Report of the Commission on Pensions

Main Findings, Recommendations and Next Steps

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An Roinn Coimirce Sóisialaí
Department of Social Protection

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Terms of Reference

- The Commission on Pensions was set up in November 2020 under a Programme for Government commitment to examine sustainability and eligibility issues in respect of the State Pension and the Social Insurance Fund.

- In its Terms of Reference, the Commission was asked to develop options for Government on issues such as the State Pension qualifying age, contribution rates, calculation methods, eligibility conditions and payment rates.

- The Commission was also asked to consider the issue of retirement ages in private employment contracts that are set below the State Pension age, and how the pension system can further accommodate long-term carers.

- In examining these issues, the Commission was asked to seek views of recognised experts/advocacy groups by inviting submissions and/or presentations.

Programme for Government

- Maintain State Pension as bedrock of pension system
- Introduce a Total Contributions Approach
- Introduce deferred SPC with actuarial increases
- Facilitate those without full social insurance record to increase their retirement provision by continuing to make PRSI contributions past State Pension age
- Examine options for a pension solution for carers
- Consider increasing all classes of PRSI over time to replenish the SIF
- Examine Universal Basic Income resulting in a universal income pilot
- Establish a Commission on Welfare and Taxation

Work of the Commission

An Coimisiún Pinsean
The Pensions Commission

Membership of Pensions Commission

11 members

Representing **workers, employers, civil society, academics** and those with technical and policy expertise.

Strong female representation

7/11 members are women.

Consultation with experts

Presentations from the **Central Statistics Office, Irish Fiscal Advisory Council, Department of Finance, KPMG on the Actuarial Review of the Social Insurance Fund, the Economic and Social Research Institute,** and the **National Economic and Social Council.**

Also, **National Women's Council of Ireland** and **Family Carer's Ireland to discuss pension provision for long-term carers.**

Briefing material from relevant Government Departments and State bodies such as the **Workplace Relations Commission** and the **Pensions Authority.**

Meetings

2020 Nov — **18 plenary meetings** — 2021 July

Primarily online meetings due to the pandemic

Public Consultation

Public consultation document

"Have your say on sustainable State pensions into the future."

Over **200+** individual and organisational submissions and over 1,100+ survey responses were received.

Virtual Stakeholder Forum held **21 April**

speakers from the OECD, ICTU, Ibec, Age Action, National Women's Council of Ireland and SpunOut

Sub-Committees

A Technical Sub-Committee prepared 4 Working Papers:

1. **Population and Labour Force Projections**
2. **Expenditure Projections**
3. **Poverty Prevention and State Pensions**
4. **Benchmarking and Indexation**

The State Pension Challenge

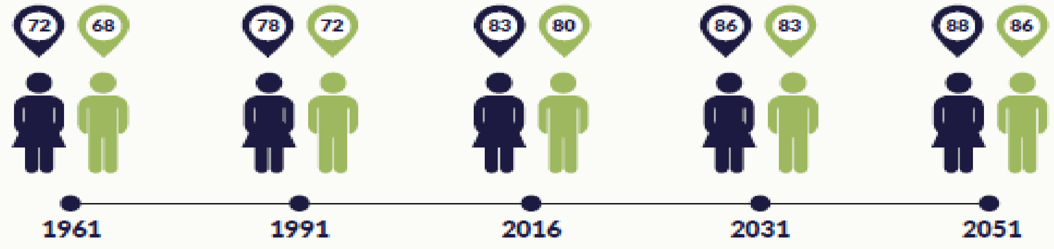
An Coimisiún Pinsean
The Pensions Commission

Demographic Changes

Thankfully, people are living for longer and are healthier than previous generations.

State Pensions are funded on a **Pay-As-You-Go basis** - current workers fund the State Pension payments of current pensioners.

