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Relate

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Contents

Contributory State pensions

A number of changes to the conditions for qualifying for the State Pension (Contributory) are coming into effect in 2012 and others will be introduced between now and 2028. At present, the State Pension (Contributory) is payable at age 66 to people who have enough social insurance contributions but the age limit will increase over time. The State Pension (Contributory) was formerly known as the Old Age Pension (Contributory).

State Pension (Transition) – formerly called the Retirement Pension – is payable between the ages of 65 and 66 to people who have enough contributions and meet other conditions. It is being abolished from 2014.

Some changes are also being introduced for the Widow's, Widower's or Surviving Civil Partner's (Contributory) Pension.

People who are already getting pensions on the date when a new rule is introduced are not affected by the new rule and continue to receive their pension as before. So, if you are currently getting a pension, you are not and will not be affected by the changes being made.

The main changes which affect the State Pension are as follows:

- From April 2012, you will need a minimum of 520 paid contributions (10 years) in order to qualify. Legislation making this change was passed in 1997.
- From 1 September 2012, new reduced rates of payment will apply to people with yearly average contributions of less than 40. This will be brought into effect by Statutory Instrument before September 2012.

- A *total contributions* approach to establishing entitlement will be introduced (see page 7); the planned date is 2020 but it could be introduced earlier.
- State Pension (Transition) will be abolished from 1 January 2014 and the age at which the State Pension (Contributory) is payable will gradually rise to 68 in 2028. This was provided for in legislation in 2011.
- There will be some changes to the rules governing the Increase for a Qualified Child from 5 July 2012.
- In general, if you make a late claim, your payment may be backdated for a maximum of six months – this applies since 5 April 2012.
- The rule about late claims also applies to the Widow's, Widower's or Surviving Civil Partner's (Contributory) Pension and the contributions required for this pension will increase in 2013.

Here we look at the current rules governing the main contributory pensions. These rules apply to people who become eligible for these pensions on or after 6 April 2012.

Who qualifies for a State Pension?

The rules governing the award of social welfare contributory pensions are complex. The complexity has arisen partly from the introduction of arrangements over successive years that allowed more people to qualify.

You are likely to qualify for a State Pension (Contributory) when you reach 66 if you are either:

- Currently employed in the private sector
- Self-employed or
- A public sector worker who joined the public sector since 1995

You may also be eligible for the State Pension (Transition) at age 65 but this pension is being abolished from 2014 and few self-employed people qualify (see section on *Self-employed people* on page 5). Virtually everyone who is employed or self-employed and their spouses or civil partners are eligible for the Widow's, Widower's or Surviving Civil Partner's (Contributory) Pension.

While the rules are complex, there are many people who easily meet the conditions. If you are now under 66, you should qualify for a State Pension (Contributory) if you have been:

- Employed or self-employed for most of your life
- Employed on and off for at least 10 years in total but have been receiving unemployment payments or illness benefits in the periods between employment or
- Employed or self-employed for at least 10 years in total, have left employment since 1994 in order to care for children or people with disabilities and have then returned to employment or self-employment

Reasons for not qualifying for contributory State pensions

Some people may not qualify for a contributory State Pension, or may not qualify for a full contributory pension. In general, this may apply to you if you:

- Have not been employed or self-employed or
- Have significant gaps in your employment or self-employment

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

- You have not been getting unemployment payments or illness benefits or
- You were 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.

The vast majority of widows, widowers and surviving civil partners now qualify for a contributory pension. The main reason why you might not qualify is that you or your spouse, civil partner or cohabiting partner have paid contributions for less than three years (the number of contributions required will be increased to five years from 2013 – see page 8).

Social insurance contributions

Your entitlement to a contributory State 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 or Surviving Civil Partner's (Contributory) Pension it depends on either your own contributions or those of your spouse or civil partner – they cannot be combined.

The rules about compulsory payment of social insurance have changed over time and as a result, some people were unable to pay social insurance at one time and at other times were required to pay it. In general, if you have ever paid social insurance contributions, you should apply for a contributory State Pension, so that your eligibility can be assessed.

