



Relate

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Contributory Social Welfare pensions

Most people who are currently employed in the private sector, recent recruits to the public sector and people who are self-employed are likely to qualify for a State Pension (Contributory) when they reach 66. (This pension was formerly the Old Age Contributory Pension.) Many of these people (apart from most self-employed people) are also eligible for the State Pension (Transition) at age 65. (This pension was formerly called the Retirement Pension.) Virtually everyone who is employed or self-employed and their spouses are eligible for the Widow's/Widower's Pension (Contributory). Some people may not qualify for a contributory pension, or may not qualify for a full contributory pension. They are mainly people who have not been employed or self-employed or who have significant gaps in their employment/self-employment.

The rules governing the award of social welfare contributory pensions are complex. The complexity has arisen partly at least from the introduction of arrangements to facilitate more people to qualify.

Basically, your entitlement to a contributory pension is dependent on the social insurance contributions you have paid (and been credited) over the years. In the case of Widow's/Widower's Pension it depends on either your own contributions or those of your spouse – they cannot be combined. The rules about compulsory payment of social insurance have changed over time. This means that some people were unable to pay social insurance at one time and at other times were required to pay it.

Because the rules have changed over the years, different rules may apply to people who are currently pensioners as opposed to those which apply to people who are about to reach pension age. There are different rules again for people who will reach pension age after 2012. Here, we look at the detailed rules but we concentrate on those rules which apply to people who are not yet receiving pensions – in effect, people who are currently aged less than 65. If you have ever paid social insurance contributions, you should apply for a pension.

Social insurance over time – a very brief guide

- Pre-1953:** Certain full-time employed people paid social insurance contributions (they were then called National Health Insurance contributions). These provided cover for short-term benefits. The people who paid were manual workers and non-manual workers (in the private sector) who earned less than a certain amount (£600 a year in 1953). Pre-1953 contributions can be taken into account for benefits but anyone who is currently aged under 70 cannot have such contributions.
- 1953-1974:** Non-manual workers were obliged to pay social insurance contributions only if their income was below a certain level – the level varied from £600 per annum in 1953/58 to £1600 per annum in 1971/74.
- The social insurance contribution was at a flat rate and was generally known as the “stamp”. In 1961, the Old Age (Contributory) Pension was introduced.
- 1974:** The income limit for non-manual workers was removed. All private sector employees were now liable to pay social insurance.
- 1979:** The social insurance contribution changed from a flat rate to a pay-related system and became known as Pay-Related Social Insurance (PRSI).
- 1988:** Self-employed people became liable for PRSI.
- 1991:** Part-time workers started to pay PRSI.
- 1995:** New entrants to the public service became liable for full PRSI.

Full and modified rates of social insurance

In order to qualify for the State Pension you must have a certain level of full social insurance contributions. This means the full stamp prior to 1979 or Class A, E, F, G, H, N or S since then. Class S is the social insurance paid by self-employed people. The others (some of which no longer exist) are paid by employees. The social insurance paid by employees gives cover for all social welfare pensions. Class S does not always cover for State Pension (Transition) but it does in certain cases.

Prior to 1995, civil servants and many in the public service paid what are called “modified” social insurance contributions. These provide cover for Widow’s/Widower’s Pension (Contributory) but not for State Pension (Contributory or Transition) or Invalidity Pension. Civil and public servants who joined before 1995 continue to pay the modified rate, while those who joined since 1995 pay the full rate.

Voluntary social insurance

Some people are entitled to pay voluntary contributions to social insurance. You must have been paying compulsory social insurance for a period (the precise period has changed over time but is currently 5 years) before you are entitled to pay voluntary contributions to social insurance. Voluntary contributions can be at either the full rate or the modified rate. Full-rate voluntary contributions count towards all contributory pensions, while modified-rate contributions count only towards Widow’s/Widower’s Pension (Contributory). There are other rules which are too complex to include here.

Credited contributions

Credited contributions are effectively free contributions which are granted in certain circumstances, notably while you are receiving unemployment and illness payments. You must have previously paid some contributions. The detailed rules governing credits are too complex to describe here.

General

State Pension (Contributory)

While the rules are complex, there are many people who need not concern themselves about them as they easily meet the conditions. If you are now under 65, you should qualify for a State Pension (Contributory) if:

- You have been employed or self-employed for most of your life.
- You have been employed on and off for at least 5 years in total (10 years if you do not reach pension age until 2012) but have been receiving unemployment or illness benefits in the periods between employment.
- You have been employed or self-employed for at least 5 years in total (10 years if you do not reach pension age until 2012); have left employment since 1994 in order to care for children or people with disabilities and have then returned to employment or self-employment.