1 Older people are living longer and there will be more older people



The number of working age people is projected to increase by 9% from 2021 to 2051:

3,243,500

3,549,700

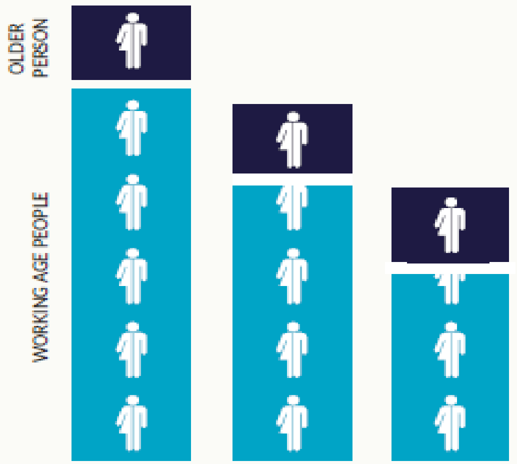
The number of people aged 65+ is projected to double from 2021 to 2051:

743,100

1,562,500

*Projected CSO figures

2 The number of working age people supporting each older person is projected to reduce significantly



1991 - 5.0 working age people: 1 older person

2031 - 3.5 working age people: 1 older person

2051 - 2.3 working age people: 1 older person

3 Pension Related Costs will increase

Department of Finance project that **expenditure related to State pensions is projected to significantly increase over time**

Cost (% of GNI*):

3.8% (2019)

5.0% (2030)

7.9% (2050)

If there are no changes an annual deficit in the Social Insurance Fund of €2.3 billion is predicted in 2030, increasing to €13.4 billion in 2050.

*Based on 2021 KPMG analysis

Deficit €2.3 billion in 2030

Deficit €13.4 billion in 2050

Considerations

- Very strong attachment to the State Pension
- Certainty
- Transparency
- Communication
- Equity and Fairness
- Move first on Funding

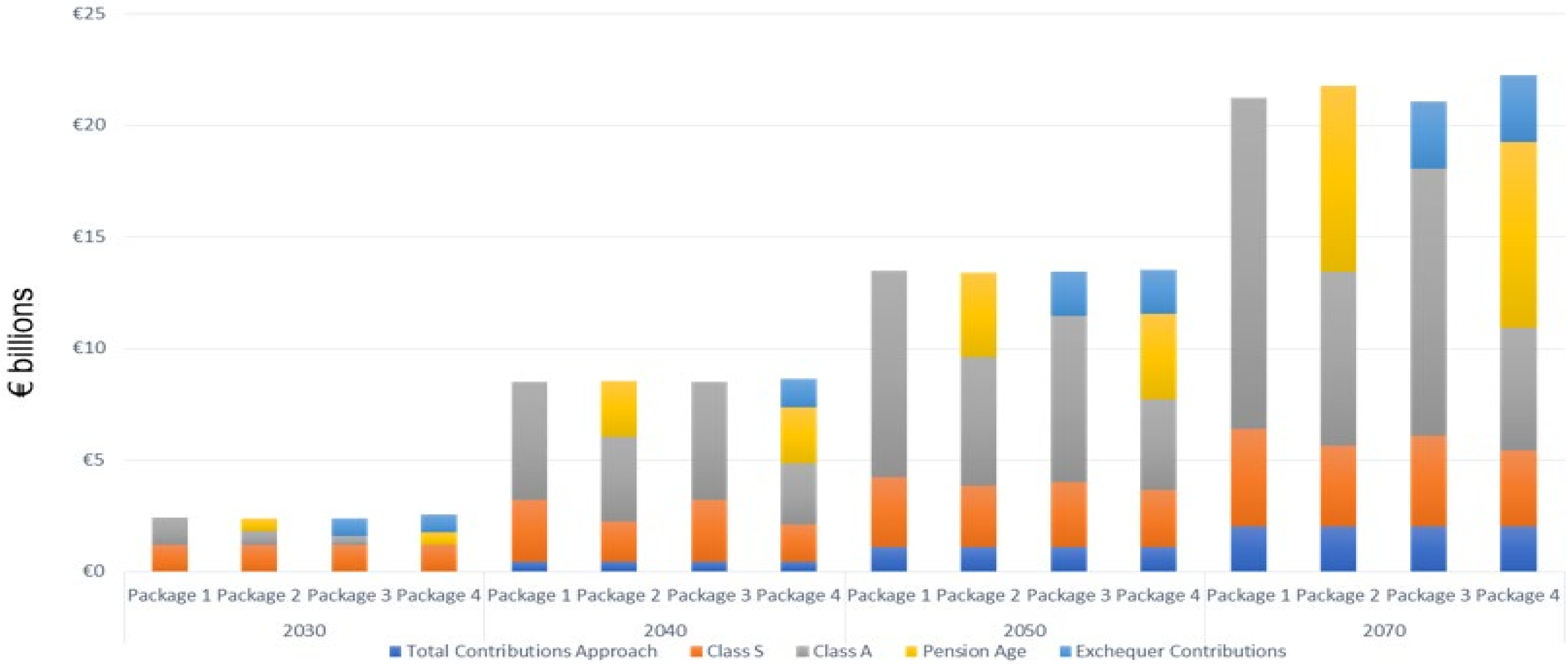
Overarching conclusion:

