature of Irish economic history.

- **Sustainability:** Chapter 6 outlines the long-run sustainability of *Social Justice Ireland's* proposed Universal Pension.

3.5 A Rights-Based Universal Pension

There has long been a desire to maintain the "contributory principle" in Ireland. The Commission on Social Welfare (1986) recommended a differential of 10 per cent between the contributory and non-contributory state pensions 'to preserve the acceptability of the social insurance concept' while the National Pensions Board (1993) considered the fact that the contributory state pension did not require a means-test as a requisite recognition of the contributory principle (Department of Social and Family Affairs, 2008: 63).

Social Justice Ireland does not agree with the maintenance of this distinction and believes that this approach takes a very narrow view of what constitutes a "contribution". Historically, the State has recognised only certain types of work (i.e. paid employment) as counting for social insurance purposes. Only recently has the State come to acknowledge different forms of work in the social insurance system, though even now it does so in a very restricted manner.

Our proposal for the State Pension system is part of an expansion of the way a contribution to society is understood; to include not just paid employment, but also caring work, work in the home, and other contributions that are not directly remunerated.

The historical legacy of this differential treatment can be seen in the contrast between the respective gender ratios of the State Pension (Contributory) and State Pension (Non-Contributory), with the result being, to a great extent, a division based not on contribution to society but rather on gender.

Instead of this somewhat arbitrary distinction between "work" and paid employment, *Social Justice Ireland* advocates that certain social protection payments should be seen as a right. It is time to recognise the principle that every citizen and resident of Ireland is entitled to a pension, regardless of what is deemed to be a "contribution" for social insurance purposes.

4 *Social Justice Ireland's* Universal Pension Proposal

4.1 Proposed Design of the Universal Pension

The Universal Pension would replace the current State Pension (Contributory), State Pension (Non-Contributory), Death Benefit, and Widow's, Widower's, or Surviving Civil Partner's Pension (Contributory) for those at or above the State Pension Age. For illustration purposes, the Universal Pension would be introduced in 2019 and would be set at a rate of €243.30 – the current rate of the State Pension (Contributory) – and would rise to 35 per cent of average earnings by 2023.

The PRETA and the State Pension (Transition) are currently being phased out in line with the current government policy.

Changes to the State Pension Age contained in the *Social Welfare and Pensions Act 2011* are integrated into the proposal; the State Pension Age will rise from 66 to 67 in 2021 and to 68 in 2028. It is also proposed that the increases for Qualified Adults under the age of 66 and increases for Qualified Children be maintained on the current basis.

Additionally, it is proposed that non-monetary benefits continue to be paid and that the additional payments for those aged 80 and over, those living alone, and those living on listed islands are continued.

4.2 Who is Eligible for the Universal Pension?

Subject to meeting the residency requirement, it is proposed that all citizens and residents aged at the State Pension Age (currently 66) or over be eligible for the Universal Pension. The current State Pension (Contributory) is linked to an individuals' PRSI contribution record, and eligibility for the State Pension (Non-Contributory) is based on a means test. It is proposed that a residency requirement accompany the Universal Pension.

In the European Union, the Netherlands, Finland, Sweden and Denmark operate residency-based pension schemes. Iceland, Norway and New Zealand also operate residency-based schemes. It is proposed that the Universal Pension follow a model very similar to the Dutch model in terms of residency: a residency test would apply between the ages of 16 and the age at which a resident is eligible for the pension. For each year of residence, 2.5 per cent[46] of the full Universal Pension would be payable up to a maximum of 40 years.

A minimum of 10 years of residency, for 25 per cent of the full rate Universal Pension, is required to receive the benefit. All of these 10 years must be before the State Pension Age. When calculating residency, the usual rules for eligibility for social welfare benefits regarding habitual residence would apply, e.g. holidays would be disregarded, but longer absences for work etc. would be taken into account[47].

On the introduction of the Universal Pension, all pensioners who had been in receipt of a full State Pension – Contributory or Non-Contributory – at that point would be allocated a full Universal Pension.

Those pensioners who had then been in receipt of no pension from the State, or in receipt of reduced pension amounts as Qualified Adults, or on the basis of a means-test, or on a reduced basis because of an "incomplete" PRSI contribution history, would initially receive their current amounts. However, they would be entitled to apply to have their payment increased based on the length of residency in Ireland. If they have been resident in Ireland for 40 years, from age 16 to the State Pension Age, they would receive the full Universal Pension. If they have less than 40 years residency, they would receive as their Universal Pension whichever amount is higher of:

- A pension calculated based on their residency history;
- Their current pension amount.

This means that no existing pensioner would lose out and many would experience an increase in their pension payment. In particular, adults aged 66 years or older in respect of whom reduced payments are now made due their status as Qualified Adults would receive a Universal Pension in their own right. It is envisioned that the Universal Pension be paid through the current social welfare pensions system.

The countries within the European Union that operate residence-based pension schemes all operate population registers. Ireland does not operate a population register and EU/EEA residents must register with their embassy if they wish to have a record of residence in Ireland.

Nevertheless, Ireland does possess extensive social welfare records, which would be good evidence of residence for the vast majority of pension applicants. PRSI contribution records relate to each week of employment history. Similarly, most social welfare benefits and assistance payments are made on a weekly basis, while child benefit is paid monthly. The combination of all these records should provide sufficient evidence regarding the residence history of the pension applicants.

No doubt some people will find it difficult to demonstrate residency: however, our proposal does not make receiving pension benefits any more difficult than it already is, and for most people demonstrating residency will be straightforward.

4.3 Supplementary Assistance

It is possible that an individual who reaches the State Pension Age in the future may not have accumulated enough years of residency to ensure an adequate income. Furthermore, it may be possible that their pension rights acquired elsewhere

46 This differs slightly to the Dutch model, which awards 2 per cent of the full pension for every year of residency, tested over the 50 years preceding the individual's retirement date.

47 Further details are available on the Citizens Information website at: http://www.citizensinformation.ie/en/social_welfare/irish_social_welfare_system/social_assistance_payments/residency_requirements_for_social_assistance_in_ireland.html

are not enough to sustain them in old age. To protect such individuals from poverty it is proposed that if a pensioner's income from all sources, including private and occupational pensions, the Irish State Pension and social welfare pensions from other countries, is below the rate of the Universal Pension, they receive a top-up to bring their income up to the level of the Universal Pension.

4.4 Additional Payments

It is proposed that the increase for those living alone, those living on islands, and those aged 80 and over be maintained. Those over the age of 80 will receive an additional €10 per week over the Universal Pension amount, while the other two rates will be indexed to the rate of the Universal Pension.

Table 4.1 Rates for Increases for those Eligible for the Universal Pension

Payment Type	Rate per week (€)	Rate as a % of State Pension (Contributory)
Living Alone Allowance	9	3.7
Over 80 Allowance	10.00	4.1
Island Allowance	12.70	5.2

Source: http://www.welfare.ie/en/Pages/Payments-for-retired-or-older-people.aspx

It is proposed that the increases for Qualified Adults under 66 and Qualified Children are maintained on the current basis, and that Qualified Adult payments are indexed to the rate of the Universal Pension.

Table 4.2 Rates for for Qualified Child and Qualified Adult Payments

Increase Type	Current rate per week (€)	Current rate as a % of State Pension (Contributory)
Qualified Child Full Rate	31.80	13
Qualified Child Half-rate	15.90	6.5
Increase for Qualified Adult under 66	158.80	162.10

Source: Citizens Information website

It is proposed that those additional social security payments that may be paid to recipients of the State Pension continue to be paid. These include the Supplementary Welfare Allowance Scheme; Rent Supplement; Household Benefits Package; Free Travel Pass; Fuel Allowance; the Centenarian Bounty and the Respite Care Grant. Currently, carers over the age of 66 who are in receipt of the state pension while also providing full-time care can keep their full pension entitlement and also receive a half-rate Carers Allowance. This payment should also be maintained.

In relation to the Household Benefits Package *Social Justice Ireland* would strongly argue for the maintenance of the package in its current form and against steps to convert the package into a cash payment.

4.5 Bilateral and European Union Pension Agreements

European Union Regulations on social security co-ordination cover the transfer and protection of pension rights. Regulations (EC) No 883/2004 and 987/2009 are among the regulations governing the accrual of pension rights in the EU. We acknowledge the importance of "transferability" and "exportability" regarding accumulated pension benefits. It is proposed that the Irish system operates like the Dutch basic pension (AOW[48]) to facilitate social security co-ordination and co-operation.

As the 2007 Green Paper pointed out in its consideration of a move to a residency-based pension, 'this means a continuation

48 The National Old Age Pension Act in the Netherlands is known as the AOW.

of existing pro-rata arrangements, but instead of eligibility being based on social insurance contributions, the assessment would be based on periods of residency' (Department of Social and Family Affairs, 2007a: 73). The Department expressed uncertainty as to the effect of this transition. However, there is a clear system in place in the Netherlands which has been operating for many years now which can be imitated.