You may have problems qualifying for a State Pension or you may qualify only for a reduced pension if you have been intermittently out of work or self-employment and you have

- Not been getting unemployment or illness benefits or
- Been caring for children or people with disabilities prior to 1994

You may also have problems if you have some full-rate and some modified-rate contributions.

Widow's/Widower's Pension

The vast majority of widows and widowers now qualify for a contributory pension. The main reason why you might not qualify is that you or your spouse have paid contributions for less than 3 years.

Qualifying for the State Pension (Contributory)

The State Pension (Contributory) may be paid to people from the age of 66 who have enough social insurance contributions.

The State Pension (Transition) may be payable at age 65 – the contribution rules governing this pension are similar but, where there are major differences, these are pointed out. The more significant difference is that payment of the State Pension (Transition) is dependent on you being retired from work – this means that you may not have an income of more than €38 a week from work or €3,174 from self-employment. This condition ceases when you reach 66.

The contribution conditions for State Pension (Contributory) are as follows:

1. Paid social insurance before a certain age

You must have started to pay social insurance before a certain age. For people currently under 66, they must have started to pay social insurance before the age of 56. In effect, you must have started to pay at least 10 years before reaching pension age. For State Pension (Transition), you must have started to pay social insurance before 55.

Entry age problems

There are a number of problems arising from the entry age requirement, some of which have been addressed by the pro-rata pensions described below. If you fail to qualify for a

State Pension (Contributory) for this reason alone you may be able to claim a refund of that part of your contribution that goes to the State Pension. However, if you qualify for a State Pension (Non-Contributory) you will not get such a refund. The main group affected by this provision now are those self-employed people who were over the age limit when compulsory insurance was introduced for them in 1988 – see below.

2. Number of paid contributions

If you reach pension age before 6 April 2012, you must have paid 260 full-rate contributions (a total of 5 years but they do not have to be consecutive).

If you reach pension age on or after 6 April 2012 you need to have a total of 520 full-rate paid contributions (10 years). Generally, at least 260 of these must be compulsorily paid – that is, not more than 260 may be voluntary contributions. However, there is a saver for people who were voluntary contributors on or before 6 April 1997 – they must have the total of 520 but they only need 156 compulsory paid contributions.

3. Average contributions per year

You must meet the "average" condition. This is the most complex aspect of qualifying for pensions and it is the one which gives rise to the greatest problems and anomalies.

Standard average rule

The standard average rule states that you must have a yearly average of at least 10 contributions paid or credited from the year you first entered insurance, or from 1953, whichever is later. An average of 10 entitles you to a minimum pension; you need an average of 48 to get the full pension. If you first started paying insurance in 1970 and you reach 66, say in January 2008, your average is measured from 1970 to April 2007. (For the State Pension (Transition) the minimum average is 24.)

There is only a small difference between the pension payable to people with an average of 48 and those with an average of at least 20. The current maximum personal rate of the State Pension (Contributory and Transition) is €209.30. The reduced rates are as follows:

| Yearly average | Current personal amount |
|----------------|---|
| 20 – 47 | €205.20 |
| 15 – 19 | €157.00 (three quarters of the maximum) |
| 10 – 14 | €104.70 (half of the maximum) |

The full Increase for a Qualified Adult is payable where there is an average of 20 or more. Proportionate amounts are paid where the average is less than 20.

Increases for qualified children are the same regardless of the yearly average. See below for the rules about who qualifies for an IQA.

The average rule gave rise to a number of problems, some of which have been resolved by introducing pro-rata pensions for a number of affected groups – these are described below. Carers/homemakers may have the number of years over which the average is measured reduced – see below.

Alternative average rule

The alternative average rule requires that you have an average of 48 contributions (paid or credited) for each contribution year from April 1979 to the April before your 66th birthday. This average would entitle you to a full pension.

So, your average is looked at in two ways – the standard average is assessed and the alternative average is assessed. Most employed or formerly employed people who are now coming up to pension age should be able to meet the alternative average.

Self-employed pensions

Self-employed people have been obliged to pay social insurance since 1988. Prior to that, some self-employed people were paying voluntary contributions. The rules governing how they qualify for the State Pension (Contributory) are the same as for everyone else but there are different rules about the date of entry into insurance. If you started to pay self-employed contributions on 6 April 1988 and had previously paid employee insurance at any time, then the date of entry into insurance can be either 6 April 1988 or the date on which you actually first paid insurance, whichever is to your advantage. In general, it is likely that the only self-employed people for whom the earlier date would be most advantageous would be those who were aged over 56 in April 1988. If the earlier date is used then the average is measured from that earlier date.