Social solidarity – Everybody contributes:

- Gradual increase in PRSI
- PRSI for Self-Employed
- PRSI base broadening
- Exchequer
- Gradual increase in age

Packages

- The Commission considered four packages which incorporated a range of different policy levers:
  - Regular Exchequer contributions
  - PRSI rate increases;
  - State Pension age increases.
- In each case, the policy levers are adjusted to meet the projected annual shortfalls in 2030, 2040, and 2050 - as set out in the update to the 2015 Actuarial Review of the Social Insurance Fund provided by KPMG.
- The Commission settled on Package 4: a combination of all three policy levers.


€ billions
€25
€20
€15
€10
€5
€0
Package 1 Package 2 Package 3 Package 4 Package 1 Package 2 Package 3 Package 4 Package 1 Package 2 Package 3 Package 4 Package 1 Package 2 Package 3 Package 4
2030
2040
2050
2070
Total Contributions Approach
Class S
Class A
Pension Age
Exchequer Contributions

Recommendations: Funding

- The Social Insurance Fund (including the State Pension system) should continue to be financed on a Pay-As-You-Go basis.

- The Commission recommends the creation of a separate account in the Social Insurance Fund (SIF) for State Pensions.

- The Commission supports the principle of annual Exchequer contributions to the ‘State Pension’ account of the SIF.

Recommendations: Payment Rates

- The Government should immediately implement the smoothed earnings approach to benchmarking and indexation as outlined in the *Roadmap for Social Inclusion 2020 – 2025*.
- Establish an independent standing body that would advise Government on pension rates of payment, in a manner analogous to the Low Pay Commission.
- This body should periodically review the effectiveness of the benchmarking and indexation approach in preventing pensioner poverty.
- Commends the recent approach to Budget increases in the Living Alone Allowance and recommends that this pattern of enhanced increases continue.

Recommendations: Calculation Methods

- Full transition to a Total Contributions Approach and the abolition of the Yearly Average approach to calculating entitlement to the State Pension Contributory rate of payment should be implemented as soon as possible.

- For those who are better off having their pension entitlement calculated under the Yearly Average approach, a phased transition to the Total Contributions Approach should apply gradually over a 10 year period.

Recommendations: Calculation Methods

- The Commission recommends that the current 'Interim' TCA should become the definitive TCA i.e. 40 years – or 2,080 contributions – required at State pension age to qualify for a maximum rate pension.
  - This includes 10 years of credited contributions and 20 years of HomeCaring periods, but with a cap of 20 years combined credited and HomeCaring periods.

- Issue regular PRSI contribution statements so that contributors are aware of their level of contributions and how this relates to the level of State Pension Contributory that they can expect to receive.