Ireland also has Bilateral Social Security Agreements, which allow people to move between countries and protect their pension entitlements, with Canada (and Quebec), the United States, Australia, New Zealand, Japan and Korea. There is also a specific bilateral arrangement with the United Kingdom, which deals mainly with the Isle of Man and Channel Islands. A previous agreement with Switzerland has been mainly replaced by EU regulations.

We acknowledge the likelihood that in the near future, the United Kingdom – with whom there has historically been significant movement and transferring of pension rights – may not be governed by these regulations. It is therefore imperative that government update the arrangements governing the transfer and protection of pension rights between Ireland the UK.

Irish State Social Welfare Pensions are taxed in the country in which the recipient is resident, and that should remain the case.

4.6 Special Eligibility Arrangement for pre-April 1995 Public Servants

Public servants recruited prior to April 1995 pay reduced PRSI contributions (Classes B, C, and D), which do not – unless combined with other classes of PRSI contributions – entitle them to the State Pension (Contributory). All public servants employed after April 1995 are entitled to the State Pension (Contributory) as their occupational public sector pensions were 'integrated' with the State Pension (Contributory).

Many public service pensioners recruited before April 1995 receive a sufficient occupational pension from the state. However, many others are receiving low public service pensions, and cannot access the State Pension (Contributory) because they paid into classes B, C or D. A number have accrued mixed insurance cover through working in the private sector. Based on parliamentary questions it is estimated that nearly 24 per cent of current pre-6th April 1995 civil service pensioners receive a pension below €16,000 (see Table 5.3).

The maximum weekly income that qualifies an individual for a (reduced) Increase for a Qualified Adult is €309, or just over €16,000 per annum. Currently, those living alone or with a partner who have not made enough social insurance contributions to qualify for a State Pension (Contributory) may receive the State Pension (Non-Contributory), either at a full rate or a reduced rate following a means-test.

It is proposed that pre-April 1995 public servants do not receive any change to their pension arrangements at the outset of the Universal Pension. However, they may apply for the Universal Pension if their service record or salary at retirement has resulted in them receiving a public service pension below the amount of the Universal Pension. Given that the Universal Pension will rise to 35 per cent of average earnings, it is proposed that if any public sector pensioner earns below this amount they receive an increase to bring their total income from the state (the Universal Pension and public service pension combined) to 35 per cent of average earnings.

Chapter 5 deals with this cohort of public sector pensioners in further detail.

5 Data and Methodology

5.1 CSO Population and Labour Force Projections, 2016-2046

To estimate the number of citizens over 66 projected to reside in Ireland over the years to 2046 the *CSO Population and Labour Force Projections, 2016-2046* is used (CSO, 2013).

The scenario M2F1 is used here as the main scenario. This scenario assumes a declining, and then increasing, net migration rate and a total fertility rate of 2.1 between 2016 and 2046 (see Table 5.1).[49] The assumption of a higher fertility rate is congruent with recent observations that countries particularly high on the Human Development Index (HDI) are witnessing increasing fertility (Myrskylä, Kohler, & Billari, 2009).

Table 5.1 – M2F1 Assumptions, 2016-2046

	Annual Net Migration	Total Fertility Rate
2011-2016	-19,100	2.1
2016-2021	18,200	2.1
2021-2026	30,000	2.1
2026-2031	30,000	2.1
2031-2036	30,000	2.1
2036-2041	30,000	2.1
2041-2046	30,000	2.1

Sources: CSO, (2013: 13, 18).

Table 5.2 shows the CSO's M2F1 projections for those aged at the State Pension Age and older, as well as this number split between those younger than 80 years and those aged 80 or older. These numbers take into account the legislated increases in the State Pension Age that will come into effect in 2021 and 2028.

49 The additional assumptions underlying the projections can be found in the CSO's report (CSO, 2013).

Table 5.2 – M2F1 Projections for the number of those aged the State Pension Age (SPA) and older, and aged 80 and older living in Ireland between the years 2018 and 2046

Year	SPA+	SPA-79	80+
2018	619,892	461,835	158,057
2019	641,389	477,805	163,584
2020	662,184	492,663	169,521
2021	637,472	462,339	175,133
2022	659,204	477,870	181,334
2023	680,601	491,290	189,311
2024	702,915	504,802	198,113
2025	725,656	517,972	207,684
2026	748,292	529,247	219,045
2027	772,233	541,421	230,812
2028	743,934	500,763	243,171
2029	768,660	513,198	255,462
2030	792,383	524,834	267,549
2031	816,894	537,482	279,412
2032	842,108	550,900	291,208
2033	868,200	564,085	304,115
2034	893,125	577,021	316,104
2035	917,635	588,784	328,851
2036	942,103	601,055	341,048
2037	966,147	612,443	353,704
2038	992,632	626,172	366,460
2039	1,019,746	640,869	378,877
2040	1,046,295	654,161	392,134
2041	1,073,361	666,961	406,400
2042	1,099,319	679,637	419,682
2043	1,125,448	691,963	433,485
2044	1,150,688	702,915	447,773
2045	1,175,320	712,604	462,716
2046	1,199,840	723,194	476,646

Source: CSO (2013).

5.2 Estimating the Number of Pre-April 1995 Public Servants

As part of estimating the yearly cost of the Universal Pension, the following must be estimated:

- the number of pre-April 1995 public service pensioners;
- the age and gender profile of these individuals;
- the distribution of public service pension income across this cohort;
- the number of pre-April 1995 public servants currently in employment;
- the age and gender profile of these individuals;
- the expected pension amounts of these individuals on retirement.

It will then be possible to calculate the amount that can be saved through non-payment of the Universal Pension to higher-earning pre-April 1995 public servants in each year to 2046.

Pre-April 1995 public servants pay modified PRSI contributions and are identified as PRSI Classes B, C, and D. In 2014 there were 72,147 workers paying PRSI in Classes B, C and D, indicating there were this many pre-1995 public servants still employed in 2014 (Department of Social Protection, 2016). Taking the average rate of attrition for the preceding 10 year period, it is assumed that the number of workers in this category is around 55,500 in 2019. It is assumed that the oldest pre-1995 public sector worker in 2015 was 64. It is assumed the youngest pre-1995 serving public servant was 42 in 2019. Future mortality rates are applied as per the general population.

According to the *2017 Revised Estimates for Public Services* (Department of Public Expenditure and Reform, 2017), there were 142,247 public service pensioners in 2016 and there were predicted to be 147,182 public service pensioners in 2017.

It is assumed that 58 per cent of those are pre-April 1995 recruits in 2017. This is perhaps a conservative estimate but increasing this figure would serve to increase the saving to our cost estimates. It is further assumed that the gender spread of this cohort is as per the general population for the analysed age groups. The age distribution amongst existing public service pensioners is assumed to reflect the age distribution of the general population within that age range.

While many pre-1995 public sector pensioners are in receipt of occupational pensions over 35 per cent of average earnings, others are in receipt of substantially lower occupational pensions. One contributing factor to this is the 'marriage bar' which forced women working in the Civil Service to resign if they married. The 'marriage bar' was removed in 1973.

Other contributing factors include service records of less than the maximum 40 years, combined with the effects of retiring on low pay. As a result, some former public servants receive either the State Pension (Non-Contributory) or receive an increase for a Qualified Adult over 66 as part of their partner's contributory old-age pension. Those who have other sources of income may not receive any social welfare pension from the State.

The current eligibility criteria for the State Pension (Non-Contributory) allows for the disregarding as means of up to €200 per week from employment (but not self-employment). This figure can include a pre-April 1995 occupational pension from the public service. As such, some of those in the pre-April 1995 cohort who receive lower occupational pensions from the State receive additional sums through the State Pension (Non-Contributory) to supplement their income, subject to a means-test.

5.3 Estimating the Incidence of, and Savings from, the Special Eligibility Arrangement

The answer to a parliamentary question from John Lyons TD in 2012 suggested that nearly 24 per cent of current pre-1995 civil service pensioners receive a pension below €16,000[50].

However, more recent data from the Department of Public Expenditure and Reform's Revised Estimates suggests that the average pension in public service is approximately €17,600 in 2017 (one would therefore expect the bottom quartile to begin considerably further below €16,000) with the annual pension from several government departments calculated at a level below the proposed Universal Pension. More than half the Government departments (representing about 58 per cent of public service pensioners) had average pensions below the average of the public service.

It is assumed that no Universal Pension would be paid to pre-April 1995 public servants with incomes from the State over €16,000, though pre-April 1995 public servants who currently receive the State Pension (Non-Contributory) should not have any of their pension reduced if their current pension exceeds the amount that they would receive through the proposed Universal Pension system. It is envisioned that there would only be a small group in this particular category.

50 http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/DebatesWebPack.nsf/takes/dail2012100200059#N29). The question related to civil service pensioners. The answer is assumed to reflect the public sector as a whole.

Table 5.3 indicates the estimation of how pre-1995 public service pensioners would be affected by the proposed special eligibility arrangement. The service record of serving pre-1995 public servants could not be accessed. To calculate the factors in Table 5.3, the table provided by the Minister for Public Expenditure and Reform, Brendan Howlin TD, in response to the parliamentary question referred to above has been extrapolated upon and applied to the most recently available public service pensioner numbers from the *2017 Revised Estimates*. It is assumed that all currently serving pre-1995 public servants will receive an occupational pension more than the proposed Universal Pension rate.