Most self-employed people are not covered for State Pension (Transition). Only those who were formerly employed and paying employee social insurance and then paid voluntary insurance up to April 1988 are covered for this pension.

Half-rate pension for self-employed people

Self-employed people who were aged 56 when compulsory social insurance for the self-employed was introduced in 1988 could not qualify for a State Pension under the normal rules. In 1999, a half-rate pension was introduced for those affected by this entry age problem. This half-rate pension was payable provided they had at least 260 self-employed contributions (Class S) paid. The Increase for a Qualified Adult is also paid at half-rate.

The Human Rights Commission published *The Self-Employed and the Old Age Contributory Pension* in 2006. This is the result of an enquiry conducted by the HRC into the situation of self-employed people who were over the age of 56 when contributions for the self-employed were introduced in 1988 and could not, therefore, qualify for a pension. They were not entitled to a half-rate pension either as they did not have enough contributions. The report is available at www.ihrc.ie.

Pro-rata pensions

Pro-rata pension for intermittent insurance

The first group for whom pro-rata pensions were arranged were those who had been in and out of insurance because of the operation of the income limit on contributions. From April 1974 there has been no income limit. Many of the people who paid social insurance for a period, ceased to pay for a while and then came back into the insurance system in April 1974 because of the abolition of the income limit would not meet the usual average requirement. In 1988, arrangements were made for them to qualify for a pro-rata pension.

Their average is measured in the usual way and if that average is 10 or more they get a pension in the normal way. However, if it is between 5 and 9 they may get a special partial pension which is one quarter of the maximum pension.

This pro-rata pension is payable to people who meet the quite specific conditions outlined, that is, you must have a broken insurance record and have re-entered insurance in 1974 because of the removal of the income limit. If you re-entered insurance in that year for any other reason (for example, because you had previously been self-employed or out of the country) you do not meet these specific terms and you are not eligible for this pro-rata pension.

If you qualify for this pro-rata pension you may also get the appropriate Increase for Qualified Adult in respect of a dependent spouse or partner and qualified child allowances as well – the usual rules apply.

This pro-rata pension is for State Pension (Contributory) and Widow's/Widower's Pensions only (because it is easier to qualify for a Widow's Pension the numbers who need the pro-rata pensions are very small). This scheme does not apply to State Pension (Transition).

Pro-rata pensions for those with mixed insurance

The second group for whom pro-rata pensions were introduced are those with mixed insurance records, that is, people who worked for some time in the public sector (and paid modified social insurance) and for a time in the private sector or as self-employed (and paid full-rate social insurance).

People with mixed insurance may have enough full contributions to enable them to qualify for State Pensions

(Transition) and state pensions (Contributory). This depends on the exact circumstances of each case. It could happen that one person would qualify while another, who might have more contributions, would not qualify.

It should be remembered that there are many people who have had a career in both the public and private sector but may not have mixed insurance. This is because no insurance was payable by people whose incomes were above certain limits before 1974. Certain groups which are now insured were outside the scope of the system – Gardaí only became insurable in 1974; certain members of religious orders in 1988; and doctors and dentists in the civil service in 1988.

Entry into insurance

The rules which determine when entry to insurance occurred are also quite complex for those with mixed insurance. Before this pro-rata pension was introduced, it was possible to qualify for a State Pension if you moved from the public sector at, say, age 55 and then worked in the private sector for a number of years. This is no longer the case.

If you first started to pay full insurance before 6 April 1991 your entry into insurance is regarded as the date on which you first started to pay the full rate of insurance. In practice, this means that you may be able to qualify for a full pension and, if not, you may qualify for a pro-rata pension. However, if you started to pay full insurance after 6 April 1991 your entry into insurance is the time you first paid any insurance. So, if you were paying modified insurance from, say, 1975 to 1992 and then started to pay full insurance, your entry into insurance is 1975.

Contribution conditions for the pro-rata pension

You must have

- At least 260 paid contributions at the full rate since entry into insurance or 1953, whichever is later for people reaching 65 or 66 on or before 6 April 2002.
- A mixture of full and modified contributions which when added together give you a yearly average of at least 10 from the time you first entered insurance (or 1953 whichever is later) to the end of the contribution year before your 66th birthday
- Failed to qualify for a pension under EU regulations or under reciprocal arrangements with other countries (see below) or only qualified for a pension at a lower rate than this pro-rata pension would give you

If you meet all these requirements you may qualify for a pension proportionate to the number of contributions which you have at the full rate.