Recommendations: Long-term Carers

- Long-term carers (defined as caring for more than 20 years) should be given access to the State Pension Contributory (SPC) by having retrospective contributions paid for them by the Exchequer when approaching pension age for any gaps in their contribution history arising from caring.

- The contributions would be exclusively for SPC purposes, and would be recognised as paid contributions both for the purposes of the qualifying for SPC and for calculating pension rate entitlement under the Total Contributions Approach.

- The relevant Government Department(s) should examine, in conjunction with relevant stakeholders, options for the creation of a statutory ‘Family Carer Register’

Recommendations: Retirement age

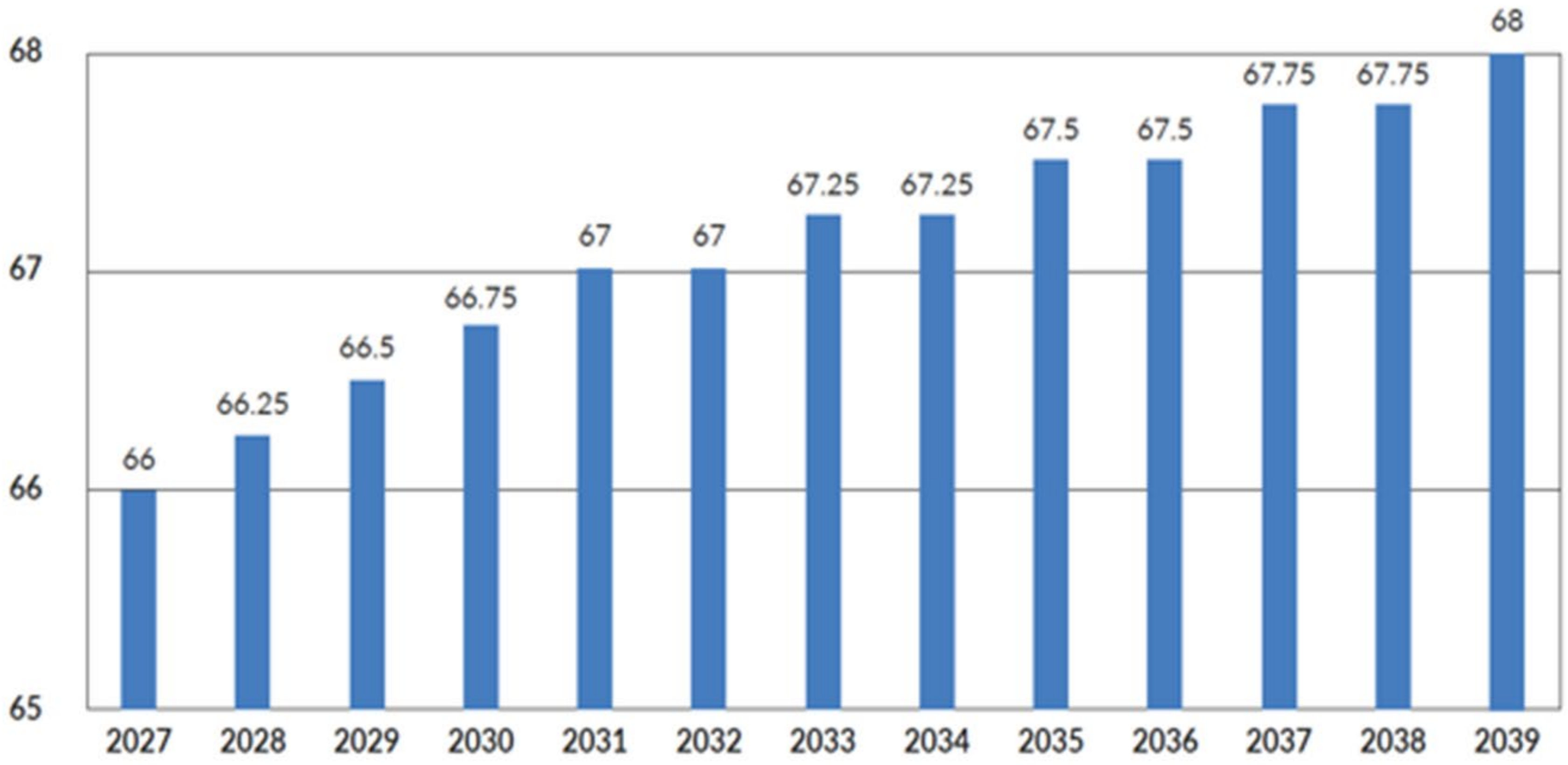
- Align retirement ages in employment contracts with the State Pension age, by introducing legislation that allows but does not compel an employee to stay in employment until State Pension age. Any such legislation must meet the standard required by the Equality Directive.