Table 5.3 - Estimated percentage of pre-1995 public service pensioners (currently in receipt of their pension) subject to the Special Eligibility Arrangement

Public Service Occupational Pension (€)	% of Public service pensioners	Average saving as a % of Universal Pension
0 - 2,000	0.66	0
2,001 - 3,000	0.79	12.5
3,001 - 4,000	1.25	18.75
4,001 - 5,000	1.49	25
5,001 - 6,000	1.28	31.25
6,001 - 7,000	1.68	37.5
7,001 - 8,000	1.62	43.75
8,001 - 9,000	1.67	50
9,001 - 10,000	2.08	56.25
10,001 - 11,000	1.94	62.5
11,001 - 12,000	1.78	68.75
12,001 - 13,000	1.81	75
13,001 - 14,000	1.72	81.25
14,001 - 15,000	1.98	87.5
15,001 - 16,000	2.15	93.75
16,000 +	76.10	100

While the savings estimation is necessarily tentative, it is reasonable to posit a figure of €760m in 2019.

5.4 Eligibility Assumptions

In projecting the future cost of the pension system, it is assumed that some of those who claim the pension would not receive the full Universal Pension upon retirement. The Dutch example is instructive in this regard; an estimate from the Sociale Verzekeringsbank (2008: 32) – the Dutch state pension authority – was that in 2015 nearly 13 per cent of AOW beneficiaries would receive a reduced pension. Those 13 per cent are partly accounted for by Dutch citizens who have resided or worked elsewhere, and partly by resident immigrants who have not built up the full entitlement to the Dutch pension. As noted previously, under the model proposed by *Social Justice Ireland*, a citizen or resident would receive 2.5 per cent of the universal pension at the pensionable age for every year resident in Ireland between the ages of 16 and the State Pension Age. A minimum of 10 years of residency, for 25 per cent of the full rate Universal Pension, is required to receive a payment and all of these 10 years must be before the State Pension Age[51].

Ireland has displayed somewhat different patterns of migration than the Netherlands: Ireland did not control an overseas empire with the associated patterns of in and out migration, nor has there been the extensive history of cross-border working that the Netherlands shares with Germany, Luxembourg and Belgium. However, it is estimated that some of those qualifying for an Irish State Pension would qualify with a lower than full-rate pension, and that this number

51 When calculating residency, the usual rules for eligibility for social welfare benefits regarding habitual residence would apply, e.g. holidays would be disregarded, but longer absences for work etc. would be taken into account.

would increase over time, particularly given recent migration patterns.

It is highly likely that there would also be a certain percentage of state pensioners who choose to receive their state pension while living abroad. Additionally, it is likely there would also be those European Union workers who worked in Ireland for a time who choose to combine their reduced-rate pension from Ireland with their own domestic state pension. According to the Department of Employment Affairs and Social Protection (2017b), there were 53,545 recipients of the State Pension (Contributory), Widow's Widower's or Surviving Civil Partner's Pension (Contributory) and State Pension (Non-Contributory) receiving these payments and residing abroad in 2015.

These recipients are assumed to have the same age profile as the rest of the retired population and are assumed to increase at the same rate as the population resident in Ireland reaching retirement age.

As noted, many of those living abroad would accumulate pension rights here and may seek to claim them upon reaching the State Pension Age. It is assumed that many of those receiving the pension abroad would not receive the full pension.

6 Costing the Universal Pension

6.1 Previous Costing of the Universal Pension

The *Green Paper on Pensions* provided a costing for the Universal Basic Pension (Department of Social and Family Affairs, 2007a: 78). The Green Paper assumed that the estimated 47,000 individuals outside the state pension system would receive the Universal Pension. It also assumed that those qualified adults and those on reduced pensions over the age of 66 would receive the necessary increase to bring them to the level of the Universal Pension.

The Green Paper estimated a cost of €518m – based on the then rate of the State Pension (Contributory) of €209.50 – to integrate the 47,000 people excluded from the State Pension system and a cost of €657m to upgrade the qualified adult increase, non-contributory and reduced rate payments (Department of Social and Family Affairs, 2007a: 78). As such, the Green Paper estimated the cost of introducing a universal pension in 2007 to be €1,175m.

6.2 Identifying the Costs of the Current System

In providing a full costing for a Universal Pension in 2019, it is useful to make comparisons with the cost of the current system. The Department of Social Protection's *Statistical Information on Social Welfare Services 2015* provides data on the State Pension system, much of it utilised throughout this study.

As shown in Table 2.1, the total expenditure on social welfare pensions in 2016 was €7,090m. To ascertain the number of those aged 66 and over the number of recipients of the State Pension (Contributory) and the State Pension (Non-Contributory) must be identified. Additionally, the number of recipients receiving the Qualified Adult increase for adults who are 66 or over must be identified, as must those aged over 66 receiving the Widow's, Widower's, or Surviving Civil Partner's Pension (Contributory) (see Table 6.1).

Utilising those figures the total number of individuals over 66 receiving some sort of payment through the system, whether through the Qualified Adult increase or the State Pension itself, can be quantified. As Table 6.1 shows, 597,897 individuals aged 66 and over received income through the State Pension system, whether in their own right or as qualified adults.

Table 6.1 – Estimated number of Beneficiaries of the State Pension aged 66 and over, 2016

	Recipients	Qualified Adult	Total
State Pension (Non-Contributory)	94,995	5	95,000
State Pension (Contributory)	373,403	52,476	425,879
State Pension (Transition)	149	15	164
Widow's, Widower's, Surviving Civil Partner's (Contributory)	89,149	0	89,149
Total	557,696	52,496	610,192

Source: *Statistical Information on Social Welfare Services 2016* (Department of Employment Affairs and Social Protection, 2017b) and (in some cases) the author's calculations.

There are currently a number of recipients of the State Pension living abroad. It is estimated that there are 53,545 recipients in this category (see Table 6.2).

Table 6.2 - Number of Recipients of the State Pension aged 66 and over living abroad, 2016

Payment Type	Recipients
State Pension (Non-Contributory)	27
State Pension (Contributory)	45,564
State Pension (Transition)	110
Widow's Widower's or Surviving Civil Partner's Pension (Contributory)	7,844
Total	53,545

Source: *Statistical Information on Social Welfare Services* 2016 (Department of Employment Affairs and Social Protection, 2017b).[52]

As the Universal Pension would replace the current regime of payments to those aged 66 and over it is useful to isolate current state pension expenditure on those aged 66 and over. Using data from the *Statistical Information on Social Welfare Services 2015* it is possible to estimate the division of expenditure on pension benefits by age; those under 66 and those over 66 (see Table 6.3). Estimates are also included for 2019 expenditure, showing a calculated cost of an extra €727m in 2019 for extending pension benefits to all individuals over age 66 (as well as restoring the full Christmas Bonus).

Table 6.3 - Estimated Expenditure on the State Pension by age[53]

	Under-66 €m	66+ €m	Total €m
Actual expenditure[54] (2015)[55]	470	6,408	6,878
No-policy-change basis (2019)[56]	562	7,729	8,291
Social Justice Ireland proposal (2019)	572	8,456	9,028
Difference in 2019	10	727	737

52 These numbers assume that there is a uniform distribution of percentage of recipients with an Increase for a Qualified Adult across geographical areas.
53 This Table incorporates the savings which relate to pre-1995 public servants – see Table 5.3??????
54 *Statistical Information on Social Welfare Services 2015* (Department of Social Protection, 2016)
55 Statistical information available for 2016 was incomplete in comparison to 2015, making it easier to properly estimate the split (according to age) of the payment of benefits.
56 Author's own projections for expenditure on no-policy change basis.

7 Financing the Universal Pension

7.1 A Tax-Funded Pension System

At present the State Pension (Contributory) is financed through the Social Insurance Fund (SIF), while the State Pension (Non-Contributory) is funded through the Exchequer. A Universal Pension would be funded through general taxation with a contribution from the SIF[57]. It is envisioned that the rate of Employer PRSI would increase from 10.85 per cent to 11.35 per cent to assist in funding the expanded benefit.

The *Green Paper on Pensions* (2008: 72) expressed the concern that the use of PRSI, a social insurance contribution, being used to fund a universal benefit could lead to PRSI contributions being seen as a tax. However, given the reduction or withdrawal of many benefits associated with the SIF, together with the historic regular movement of funds between the SIF and the Exchequer, the reality is that the SIF is simply a component of the public purse.

Social Justice Ireland also proposes that reductions in tax expenditures on private pensions are utilised, along with increased Employer PRSI, to assist in funding the introduction of the Universal Pension.

7.2 Social Justice Ireland's Proposal for Pension Tax Expenditures

To ensure the introduction of the Universal Pension is revenue-neutral or a net gain to the Exchequer, *Social Justice Ireland* recommends the standard-rating of private pension relief and the adjustment of tax expenditures associated with private pension provision.