Social insurance timeline

Pre-1953: Certain full-time employed people paid social insurance contributions (then called National Health Insurance contributions). Pre-1953 contributions used to be taken into account for pensions. However, anyone who is currently reaching 65 or 66 and applying for a State Pension would not have such contributions.

1953–1974 Manual workers paid social insurance contributions and non-manual workers were obliged to pay only if their income was below a certain level – the level varied from £600 a year in 1953/58 to £1,600 a year in 1971/74. The social insurance contribution was at a flat rate and was generally known as *the stamp*. The Old Age (Contributory) Pension was introduced in 1961.

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 compulsory pay-related system and became known as Pay-Related Social Insurance (PRSI).

1988: Self-employed people became liable for PRSI.

1991: Part-time workers became liable for PRSI.

1995: New entrants to the public service became liable for full-rate PRSI.

Full and modified rates of social insurance

In order to qualify for the State Pension (Contributory) you must be aged 66 and have a certain level of full social insurance contributions. This means the full stamp prior to 1979 or PRSI 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 – classes E, F G and N – no longer exist) are or were paid by employees and they give cover for all social welfare pensions. Class S does not generally provide cover for State Pension (Transition) except in very limited circumstances.

Prior to 1995, civil servants and many people in the public service paid what are called *modified* social insurance contributions (generally Classes B, C and D).

Modified contributions are at a lower rate and provide cover for a limited range of benefits. They provide cover for Widow's, Widower's or Surviving Civil Partner's (Contributory) Pension 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 – see *Relate*, September 2010. 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 or Surviving Civil Partner's (Contributory) Pension.

The Social Welfare and Pensions Bill 2012 provides for changes to the rules governing voluntary contributions and these changes will be outlined in next month's *Relate*.

Credited contributions

Credited contributions are effectively free contributions which are granted in certain circumstances, notably while you are receiving unemployment and illness payments – see *Relate*, September 2010. Credited contributions count towards all contributory pensions, provided you have enough paid contributions.

Pension age

The State Pension (Transition) may be payable at age 65 if you have retired from work – this means that you may not have an income of more than €38 a week from employment or more than €5,000 per year from self-employment. This pension will be abolished from 1 January 2014 so if you were born on or after 1 January 1949, you will not be able to qualify for this pension.

The State Pension (Contributory) may be paid to people from the age of 66. The age limit will increase as follows:

- 2021 67 years
- 2028 68 years

Social insurance needed for State Pension

The contribution conditions for State Pension (Contributory) and State Pension (Transition) are similar but there are some differences.

Paid social insurance before a certain age

You must have started to pay social insurance before the age of 56 for the State Pension (Contributory) and before 55 for the State Pension (Transition).

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 on page 5.

Number of paid contributions

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). If you reached pension age before that date, you only needed to have 260 paid contributions. Legislation was passed in 1997 to provide for this change in contribution levels. This means that, if you were born on or after 6 April 1947 you need 520 paid contributions in order to qualify for State Pension (Transition); if you were born on or after 6 April 1946, you need 520 paid contributions in order to qualify for the State Pension (Contributory).

Generally, at least 260 of your 520 contributions must be compulsorily paid – that is, not more than 260 may be voluntary contributions. However, if you were a voluntary contributor on or before 6 April 1997, you need only 156 paid contributions provided you have a total of 520 and have a yearly average of 20 contributions.

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. If you are 66 in 2012, the earliest you could have entered insurance was 1962 because you cannot pay social insurance under the age of 16.

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 May 2012, your average is measured from 1970 to December 2011. For the State Pension (Transition) the minimum average required in order to receive a pension is 24.

At present, 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.

From September 2012, changes are being introduced to the amounts payable to people with a reduced average.