- Social partners, relevant Government bodies, and the Workplace Relations Commission should consider and issue guidance on measures to facilitate those who wish to continue working past retirement age, with proposals to be considered at appropriate fora, including the Labour Employer Economic Forum.

Recommendations: State Pension age

- The Commission recommends a gradual incremental increase in the State Pension age by three months each year commencing in 2028, reaching 67 in 2031 (10 years from now), with further increases of 3 months every second year reaching 68 in 2039.
  - The gap between the traditional retirement age in employment contracts and the State Pension age has been partially addressed with the introduction of the Benefit Payment for 65 year olds and will be further addressed if the Commission's recommendation to align retirement ages in employment contracts with the State Pension age is implemented.
  - The gradual implementation will reduce the impact of the pension age increase on upcoming pensioners.

Proposed State Pension qualifying ages, from 2027 to 2039



Recommendations: Flexible Access

- A person may choose to defer access to the State Pension up to age 70, and receive a cost neutral actuarial increase in their State pension payment.
- A person can continue to pay social insurance contributions past State Pension age at their existing PRSI contribution rate (employees, employers and the self-employed) to improve their social insurance record for State Pension Contributory purposes.
- As an option for Government to consider, done in conjunction with a State Pension age increase, the Commission sees merit in recognising long PRSI contribution histories by including a provision whereby those who choose to retire at 65, and have a long Total Contributions (TCA) record of 45 years, may receive a full pension.

Recommendations: Increase PRSI rates

- **Increase the self-employed PRSI contribution rate.**
  - In the first instance, the Commission recommends that Class S PRSI for all self-employed income is gradually increased from 4 per cent to 10 per cent.
  - In the medium term, the Class S PRSI rate should be set at the higher rate of Class A employer PRSI (currently 11.05 per cent).

- **Increase the Class A rate of PRSI for both employers and employees.**
  - The level of increases required depend on the package that the Government chooses to implement (if any).
  - The Commission recommends Package 4, which will not require PRSI rate increases for employers and employees until after 2030.
  - It will require a 1.35 percentage point increase in Class A each for both employers and employees by 2040.

Recommendations: Base Broadening

- Maintain the exemption from PRSI on all social welfare payments
- Other than social welfare payments, remove the exemption from PRSI for those aged 66 or over – all those over State Pension age should pay PRSI on a solidarity basis (Class K) on all income currently subject to PRSI.
- Remove the exemption to pay PRSI on supplementary pension income (occupational and personal pensions, and public sector pensions).

Next Steps

- The Programme for Government commits that the Government will take action having regard to the recommendations of the Commission within 6 months of receiving the Report.
- The Report went to Government on Thursday 7th October and was published the same day.
- It has been referred to the Joint Oireachtas Committee on Social Protection for its views.
- The Government has also asked the Commission on Taxation and Welfare for its view with respect to the PRSI changes recommended by the Commission by the end of February 2022.
- The Report will be referred to the Cabinet Committee on Economic Recovery and Investment for consideration over the next 6 months with a view to bringing a recommended response and implementation plan to Government by end of March 2022.

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