Based on proposals and studies from a number of sources, *Social Justice Ireland* estimates that €527m can be raised by adjusting tax expenditures while ensuring those on lower to medium incomes are unaffected, and an additional €422m can be raised through increasing the rate of Employer PRSI from 10.85 per cent to 11.35 per cent. This additional €949m is notably higher than the estimated additional cost of the Universal Pension in 2019 (i.e. €727m). Additional payments to those under 66 would be funded through general taxation. However, as our proposal involves merely preserving existing pension payments to those aged under 66, little or no additional expenditure would be required – see Table 6.3.

i) Standard Rating Tax Reliefs including the Public Service Pension-Related Deduction

In line with the National Recovery Plan 2010, *Social Justice Ireland* argues that the tax relief on pension contributions should be standard rated so that all pension-contribution tax relief is given at 20 per cent. This change has not been legislated for, and we argue that it should be implemented in the next feasible budget.

This measure would have saved €314m in 2014, according to a study by Collins and Hughes (2017). This figure can be dynamised (has been done in this study) in order to take account of earnings and employment growth.

In the National Recovery Plan, it was estimated that if tax reliefs on pension contributions were standard rated, the consequential reduction in tax relief on the Public Service Pension Related Deduction (PSPRD) (known as the "Public Service Pension Levy") would yield an additional €240m (Department of Finance, 2010b: 94). This would affect higher-earning public servants, while those paying the standard rate of tax would be unaffected. However, in answer to a parliamentary question in 2012[58] the Department of Finance estimated a lower total yield for standard rating reliefs for both public and private sector contributors than that in the National Recovery Plan. Based on the findings of Collins and Hughes (2017) in relation to private sector tax reliefs, and estimating based on known comparisons between pension coverage in the public and private sector, it is estimated that this measure could raise about €100m in 2019.

Collins and Hughes (2017) analysed the potential distributional effects of standardising tax reliefs for the year 2014. As noted above, they estimated potential savings of €314m in 2014.

57 As noted in Section 2.6, given that pension-related expenditure is projected to continue to be the predominant component of the SIF's expenditure on a no-policy-change basis this would leave the SIF with a significant surplus. This surplus should be appropriated by the Exchequer annually to assist in the funding of Universal Pension payments, meaning that effectively money that was already destined to be spent on pension benefits remains so.

58 http://oireachtasdebates.oireachtas.ie/debates%20authoring/DebatesWebPack.nsf/takes/dail2012100200054

Table 7.1 - Estimated Distributive Impact of Standardisation of Tax Relief on All Pension Contributions, 2014, by decile

Decile	2014 Baseline – All relief at marginal rate (€m)	Change to 20% -All Relief at Standard Rate (€m)	Savings made by the exchequer, by decile (€m)
Bottom	2.8	2.8	0
2	2.0	2.0	0
3	7.2	4.8	2.4
4	14.3	9.0	5.3
5	15.6	10.8	4.8
6	33.8	20.8	13
7	40.7	25.2	15.5
8	67.6	37.9	29.7
9	128.4	64.0	64.4
Top	351.4	172.9	178.5
All	664.0	350.2	313.6

Source: Collins and Hughes (2017).

ii) Integrating the Universal Pension and Tax Reliefs

Social Justice Ireland recommends a new framework of tax relief that integrates the Universal Pension. We propose that the earnings contribution ceiling should be reduced from €115,000 to €72,000[59], or nearly twice average earnings, so as to target pension tax reliefs at those on low to medium incomes. A study by Collins and Hughes (2017) indicated that reducing the earnings contribution ceiling to €72,180 would generate €44m per annum for the Exchequer.

Social Justice Ireland believes a reduction in the Standard Fund Threshold (SFT) from €2m to €500,000 is appropriate. The Irish Life Online Annuity Calculator[60] indicates that a 66-year old man can expect an annuity rate of approximately 4 per cent[61]. A pension fund of €500,000 would provide a pension of €20,380 per annum for life. This is over 160 per cent of the current at-risk-of-poverty threshold (CSO, 2017b). An individual capable of saving €500,000 in a funded pension plan is certain to have a PRSI history that would give access to a full, or almost full, State Pension (Contributory) – €12,652 in 2018 – giving an income of €33,032 per annum.

At more than twice the at-risk-of-poverty threshold, and approaching the current average wage[62], *Social Justice Ireland* considers this more than an adequate income on which to live in retirement, particularly when account is taken of the rest of the benefits package that older people receive from the State.

It is therefore reasonable to assert that there is no good reason why the Exchequer should supplement the retirement savings of individuals to a level greater than this, given that the first two stated objectives of the pension system, according to the Green Paper (Department of Social and Family Affairs, 2007a) are to provide an adequate basic standard of living and encourage people to make supplementary provision so that they may have an adequate income in retirement.

These conditions are more than being met in the scenario described. As regards social policy in general, but particularly in relation to pension policy, the Exchequer should not assist in funding pensions for people who are capable of saving large amounts of money at the expense of citizens and residents who are receiving very little, or nothing at all, from the system.

As has already been noted, tax breaks on private pension contributions mostly benefit people who will have a retirement income well over the minimum essential level. These breaks should cease to be available above a level that provides an adequate level of retirement income.

Exact estimates for how much could be saved by reducing the SFT are not available. The *National Recovery Plan* noted that the elimination of employee PRSI and Health Levy relief on pension contributions, a reduction in the annual earnings cap for employee/personal pension contributions from €150,000 to €115,000, and a reduction in the SFT might yield approximately €200 million in a full year in 2011. Government eventually reduced the SFT from €2.3m to €2m.

It is difficult to disaggregate the data, and it should also be noted that the maximum tax relieved contribution (see Table 2.18) is now €46,000 per annum (and is much lower for people aged 59 or younger). This limits the likely annual savings from any reduction to the SFT. However, the reduction should still

59 It is worth noting that Ireland's current earnings cap of €115,000 is double that of the United Kingdom, and one of the highest in the OECD.
60 https://www.pensionplanetinteractive.ie/ppi/public/loadPensionChoice.action
61 The annuity rate for a man aged 66 on 23 January 2019 was 4.088%.
62 The average wage at end Q3 2017, according to the CSO's most recent Average Weekly Earnings measures, is €37,150 per annum.

be made, in the interest of fairness, for the reasons illustrated above.

Combining these proposals with the standard rating of tax relief (see Section 7.1), it is estimated that a total of €527m in savings in tax expenditures could be achieved in 2019.

Table 7.2 – Current and Proposed Pension Tax Arrangements

Pension Component	Current Government Policy	*Social Justice Ireland* Proposals
Tax Relief Rate	40%	20%
Earnings Contribution Cap	€115,000	€72,000
Standard Fund Threshold	€2m	€500,000
Maximum subsidised pension[63]	€81,520	€20,380
Maximum tax-free lump sum	€200,000	€200,000

7.3 Increasing the Rate of Employer PRSI

As illustrated in Table 7.3, Ireland lags far behind its developed western counterparts, with an Employer PRSI rate that is below half the EU average. There is, therefore, plenty of scope for increasing the contribution made by employers to the system.

Such a move would bring Ireland closer, albeit only slightly, to the Western European norm. It would also reflect the fact that employers are, broadly speaking, now making a much reduced contribution to the retirement income of their employees due to the move away from Defined Benefit pension schemes. *Social Justice Ireland* believes that an increase in the Employer PRSI rate from 10.85 per cent to 11.35 per cent would represent a sensible and justified way to help fund a Universal Pension for all retirees.

Table 7.3 – Selected Employer Social Insurance Rates

Country	Employer SI rate (%)
Austria	21.48
Belgium	35
EU Average	25.05
France	43.4
Germany	19.33
Global Average	16.85
Ireland	10.85
Italy	30
Japan	14.59
Netherlands	18.47
OECD Average	22.03
Spain	29.9
Sweden	31.42
United Kingdom	13.8
United States	7.65

63 For a man, aged 66 in January 2019. These amounts are implied by the capital value of the SFT, with reference to prevailing annuity rates.

Source: KPMG

The *2016 Revised Estimates for Public Services* (Department of Public Expenditure and Reform, 2016) estimates that income from PRSI contributions in 2015 was €8,404m. The most recent estimate available (Department of Employment Affairs and Social Protection, 2017b) suggests that 73 per cent of PRSI contributions are employer-related. As the current rate of Employer PRSI is 10.85 per cent, it is estimated that increasing it to 11.35 per cent would generate an additional €422m in 2019.

7.4 Estimating the Financing Needs of the Universal Pension

Given the need to both increase the payment for those on the State Pension (Non-Contributory) and integrate those who do not have access to a State Pension in their own right it is estimated that it would cost an additional €727m to finance the universalising of pension benefits in 2019. This is notably less than the estimated €949m in potential savings in tax expenditures as well as additional PRSI revenue that would be generated via *Social Justice Ireland's* proposals.

As has been pointed out in the *Green Paper on Pensions* (2007a: 74) in their review of the feasibility of a Universal Pension, 'the long-term [additional] 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 payments will have a much reduced role in the system in the future'.