If you reach pension age on or after 6 April 2012 you will need to have a total of at least 520 full and mixed contributions paid, and at least 260 of these must be full contributions.

Calculation of the pro-rata pension

The pro-rata pension for people with mixed insurance is calculated as follows:

All contributions at the full and modified rates are added together. The average is then measured in the normal way. If you have an average of at least 10 contributions then you may qualify for a pension. The number of full contributions is divided by the total number of contributions to find out what proportion of the total is at full rate. You then get that proportion of the normal maximum pension.

This method is similar to the way in which entitlement to a pension from two or more member states is calculated under EU Regulations (see below).

Like the manner in which the pensions are determined under EU rules, the Increase for a Qualified Adult is proportioned as well. Increases for qualified children are paid in full.

Homemakers/carers

In 1994, regulations were made which should make it easier for people to qualify for pensions if they have taken some

time off work to care for family members. These regulations were improved in 1996. The scheme applies to people who have been carers at any time since 1994. It does not affect those who were carers before April 1994 and it may not be of much use to those who give up work permanently. It is of greatest importance for those who work outside the home for a number of years, then spend a number of years as carers and then return to the workforce. It applies equally to women and men.

This regulation provides that "homemakers" may have up to 20 of their homemaking years disregarded when their entitlement to pension is being assessed.

A homemaker is defined as a person who lives with and cares for a child under the age of 12, or who lives with and provides full-time care and attention for an incapacitated person.

The definition of an incapacitated person is the same as that which applies to the Carer's Allowance. A homemaker must live in the State and must not be engaged in employment and earning more than €38 a week or have self-employed earnings of more than €3,174 a year.

From 5 April 1994, any contribution year spent as a homemaker may be disregarded in the calculation of the yearly average, up to a maximum of 20 years.

EU Regulations and bilateral agreements

There is no such thing as an EU pension as such but there are EU rules which apply to people who have paid social insurance contributions in more than one member state of the EU. The rules apply in the same way to the other EEA member states (Norway, Iceland and Liechtenstein) and to Switzerland.

If you have worked in more than one of the states concerned you may qualify for a pension from each country because of EU rules. The rules are complex but briefly what happens is as follows:

If you have paid social insurance contributions in 2 or more of these participating states you should apply for a pension to the state in which you now live or in which you have your last contribution if you have no contributions in the state where you live. The authorities in the state in which you apply then calculate with the other states exactly what is due to you from each of them.

Each state looks at your situation in two ways and then grants you whichever is most beneficial. The procedure is as follows:

- (a) They see if you can qualify for a pension on the basis of contributions paid in that state only.
- (b) They then look at your contributions in all participating states and see what pension you would get if all of those contributions had been in their own state; they then calculate what proportion is applicable to them.
- (c) You then get the higher of (a) and (b).

For example, you have worked 20 years in the UK and the last 20 years in Ireland. You are now approaching 66 and looking for a State Pension (Contributory). Your last 20 years in Ireland entitle you to a full State Pension (Contributory) from Ireland so there is no need to take your UK contributions into account for that.

Your UK contributions entitle you to some UK pension as

well, but not the full pension. The UK authorities calculate what the UK contributions on their own will give you. Then they do the alternative calculation – they combine the contributions paid in the two states, that is, 40 years in total; calculate what that would give you if they were all paid in the UK and then calculate the proportion payable by the UK, that is half of that. The UK authorities then pay you the higher of the two calculations.

These rules apply in the same way to State Pension (Transition).

There are similar arrangements for countries with which Ireland has bilateral agreements: Australia, Canada, Channel Islands, Isle of Man, New Zealand, Québec and the USA. In the case of Channel Islands and the Isle of Man, only contributions paid after October 2007 will be counted. A new bilateral agreement with the Republic of Korea is expected to come into effect in 2008.

Increase for a Qualified Adult

If you are entitled to a State Pension (Contributory or Transition) or an Invalidity Pension you may also be eligible for an increase in respect of adult dependants. This is now called an Increase for a Qualified Adult (IQA). Generally, there is only one qualified adult but there may be more. For example, if you have been divorced, your spouse and your former spouse may each be a qualified adult. There is no IQA payable with a Widow's/Widower's Pension.