The average rule gave rise to several problems, some of which have been resolved by introducing pro-rata pensions for a number of affected groups – these are described in *Pro-rata pensions* on page 5. Carers and 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 end of the last tax year before reaching pension age (66). 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 and the more favourable is used. Most employed or formerly employed people who are now coming up to pension age should be able to meet the alternative average rule.

Carers and homemakers

The arrangements for carers and homemakers apply to people who have been carers of children or people with disabilities at any time since 1994. They do not affect those who were carers/homemakers before April 1994 and may not be of much help to those who give up paid work permanently. They are of greatest importance for those who worked outside the home for a number of years, then spent a number of years as carers/homemakers and eventually returned to the workforce.

These arrangements provide 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
- Have self-employed earnings of more than €5,000 a year

Since 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.

Self-employed people
Self-employed people have had 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 for the purposes of measuring the average.

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. 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.

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.
Many people paid social insurance for a period and then ceased to pay when their income went above the limit then came back into the insurance system in April 1974 because of the abolition of the income limit. This group would not meet the usual average requirement because they had ceased to pay for a while. In 1988, arrangements were made for this group to qualify for a pro-rata pension. In practice, this pro-rata pension is not likely to be relevant for many people who are now reaching 66 but there may be some who could benefit.

Their average is measured according to the standard average rule and if that average is 10 contributions 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 25% of the maximum pension.

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
- 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 Pension (Transition) and State Pension (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.

There may be some people who have had a career in both the public and private sector but who do not have mixed insurance. This is because no insurance was payable by people whose incomes were above certain limits before 1974. Certain groups who 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.

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 this pro-rata pension for mixed insurance
You must have:

- At least 520 paid contributions, of which at least 260 must be at the full rate
- 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 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 page 6) 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 that you have at the full rate.

Calculation of the pro-rata pension

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

1. All contributions at the full and modified rates are added together.
2. The average is then measured according to the standard average rule and if you have an average of at least 10 contributions, you may qualify for a pension.
3. 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.
4. 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). As with pensions determined under EU rules, the Increase for a Qualified Adult is paid on this proportional basis as well. Increases for Qualified Children are paid in full.

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/EEA rules. The rules are complex but briefly what happens is as follows:

If you have paid social insurance contributions in two 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 paid your last contribution if you have no contributions in the state where you live. The authorities in the state where 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:

1. Those responsible see if you can qualify for a pension on the basis of contributions paid in that state only.
2. 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.

You are granted whichever is the higher sum.

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). The 20 years you worked 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, in this example, 20 years. 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, but not always precisely the same, arrangements for countries with which Ireland has bilateral agreements: Australia, Canada, Channel Islands, Isle of Man, Japan, South Korea, 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.

Increase for a Qualified Adult

If you are entitled to a State Pension (Contributory or Transition) you may also be eligible for an increase for an adult dependant. This is 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 both be qualified adults. There is no IQA payable with a Widow's, Widower's or Surviving Civil Partner's (Contributory) Pension.

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

A qualified adult must be wholly or mainly maintained by you. This means that he or she must not be receiving a social welfare payment in his or her own right or have an income above certain limits.

If he or she has gross income of less than €100 a week, then the full IQA is payable; if the gross income is between €100 and €310, a reduced rate of IQA is payable. The qualified adult is assessed as having half of any jointly owned property or savings for pensions.

Increase for a Qualified Child

You may get an Increase for a Qualified Child (IQC) with your pension if you have a child dependant who is aged under 18, or over 18 and up to 22 if in full-time education. Half rate of this payment is payable generally if your spouse, civil partner or cohabiting partner does not qualify for an IQA.

From 5 July 2012, you will not qualify for a half-rate Increase for a Qualified Child if your spouse, civil partner or cohabiting partner's income is over €400 a week.

Changes from September 2012

At present, there is only a small difference between the maximum rate of the State Pension (Contributory and Transition) and the reduced rate payable to people who have an average of at least 20 contributions a year or at least 24 a year in the case of State Pension (Transition). There were a greater number of rate bands before the year 2000.