This is being borne out by current trends[64] which indicate that, despite the increasing number of people over the State Pension Age, the number of people receiving the State Pension (Non-Contributory) is falling. As noted in the Green Paper, this is most likely due to increasing connectivity to the labour force among the population, with a commensurate increase in social insurance cover. One net result will be that universalising the benefit will make less and less impact on the public purse as time passes.

64 See Table B1 in *Statistical Information on Social Welfare 2016* (Department of Employment Affairs and Social Protection, 2017b). Over the last decade, the number of people receiving the State Pension (Non-Contributory) has remain static or fallen slightly. The number of people receiving the State Pension (Contributory) has increased by more than 50 per cent over the same period.

8 Transitioning to the Universal Pension

For illustration purposes, *Social Justice Ireland* projects 1 January 2019 as the date on which all those currently receiving a pension-related payment from the State over 66 would be able to avail of the Universal Pension.. All beneficiaries of the State Pension (Contributory), State Pension (Non-Contributory), Widow's, Widower's, or Surviving Civil Partner's Pension (Contributory), and Death Benefit aged 66 or over at that date would be transferred to the new Universal Pension. The Universal Pension would be set at €243.30, the current maximum rate of the State Pension (Contributory).

As part of the Universal Pension system increases for qualified children and adults under the age 66 would continue to be paid to those who qualify, at the rates illustrated in Table 4.2. Additionally, payments for those aged 80 and over, those living on designated islands, and those who live alone would continue to be paid at the rates listed in Table 4.1.[65]

Table 8.1 - Total Cost of introducing the Universal Pension, 2019[66]

Year	Eligible Population	Weekly Universal Pension (€)	Total Cost (€m)	Nominal GNP (€m)	Nominal GDP (€m)	Cost as % of GNP	Cost as % of GDP
2019	702,588	243.30	8,456	249,100	315,075	3.39	2.68

Source: National Income figures from *Economic and Fiscal Outlook* (Department of Finance, 2017: 49) and author's own calculations.

The total cost of the Universal Pension system in 2019 would be €8,456m. This figure does not include payments to those aged under 66 including recipients of the Widow's, Widower's, or Surviving Civil Partner's Pension (Contributory) aged under 66 which would amount to around €572m in 2019 as these payments are not affected by our proposal.

It is estimated that the maximum additional cost of the proposal in 2019 would be €727m when compared with the current system. It is estimated that the additional revenue in 2019 that would be raised by the tax and PRSI changes examined in Chapter 7 would be around €949m. While the contribution to the Exchequer of the combined changes in tax and spending are negligible, they would slightly decrease the deficit in terms of the General Government Balance.

Social Justice Ireland believes that the Universal Pension should be increased to 35 per cent of average earnings by 2023 and remain equal to at least that level thereafter. Table 8.2 shows the path towards a Universal Pension at 35 per cent of average earnings.

Table 8.2 – Path towards a Universal Pension, 2019-2023

Year	Average Weekly Earnings* (AWE)	Weekly State Pension Amount (€)	State Pension as a % of AWE
2019	748.86	243.30	32.49
2020	763.84	254.24	33.28
2021	780.64	265.18	33.97
2022	800.16	276.12	34.51
2023	820.16	287.06[67]	35.00

Source: Average Weekly Earnings Figures from CSO. Projections based on an assumption that earnings growth will reach 2.5 per cent per annum in 2022.[68]

65 It is assumed that the number of those living alone would continue to grow at a certain percentage of the total eligible population.
66 For payments to those over the State Pension Age.
67 This would mean the Universal Pension rises by €43.76 over a 4 year period.
68 Further economic assumptions listed in Chapter 9.

9 Long-Run Sustainability Of The Universal Pension

9.1 Universal Pension Projections, 2011-2046

The National Pensions Framework (Department of Social and Family Affairs, 2010: 13) estimated that the combined cost of providing public sector occupational pensions and the social welfare pension (set at 35 per cent of average earnings) would rise from 5.5 per cent of GDP in 2008 to 15 per cent of GDP by 2050[69].

There have been many significant changes to the pension system since these projections were made. Indeed, subsequent Actuarial Reviews have presented a more benign trajectory for Ireland's social insurance pension expenditure. This section projects the cost of providing the Universal Pension over the next 30 years.

Any long-term estimates cannot be considered forecasts given the uncertainty of Ireland's future macroeconomic outcomes and demography, as well as changing European Union regulations on social security. This section attempts to provide a long-term estimate of the cost of the universal pension out to 2046.

9.2 Economic Assumptions

The following growth and average earnings assumptions utilise the Department of Finance's projections for the Irish economy up to 2020, and thereafter make use of the assumptions made in the *2015 Actuarial Review of the Social Insurance Fund*. From 2022 it is assumed that GDP and GNP growth rates converge, and productivity growth maintains a 1:1 link to real earnings growth.

Over the long-term the rate of economic expansion is dependent on productivity growth and population growth.

Table 9.1 – Economic Assumptions for Cost Projections

Year	Real GNP Growth p/a	Real GDP Growth p/a	Price Inflation p/a
2016	9.6	5.1	1
2017	0	4.3	1.6
2018	3.3	3.5	2
2019	3	3.2	2.1
2020	2.5	2.5	2.1
2021	2.3	2.6	2.1
2022-2025	2.2	2.2	2
2026-2030	1.7	1.7	2
2031-2035	1.8	1.8	2
2036-2040	1.7	1.7	2
2041-2045	1.5	1.5	2
2046	1.5	1.5	2

Sources: Department of Finance (2017: 49). Department of Employment Affairs and Social Protection (2017a: Table 1.2).

The future projections are based on the following additional assumptions:

- All current pensioners will receive the full Universal Pension in 2019 (see Section 6.3);
- The Universal Pension will rise to 35 per cent of average earnings by 2023;
- The State Pension Age will increase to 67 in 2021 and 68 in 2028, as already legislated for.

With regard to the increase in the State Pension Age these assumptions are consistent with the National Pensions Framework and the EU/IMF Programme.

69 We are aware of the new measure of national income, "modified GNI" (GNI*), designed to remove the effects of the profits of re-domiciled companies and the depreciation of intellectual property products and aircraft leasing companies. While this new indicator of the level of the Irish economy is useful, data series are incomplete and to date practically all comparisons have been made using GDP/GNP. *Social Justice Ireland* will update these figure once GNI* time series are available.

9.3 Long-Run Costing of the Universal Pension

Table 9.2 indicates the projected long run cost of the Universal Pension System over the next three decades. It assumes that the total number receiving the increase for living alone allowance, the increase for adults under the Universal Pension qualifying age and increase for children stays static as a percentage of the total pensioner population as that population rises. As noted before, these projections use the M2F1 scenario provided by the CSO.

The projections indicate that expenditure on the universal pension would rise to around 6.6 per cent of GDP and around 8.3 per cent of GNP by 2046.

Table 9.2 – Long-run Projections for the cost of a Universal Pension System, 2019-2046

Year	Eligible Population	Weekly Universal	Total Cost (€m)[70]	Nominal GNP (€m)	Nominal GDP (€m)	Cost as a % of GNP	Cost as a % of GDP
2019	702,588	€ 243.30	8,456	249,100	315,075	3.39	2.68
2020	725,367	€ 254.24	9,148	259,075	328,000	3.53	2.79
2021	698,297	€ 265.18	9,191	269,350	341,475	3.41	2.69
2022	722,103	€ 276.12	9,929	275,276	348,987	3.61	2.85
2023	745,542	€ 287.06	10,695	281,332	356,665	3.80	3.00
2024	769,985	€ 294.23	11,363	287,521	364,512	3.95	3.12
2025	794,896	€ 301.59	12,068	293,847	372,531	4.11	3.24
2026	819,691	€ 309.13	12,805	298,842	378,864	4.29	3.38
2027	845,917	€ 316.86	13,598	303,922	385,305	4.47	3.53
2028	814,918	€ 324.78	13,473	309,089	391,855	4.36	3.44
2029	842,003	€ 332.90	14,329	314,343	398,517	4.56	3.60
2030	867,989	€ 341.22	15,204	319,687	405,291	4.76	3.75
2031	894,839	€ 349.75	16,134	325,442	412,587	4.96	3.91
2032	922,459	€ 358.50	17,120	331,300	420,013	5.17	4.08
2033	951,041	€ 367.46	18,169	337,263	427,573	5.39	4.25
2034	978,344	€ 376.64	19,240	343,334	435,270	5.60	4.42
2035	1,005,193	€ 386.06	20,352	349,514	443,104	5.82	4.59
2036	1,031,995	€ 395.71	21,399	355,455	450,637	6.02	4.75
2037	1,058,333	€ 405.60	22,477	361,498	458,298	6.22	4.90
2038	1,087,345	€ 415.74	23,653	367,644	466,089	6.43	5.07
2039	1,117,047	€ 426.14	24,890	373,894	474,013	6.66	5.25
2040	1,146,129	€ 436.79	26,162	380,250	482,071	6.88	5.43
2041	1,175,777	€ 447.71	27,497	385,954	489,302	7.12	5.62
2042	1,204,212	€ 458.90	28,854	391,743	496,641	7.37	5.81
2043	1,232,834	€ 470.38	30,268	397,619	504,091	7.61	6.00
2044	1,260,483	€ 482.14	31,712	403,583	511,652	7.86	6.20
2045	1,287,465	€ 494.19	33,194	409,637	519,327	8.10	6.39
2046	1,314,325	€ 506.54	34,811	415,782	527,117	8.37	6.60

70 These figures take into account only those payments to people over the State Pension Age.

It is worth noting the uncertainty of projections of future costs, given that even small divergences from economic and demographic assumptions can, over time, lead to significant divergences in predicted outcomes. For example, it is instructive to compare the projections of the cost of the Universal Pension with the projections contained in the Actuarial Reviews of the SIF carried out on behalf of the Department of Social Protection and published in 2007 and 2012. Those projections analysed SIF expenditure, and as such do not include social assistance expenditure financed by the Exchequer, such as the State Pension (Non-Contributory), though it was assumed that the vast majority of pensioners would receive their state pensions via the SIF as insurance coverage increased.