A qualified adult may be a spouse, a divorced former spouse or a cohabiting partner. A person over the age of 16 who is caring for your dependent children may also be regarded as a qualifying adult if certain conditions are met.

The qualified adult must be wholly or mainly maintained by you. This means that he/she must not be receiving a social welfare payment in his/her own right or have an income above certain limits. So, if your spouse is getting a payment, for example State Pension or Jobseeker's Benefit, in his/her own right, then he/she cannot also be a qualified adult.

If he/she has gross income of less than €100 a week, then the full IQA is payable; if the gross income is between €100 and €280, a reduced rate of IQA is payable. Generally, income from employment is assessed over the 6 to 8 weeks before the application for the pension. Income from self-employment is assessed over the previous year. Income

from property and savings is assessed in the same way as it is assessed for the State Pension (Non-Contributory). This means that the value is assessed as follows:

The first €20,000 is not assessed.

The next €10,000 is assessed at €1 per week for each €1,000.

The next €10,000 is assessed at €2 per week for each €1,000.

Any amount over €40,000 is assessed at €4 per week for each €1,000.

The qualified adult is assessed as having half of any jointly owned property or savings.

Direct payment to qualified adult

If you are a qualified adult you may get the IQA paid directly to you. This does not mean that you have an independent right to a pension. You can qualify only if your spouse/partner qualifies for a State Pension and you meet the conditions for the IQA. The payment ceases when your spouse/partner ceases to be entitled to a State Pension.

From 24 September 2007, the IQA is being paid directly to the qualified adult of all new claimants for a State Pension (Contributory) or State Pension (Non-Contributory) or State Pension (Transition).

Widow's/Widower's Pension

As already stated, it is easier to qualify for a Widow's/Widower's Contributory Pension than for a State Pension (Contributory). You must, of course, be widowed. You cease to be entitled if you remarry or cohabit. You retain an entitlement if you are divorced.

The social insurance contribution conditions may be met either by yourself or your spouse but the two sets of contributions cannot be combined to allow you to qualify. Full rate and modified social insurance contributions count for this pension. If your late spouse was receiving a State

Pension (Contributory) which included an Increase for a Qualified Adult in respect of you, you automatically qualify for a Widow's/Widower's Pension.

To qualify you must have

- At least 156 contributions paid before you reached 66 years or to the date your spouse died, if earlier and
 - A. An average of 39 contributions in either the 3 or 5 years (whichever is more beneficial) before the death of the spouse or before he/she reached pension age (66) or

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- B. A yearly average of at least 24 contributions from the year of first entry into insurance until the year of death or reaching pension age.

If you meet the average of 39 as at "A" above, you get a maximum pension. On the alternative calculation at "B" above, an average of 48 gets a maximum pension while an average of 24 is needed for the minimum pension.

The pro-rata pension for people with intermittent insurance described above also applies to this pension.

Moving from one pension to another

Invalidity Pension

You may qualify for Invalidity Pension if you are permanently incapable of work and have enough full-rate employment social insurance contributions. (Self-employed contributions do not count towards this pension.) There is no lower age limit. In practice, you must be aged at least 21 since you must generally have at least 5 years contributions paid.

If you are on Invalidity Pension you are now automatically transferred to State Pension (Contributory) at age 66. The rate of Invalidity Pension for people aged 65-66 is the same as the maximum rate of the State Pension so the move does not make any practical difference.

Widow's/Widower's Pension (Contributory)

You may qualify for the Widow's/Widower's Pension (Contributory) at any age and it may then be payable for the rest of your life provided you remain a widow or widower. The maximum amount of the pension is the same as the maximum amount of the State (Pension) Contributory. So, if you become entitled to the State Pension on your own contributions, you may opt for whichever one is to your advantage.

Green Paper on Pensions

A Green Paper on Pensions was published in October 2007. This looks at social welfare pensions and what are described as supplementary pensions, that is, mainly occupational pensions and personal pensions. In relation to social welfare pensions, the paper identifies the problems which have arisen as a result of the limited coverage of the social insurance system before the 1990s and the operation of the average condition. It sets out a range of approaches which could be taken to the problems. These include:

- Maintaining the current arrangements
- Providing universal pensions – this could involve a standard pension to everyone of pension age or a minimum payment to those who do not qualify at present
- Improving and backdating the Homemakers' Scheme
- Replacing the average contribution test with a total contributions test

The consequences of each of these options are examined. A Green Paper involves setting out options and does not come to conclusions. The paper is available at www.pensiongreenpaper.ie

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