The current maximum personal rate of the State Pension (Contributory) is €230.30. The reduced rates are as follows:

Current personal rates

Average of 48 or more:	€230.30 (Maximum pension)
Average of 20–47:	€225.80 (98% of maximum)
Average of 15–19:	€172.70 (75% of maximum)
Average of 10–19:	€115.20 (50% of maximum)

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

The Increase for a Qualified Child is the same regardless of the yearly average.

Personal rates from September 2012

From 1 September 2012, there will be more rate bands as follows:

Average of 48 or more:	€230.30 (no change)
Average of 40–47:	€225.80 (98% of maximum; no change)
Average of 30–39:	€207.00 (90% of maximum)
Average of 20–29:	€196.00 (85% of maximum)
Average of 15–19:	€150.00 (65% of maximum)
Average of 10–14:	€ 92.00 (40% of maximum)

These rates will apply to people who become entitled to a pension on or after 1 September 2012. The Statutory Instrument to provide for these changes will be introduced before September 2012.

The Increase for a Qualified Adult will also be proportionate.

Pensioners who are entitled to pensions before 1 September 2012 will not be affected.

Total contributions approach

It is proposed to replace the averaging rule with a *total contributions* approach; the planned date is 2020 but it could be introduced earlier. This approach means that the pension payable will be directly proportionate to the number of social insurance contributions made. The plan is that anyone with 30 years' contributions would qualify for a maximum pension. The minimum would be payable to people who had 10 years' contributions (520) – they would get one-third of the maximum. There will be a limit of 10 years on the number of credits that will count towards the pension.

Widow's, Widower's or Surviving Civil Partner's Pension

As already stated, it is easier to qualify for a Widow's, Widower's or Surviving Civil Partner's (Contributory) Pension than for a State Pension (Contributory). You must, of course, be widowed or be a surviving civil partner. You cease to be entitled if you remarry, cohabit, or enter another civil partnership. You may retain an entitlement if you are divorced or if your civil partnership is dissolved.

The social insurance contribution conditions may be met either by yourself or your late spouse or civil partner 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 or partner was getting 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 or Surviving Civil Partner's (Contributory) Pension.

To qualify, either you or your spouse or civil partner must have at least 156 contributions paid before you reach 66 years or before the date your spouse or civil partner died, if earlier and:

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- An average of 39 contributions paid or credited in either the 3 or 5 years (whichever is more beneficial) before the death or before reaching pension age (66) or
- 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, you get a maximum pension. On the alternative calculation, an average of 48 gets a maximum pension while an average of 24 is needed for the minimum pension.

From 27 December 2013, you will need to have at least 260 paid contributions in order to qualify for this pension.

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

Claiming your pension

You should apply for a State Pension (Contributory or Transition) well in advance of reaching the age of 65 or 66. It is recommended that you apply three months in advance and four months in advance if you have social insurance contributions in other countries. You should apply for a Widow's, Widower's or Surviving Civil Partner's Pension as soon as possible after the death.

Late claims for pensions

New rules about the backdating of claims for pensions came into effect on 5 April 2012. The new rules mean that late claims may be backdated for a maximum of six months. (In general, 12 months' backdating was possible before then.) Further backdating will be possible only if you were:

- Given incorrect information by the Department of Social Protection (DSP) or
- Incapacitated and unable to claim or to get someone else to claim for you

You cannot get any further backdating if you did not apply as a result of not knowing you were entitled. Further information is available from: **welfare.ie**.

Taxation

Contributory pensions are taxable, but they are not taxed at source by the Department of Social Protection. If your only income is a State pension, you do not have to pay tax because your income is below the taxable limits for people over 65.

If you have income other than the State pension you probably have to pay some tax – this depends on the level of the income. You do not have to pay the Universal Social Charge on your pension but you may have to pay it on other income. Nobody over the age of 66 has to pay PRSI. If you are getting the State Pension (Transition) you do not have to pay PRSI. Note that you cannot qualify for this pension if you are liable for PRSI. Further information is available from: **revenue.ie**.

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