The *2010 Actuarial Review of the Social Insurance Fund* projected expenditure of €20.9bn on the State Pension (Contributory) in 2040, which compares to an estimated expenditure of €26.2bn in 2040 on the Universal Pension system in this study. Unfortunately, the Actuarial Reviews and the Universal Pension projections are not directly comparable, as the Universal Pension includes what would otherwise be non-SIF payments and are based on differing assumptions.

The *2015 Actuarial Review of the Social Insurance Fund* projected expenditure of €19.5bn on the State Pension (Contributory) in 2045[71] (a notably different outcome compared to the 2010 Actuarial Review in which this amount was exceed five years earlier by 2040).

Unfortunately, the Actuarial Reviews and the Universal Pension projections are not directly comparable. This is primarily because the Universal Pension includes what would otherwise be non-SIF payments (the State Pension Non-Contributory), but also because they are based on differing assumptions: This study assumes that the pension will remain linked to average earnings for the duration of the study, as well as assumptions linking various allowances to the level of the pension paid. It is worth noting, though (and this applies similarly to the 2005 Actuarial Review) that these publications have a history (as noted in Section 2.6) of taking an overly pessimistic outlook regarding the costs of future liabilities related to State social welfare pension benefits.

71 Unfortunately direct comparisons are not available, based on the details chosen for publication in Table 7.3 in each of the two Actuarial Studies mentioned here.

10 Conclusion

10.1 Responding to the Green Paper on Pensions (2007)

As noted in Section 3.2, the Green Paper on pensions rejected the idea of a Universal Pension on the following grounds:

i) It would threaten the long-term financial stability of the pensions system.

ii) It could undermine the contributory principle and the SIF by breaking the link between contributions and eligibility.

iii) It would complicate the operation of current bilateral and EU pension agreements.

iv) It would pose administrative challenges in the form of implementation of the residency test.

Each of these is now examined in turn in light of the findings of this study.

i. It would threaten the long-term financial stability of the pensions system

This study has shown that the Universal Pension can be implemented immediately by reducing the currently high levels of tax expenditures on private pensions and increasing slightly the rate of Employer PRSI. The long-term funding of the state pension will in any event require further attention; however, funding the Universal Pension would be no more difficult than funding existing arrangements.

i. It could undermine the contributory principle and the Social Insurance Fund by breaking the link between contributions and eligibility

The current system holds a narrow view of "contribution", which values paid employment and little else. While PRSI credits are granted in certain circumstances in respect of certain activities outside of paid employment, there are many restrictions. The current system attaches little or no value to many other contributions, including unpaid caring work and work in the home. However, it does place a very high value on subsidising the private pension contributions of those on high incomes and the pensions industry.

Our proposal for the State Pension system should form part of an expansion of the way a contribution to society is identified; to include not just paid employment, but also caring work, work in the home, and other contributions that are not directly remunerated.

i. It would complicate the operation of current bilateral and EU pension agreements

As indicated in Section 4.2, Iceland, Norway and New Zealand have residency-based pension schemes. In the EU, the Netherlands, Finland, Sweden and Denmark already operate residency-based pension schemes. Therefore, Ireland is not in a position whereby innovative and complex negotiations with EU partners are required.

i. It would pose administrative challenges in the form of implementation of the residency test.

It has been shown in Section 4.2 that Ireland is well placed to operate a residency-based system.

Ireland's extensive social welfare records would be good evidence of residence for the vast majority of applicants. In particular, PRSI contribution records relate to each week of employment history. The combination of this with other welfare benefits and allowances should provide sufficient evidence regarding the residence history of the pension applicants.

No doubt some people will find it difficult to demonstrate residency, however it should be no more complex than the existing myriad of tests, which rely on rules and conditions relating to eligibility for a pension from the State.

10.2 Building a Pension System for All

A number of major reports, including from the OECD (2013) and McKinsey (2015), have judged Ireland's pension system to be unsustainable. This should be taken not just as a comment on the State system, but on the overall system, including occupational pension schemes and personal private pension funds.

The proposal set out in this paper would constitute a radical departure from the current system of pension provision in Ireland. The current contribution-based State Pension would be replaced by a rights-based pension, which would be increased to 35 per cent of average earnings.

The current system of pension provision – comprising the state pension and tax subsidies to private pensions – relies on private pension funds investing into global capital markets to supplement post-retirement income provided through the state pension. The proposed Universal Pension proposal would redress this balance, reducing the subsidy to private pensions to fund a higher and more comprehensive pension from the State.

This would redistribute income over time from those who earn and have more to those who earn and have less. It is an acknowledgment that all are deserving of adequate support in their old age, irrespective of their personal wealth.

Excessive tax subsidies to private pensions reward mainly reward those who are already relatively wealthy. They do not reward many of those who contribute greatly to this country during their life; those who care for their neighbours and relatives, who work in the home, or the increasing number of individuals who engage in low-paid or precarious employment.

The authors of the 1919 Democratic Programme believed that those in old age were 'entitled to the Nation's gratitude and consideration'. The Universal Pension envisioned in this document is a practical expression of this idea. It would be an assertion of solidarity between the generations, and between those who have more, and those who have less. It would be a recognition that we all contribute to this country, and that we are all entitled to a just share in our old age.

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12 Appendix

Prior to publication of this study, *Social Justice Ireland* engaged in consultation with a number of stakeholders, and requested submissions from a number of groups, including all the main political groupings in the Oireachtas. We have collated the received submissions in this Appendix.

We would like to sincerely thank those who took the time to analyse the first draft of this study and make the following comments. These submissions are included in alphabetical order, beginning with political groupings, followed by stakeholders in the Community and Voluntary sector.

Fianna Fáil

Fianna Fáil welcomes *Social Justice Ireland's* report The State Social Welfare Pension: Recognising the Contribution of all our Senior Citizens. The structure of the current pension system is, as the report points out, based on three pillars; the State pension; occupational pensions; and private personal pensions.

The State pension is regarded as the cornerstone of pension provision in Ireland and the Department of Employment Affairs and Social Protection currently spend in excess of €7bn per annum on pensions and demographic changes are expected to see that figure increase year on year. According to information received by way of parliamentary questions the rate of supplementary pension coverage in Ireland is 47% of the working population and this reduces to 35% when the private sector is considered in isolation.

There is therefore a considerable reliance on the State pension in Ireland and for many people it is their only source of income in retirement. However, a number of gaps and anomalies exist in the State pension and whilst the Homemaker Scheme, for example, goes some way towards addressing these anomalies, problems persist. In addition, there is the continued decline in the number of defined benefit pension schemes and a move towards defined contribution schemes to the detriment of employees. It is clear that our pension system is in need of structural reform.

The Government has stated that they intend to introduce a number of pension reforms, including moving from an averaging approach to a total contributions approach by 2020 and also the establishment of an auto-enrolment system with the Government's stated intention of having the first enrolments to the new system by 2021.

Fianna Fáil recognises that the social welfare system in Ireland is complicated, bureaucratic and is in need of reform. That is why in our 2016 General Election Manifesto we committed to establishing a Basic Income Commission with a view to examining the feasibility of introducing a basic income system in Ireland. Given the high rates of poverty and social exclusion in Ireland, as well as the changing nature of work and employment, we want to explore the feasibility of introducing systems that have the potential to provide people with a decent standard of living; incentivise work and reward different types of work; eliminate poverty and employment traps; reduce poverty and increase equality and fairness.

The introduction of a flat rate Universal State Pension, based on residency, which is being put forward by *Social Justice Ireland* would in many respects represent a step towards establishing a basic income System in Ireland in that this pension would be provided as a right to every Irish citizen and resident over the eligible age and would replace all other social welfare pension payments to individuals over the relevant age.

We recognise that the introduction of such a system would represent a significant departure from the current system. It would change the basis of payments from a system based on social insurance or need to one based on residency. Such a system, as the *Social Justice Ireland* report points out, has the potential to have a number of benefits including its simplicity and transparency and it would provide income security in retirement and a decent financial floor which nobody is expected to live below.

Such a scheme could also potentially address some of the anomalies that exist in the current pension system, in particular anomalies experienced by women who are being denied their entitlement to a full State pension as a result of having insufficient contributions due to time spent outside of the work force in a caring or home-making capacity.

Fianna Fáil recognises that there have been numerous reports on the pension system in Ireland but very little meaningful reform in this area. Given the scale of the challenge we are facing, our ageing population and longer life expectancies, the need to create a sustainable and effective pension system and the need to ensure that people have a decent income in retirement, ad-hoc and piecemeal reforms to our pension system will not suffice.

We therefore welcome the research undertaken by *Social Justice Ireland* on establishing a universal state social welfare pension in Ireland and the positive contribution it makes to the debate on pension reform in Ireland.

Establishing a universal State Pension has merit but would it also have far reaching consequences. We welcome the costings given by *Social Justice Ireland* in this paper and we would like to see further examination of the implications and feasibility of this approach. We believe it needs to be considered in the context of plans to move to a total contribution approach and to establish an auto-enrolment system. Ultimately, we must ascertain the most effective and efficient method to provide a sufficient income for those in retirement.

The Green Party

The Green Party welcomes *Social Justice Ireland's* report on a Universal Basic Pension as it is in line with Green Party policy. The Green Party also supports a Universal Pension for Ireland on economic and gender-based grounds.

As a party that believes in the provision of a universal basic income, the first step on that road has to be the universalisation of existing non-universal benefits. The pension inequality gap can and should be closed if we are to progress towards our vision of a universal safety net provided by the state.

The Green Party welcomes *Social Justice Ireland's* revision of their previous Universal Basic Pension model. This updated proposal addresses the previous model's questionable funding mechanism by increasing employers' PRSI by a marginal amount. As a party that favours payment by each according to their means and assistance to each according to their needs, this is a proposal we endorse wholeheartedly.

The state pension, as a valuable first pillar safety net, has been proven to have few of the fallibilities of third pillar private pensions and indeed Social Justice Ireland has shown that the state pension ensures that 90% of older persons are lifted out of being at risk of poverty. The state pension also provides value for money for contributors, and offers greater potential to readdress gender, other forms of inequality in the current system and enables adaptation to modern work norms and an increasingly flexible workforce. A Universal Basic Pension will increase the state pension's ability to improve these matters. It will also ensure that our pension systems modernise beyond the male breadwinner/female homemaker pattern of family life which reflects the accepted 'norm' in third pillar private pensions.

Economic Issues with Current Pension Management

The structure of private pensions has changed from predominantly defined benefit (DB) to defined contribution (DC). DC pensions place the investment risk with individual employees rather than collectively with the plan sponsor, as in DB schemes. The switch from DB, compounded by inadequate contribution levels by both employers and employees into DC pensions, puts future adequacy of income in question.

The state makes an expensive subsidy to private pensions through tax reliefs to incentivise individuals to save for retirement. Such subsidies to private pensions not only exacerbate gender pension gaps (more below on this issue) but have led to no discernible increase in coverage over the last number of decades.

Reliance on the market guarantees neither security nor adequacy of income in old age. Increasing the work relatedness of retirement income does little to improve the situation of those with interrupted and precarious work patterns. Such work patterns are also becoming a more predominant feature of working life, particularly for those under the age of 35.

Gender Pay Gap

While the Irish pension system is gender neutral, it produces very gender specific outcomes. Women work outside the home in fewer numbers, they get paid less when they do work, and when it comes to retirement women typically have 37% less to live on than men. The introduction in 2012 of new bands for pensions, the homemaker's scheme not applying prior to 1994 and the marriage bar are all measures which discriminated strongly against women, and they all continue to maintain discrimination in society and the economy today.

Overall, women receive pensions that are 35% lower than the pensions men receive. This gender pension gap has increased to 37% in the lifetime of the Fine Gael Government. Deputy Leader of the Green Party, Catherine Martin TD has been critical of this pension gender gap, lending her voice to the campaign for pension equality which has been championed by the National Women's Council of Ireland, Age Action Ireland and the Irish Countrywomen's Association. We would also agree with the Women's Council of Ireland in their support of a universal basic pension.

In 2012, the previous Government introduced changes to the eligibility criteria for the Contributory State Pension and since April 2012, the total number of PRSI contributions made is divided by the number of years between when one starts work and reaches pension age. This arbitrary, sudden cut-off qualifying date is absent of any sense of fairness. The new bands, linked with this 'averaging' rule, have resulted in many people receiving a significantly reduced weekly State Pension payment.

This change to eligibility criteria adversely and disproportionately affects women because of large periods of time spent outside of the conventionally recognised workforce due to family responsibilities, part-time work and compelled higher concentration in insecure or short-term employment. Of the 36,000 people the Department of Social Protection records as impacted by these changes as of June 2016, more than 62pc are women. Recent changes announced by Minister Regina Doherty redress this imbalance somewhat for women who undertook a caring role, but do little or nothing for men and women with non-traditional working backgrounds.

The 2012 cuts deepened an already existing inequality. It has been highlighted by reports prepared for the European Commission on Justice that Ireland has a high gender gap in pensions, at 29% in the median range and notably has a very high rate of females who do not have pensions at all. This rate is at 16% and is an outlier in terms of other European countries, possibly due to explicit laws preventing women from working such as the 'marriage bar'.

Many women, who for so many years got up early in the morning to work or look after this nation's children are now entering an insecure, impoverished retirement. They will have limited access to pensions for a number of reasons including low pay, poor conditions of work or taking time out from work for caring responsibilities. Women who worked on family farms and in family businesses also do not have social insurance cover, which means they are often totally reliant on their spouse or partner in their older age. Leader of the Green Party, Eamon Ryan TD has been especially critical of the lack of supports for carers in the home and other alternative forms of work.

Introduced in 1994, the Homemaker's Scheme made it easier for some women and men who have spent years out of the workforce caring for children to qualify for a Contributory State Pension, but a lack of fair and equitable access to the Homemaker's Scheme has led to experiences of inequality of treatment for a whole generation of women in the State Pensions system. The State's enforced marriage bar was in place in Ireland until 1973.

Earnings distribution data also confirm a gender pay gap in Ireland, strongly supporting an argument that a corresponding gender inequity in the government's tax subsidy for private pensions exists. Therefore the gender gap becomes a gender trap in older age. The proposal to have a universal pension based on residency is one that is welcome and will help to lift elderly women out of poverty.

It is imperative that the Irish State, given its responsibility in the creation of this situation, would ensure that the marriage bar or other gendered impacts such as the 2012 pension changes, no longer continue to adversely affect women in the State. It is also worth noting that the economic value of women's unpaid work, and the social consequences if women were persuaded to abandon these tasks in favour of unfettered participation in the labour market do not tend to enter the debate on pension reform. The Green Party support a Universal Basic Pension as the means of providing such equality, on the road to providing further equality under a Universal Basic Income.

The Labour Party

The Labour Party welcomes the work by *Social Justice Ireland* on their costed proposal for a universal pension for all residents in Ireland. It acknowledges the demographic reality that our population is aging and living longer, and that the current retirement income systems in place are not fit for purpose. The failure by the State to introduce an auto-enrolment system for workers and the move by employers away from defined benefit schemes further compounds the problem.

The Labour Party is supportive of the proposal for a universal pension for all residents of our country. At present the difference between the State contributory old age pensions, and the means tested non-contributory pension is minimal; however the bureaucracy involved in maintaining two separate schemes is enormous, before consideration of qualified adult increases, and other factors.

The proposal from *Social Justice Ireland* is therefore timely, as we await the publication of the Government's own proposals on an opt-out occupational pension scheme which will inform policy discussion further. The failure to publish the Action Plan on Pensions as committed to by the current government by the end of 2017 has added further to the policy drift in this area.

However, in relation to the Universal Pension we are concerned that moving to a flat, universal pension would comprehensively break the link between PRSI contributions and the old age pension.

A central pillar of our social welfare system is the contributory principal, and while the report addresses many of the concerns previously raised about a universal pension based on residency we would have concerns about the impact on how PRSI, and in particular the contribution by employers would be viewed in such a system. The central concept of contributions throughout the working life that provides for benefits in retirement, illness and unemployment would end under this proposal with significant public policy implications. Saying that, Ireland has a very flat system, where there is little difference between benefits and means tested allowances.

In such a scenario, the PRSI contributions would become an income tax and also an indirect tax on employment, rather than a payment towards future social insurance benefits and this raises problems with the future sustainability of the proposal. The contributory pension is the most tangible benefit for workers of Ireland's social insurance system. Breaking that link would also provide a strong argument for employers who might seek to have their own contribution rate lowered. It would also provide an increased incentive for employers and businesses to encourage key staff to become self-employed and the Labour Party is concerned at the rise of bogus self-employment in recent years and has actively campaigned for legislative change in this area.

In this context, the past proposals from others, referenced in the report, for a second tier of pension based on social insurance contributions may be worthwhile examining in more detail. The impact on attitudes of the public and employers on breaking the contributory link should also be studied further. The report however clearly outlines the benefits of a universal scheme, and the reality that many citizens and residents contribute in other ways through volunteering, community and caring roles that social insurance does not currently capture.

Central to Ireland's pension crisis is the retreat by employers from pension provision for their workers. This has taken two forms. Firstly, defined benefit pension schemes are being replaced by defined contribution schemes. Secondly, many employers now offer little, if any pension schemes, with the onus left on the individual to provide for their retirement above what the State provides.

Therefore, we believe it essential that the State ensure that

employers make a fair contribution both through employer's PRSI and through contributions to their own employee's private pension schemes. We appreciate this area of pension policy is outside the scope of the report and we very welcome this significant and thoughtful contribution to the debate on future pension provision in Ireland.

Senator Gerald Nash, Labour Party spokesperson on Employment Affairs and Social Protection.

Maureen O'Sullivan TD

The concept of a universal pension is one which I support and which I commend SJI on for their commitment and detailed study of feasibility. People contribute to the betterment of society in so many different ways and it is time a real conversation is opened up on what constitutes 'contribution' and thus move away from a system that cannot see past taxable income as your one contribution.

Sinn Féin

One of the greatest challenges we face as a country is how we plan to sustain our pension system into the future. This is coupled with our responsibility to provide for an increasingly ageing population and in doing so, to prevent poverty in old age through an adequate post-retirement income.

Sinn Féin is committed to the introduction of a Universal Pension for Ireland. At our most recent Ard Fheis (2017) the following motion was passed by party members:

"Sinn Féin will work towards developing an all-Ireland Pensions policy based on a universal pension payment to ensure a fair and adequate income for all of our older people at retirement."

It is Sinn Féin's view that we have a choice to make when it comes to the provision of pensions going forward, we can choose to either provide for all of our older citizens or provide for some. The Minister for Employment Affairs & Social Protection Regina Doherty has continued with her predecessor's mantra that when it comes to pensions there will always be winners and losers. In fact, when it comes to the Government's new Total Contributions Approach, Minister Doherty has said on the Dáil record that "there will be winners and losers in the new model." However, in actual fact, it does not have to be the case that some older people will have to inevitably lose out when it comes to their pension payment. This can be entirely avoided through the introduction of a universal basic pension to provide for all of our citizens regardless of their activity in the labour market or their means.

It is legitimate to argue that there have been far more losers than winners when it comes to our current pension system. In recent years, we have seen the emergence of a number of serious flaws as a result of Government policy. These anomalies have wiped out any guarantee of a secure and adequate State Pension for many of our older citizens. The introduction of a universal basic pension would not only eliminate these flaws but it would ensure a guaranteed income for older people post-retirement. It would also allow them the chance to plan for their future after retirement. A universal basic pension will also simplify a very complex and confusing system. Currently, there are a variety of pension payments which come under the State Pension system with strict criteria and a very black and white approach as regards what is considered to be a 'contribution'.

In reality, when it comes to our current pension system, the real winners are those who can afford to contribute to a private pension pot which attracts substantial tax reliefs. Yet, there has been a clear failure on the part of private pension provision to either meet modest coverage rates or to provide adequate income in retirement. This is evident when one examines the RACs and the PRSAs. We also must remain conscious of the fact that not everyone is in a position to contribute voluntarily to a private pension. When one considers the ever-changing climate for workers today whether that's the move away from DB schemes to DC schemes, the wind down of DB schemes, job uncertainty as regards precarious work and the prevalence of low hour contracts. It is simply not credible to rely on the private sector to provide adequate pensions in retirement.

When it comes to the ways in which finance can be raised in order to cover the costs of introducing a universal pension, Sinn Féin's annual Alternative Budget measures are to some degree in line with what is suggested in this document. Our Alternative Budget proposals for 2018 included reducing the earnings limit for pension contribution from €115,000 to €60,000 per annum, raising €147m, reducing the Standard Fund Threshold from €2m to €1.7m, raising €120m as well as increasing Employers' PRSI on the portion of individual salary over €100,000, raising €286.2m. In total, these measures alone will raise €553.2m and we are confident that we can raise the remainder by considering further proposals including, those in this document.

Finally, when it comes to the provision of pensions we must ensure that our responsibility to support and look after our older citizens is at the heart of our pensions system. We need to move away from the inconsistencies, the uncertainties and the flaws that dominate our current system and instead build a pension system that; first and foremost, provides a universal basic pension as the first tier of our pension system. This will ensure that every single resident in this State receives a secure and adequate income at retirement.

Sinn Féin is currently working on a policy document on the introduction of a residency based universal basic pension for Ireland. We welcome this comprehensive document which through facts and figures makes a clear and coherent argument in favour of a universal pension. As a State, we have an obligation to create and maintain a sustainable

pension system and despite the real challenge that this presents to us, we must not be afraid to be bold in our solutions.

Solidarity-People Before Profit

People Before Profit and Solidarity strongly support the idea of establishing a universal state pension scheme and commend *Social Justice Ireland* for undertaking detailed work directed towards establishing such a scheme. The recently highlighted injustices, anomalies and discrimination affecting tens of thousands of pensioners as a result of the 2012 Budget changes to contributions and eligibility criteria and a refusal by the government to back date the Home Makers Scheme affecting, further underlined the need for a fairer and more just system of pensions which will ensure a decent income for all our older citizens.

We strongly support the idea that a universal state pension scheme, guaranteeing a decent pension for all pensioners, could be financed by redirecting the hundreds of millions currently going in pension related tax breaks benefitting the very wealthiest in society.

Age Action

The Universal Pension model set out by *Social Justice Ireland* is an important contribution to the debate about how we ensure a fair, secure and sustainable pension for today's older people and all of us who hope to grow old in Ireland.

It argues for a shift in how we think of pensions in Ireland, for a move away from a system based on contributions to one based on residence, on rights and on need.

The Irish State Pension system has evolved to fit a certain kind of Irish worker. It works best for men, for settled persons, for those of us who work in office jobs, who work in full-time, permanent, employment and who can save for a private pension.

Women, Travellers, migrants, people who work in physically demanding roles, those with part-time jobs or precarious work, or who lack the income to have a private pension face a very different retirement.

The Universal Pension model also challenges the overreliance among policymakers on a private pension system to ensure that people have enough to live with dignity and some measure of independence in retirement.

The report from Social Justice Ireland shows that the private pensions industry has consistently under-performed and reminds us of the importance of the State's role in preventing pensioner poverty.

The proposals deserve to be discussed, tested and argued.

We need to better understand how such a system would work in practice, how residency would be tracked and proven, and, most importantly, how to ensure the financial sustainability of what is being put forward.

At a time when reform of pension policy in Ireland is an increasingly urgent issue, this is a timely challenge to the status quo, setting out clear arguments for new thinking, a radical approach and for a fair and socially just income in old age.

Alone

ALONE welcomes *Social Justice Ireland's* report 'The State Social Welfare Pension: Recognising the Contribution of all our Senior Citizens' and supports the proposal for a State Social Welfare Pension which addresses the unfairness of the current pension system, especially to marginalised groups and women. ALONE supports older people to age at home, people who are dependent on an ability to meet their living costs. we support older people to age at home.

With an increasing aging population, Ireland's current pension system is likely to become unsustainable. It comes as no surprise to ALONE that while the State is currently spending over €7 billion on pensions, the levels of poverty among older people are unacceptably high. The State Social Welfare Pension proposed by *Social Justice Ireland* seeks to address income inadequacy in a manner that is inclusive and fair. This proposal also meets the OECD recommendation to implement a more transparent, less expensive, pension system, and has the added benefit of being less administratively burdensome on the State.

ALONE supports the key components of the State Social Welfare Pension, which in our view are progressive and achievable:

- Recognises 'contribution' as a concept beyond a job and values a person's contribution to society, through unpaid caring work and work in the home, equally with that of someone in employment.
- Funded through restructuring of the current pension tax relief system and Employer PRSI.
- Residency based.
- Addresses gender inequalities inherent in the current system.

Many people are at risk of social exclusion, poor living conditions and poor health outcomes in old age. A State Social Welfare Pension in the format proposed would provide peace of mind and secure income for our aging population.

We would like to congratulate the *Social Justice Ireland* team on this report.

Family Carers Ireland

Family Carers Ireland share many of the concerns expressed by *Social Justice Ireland* in this report, particularly those regarding the failure of the current pension system to adequately recognise the immense contribution of carers and the uncertainty that the current system creates for those approaching retirement age.

Family Carers Ireland has long believed that the Irish pension system is in need of radical reform rather than review and believe that it's no longer acceptable to operate a system that actively penalises those who sacrifice their lives to care for a loved one. Indeed if we are to achieve the ambitions set out in the Sláintecare Report while meeting the long-term care challenges presented by our ageing population then we must actively recognise rather than penalise familial care.

It is entirely unjust that a person who has cared fulltime for over 40 years for her profoundly disabled child is told she has no entitlement to either a State Pension Contributory, because she does not hold the required minimum 520 contributions, nor is she entitled to a State Pension Non-contributory because of the public service pension of her husband.

Neither is it fair that a carer who has cared for 36 years has an entitlement of only €56 per week in a non-contributory pension because her husband has a pension of €400 but no other assets. While FCI has not officially endorsed a Universal Basic Pension, as a model it contains many features which address the deficiencies of the current pension system and would offer a fairer and more certain pension entitlement for long-term carers.