

# Public Consultation on introduction of Total Contributions Approach to State pension (contributory) from 2020

The aim of this consultation is to gather views on the implementation of the Total Contributions Approach (TCA) to establishing level of entitlement to the State Pension (contributory) from 2020.

A policy to introduce the Total Contributions Approach (TCA) to pensions calculation was adopted by Government in the National Pensions Framework in 2010, as was the decision to base the entitlements of all new pensioners on this approach from around 2020.

The Roadmap for Pensions Reform 2018-2023 confirmed the Government's position that the State pension will be reformed and will remain as the fundamental basis of the pension system in Ireland. To do this, the Government will introduce from 2020 'Total Contributions Approach' (TCA) for the State Pension (Contributory).

Full background information is available from [www.welfare.ie](http://www.welfare.ie)

## ***1. GENERAL APPROACH - please rank, in order of preference (1 for highest priority etc), what you believe the priorities should be in the Total Contributions Reform. You do not have to rank every option.***

Removal of anomalies - people with more contributions shouldn't receive lower pensions	1
Continuity – there should be as little change as possible from the Yearly Average system	8
Greater reward for contributions – those who pay more PRSI should be paid higher pensions	9
Credited contributions (e.g. when receiving Jobseekers payments) should be given as much weight as possible, compared to periods paying PRSI	6
Greater equality between men and women	2
Periods of low PRSI coverage (e.g. when the self-employed had no PRSI coverage or when mothers were expected to leave the workplace) should be recognised in the design of the scheme	3
More people should be paid a contributory pension in their own right (rather than a non-contributory pension)	5
The pension system should encourage longer working, to improve both sustainability and adequacy	7
Changes from the Yearly Average system to TCA should be gradual	4

## ***2. GENERAL APPROACH - If you wish, you may add additional text explaining your preference in question 1 here***

Reforming the state pension system is a very significant social policy reform given that the impact of any changes implemented over the next few years is likely to persist for decades and affect, at some stage, the vast majority of the current working age population. The Citizens Information Board (CIB) recognise the scale and significance of this reform and believe that the general approach to this policy initiative should be underpinned by commitments to provide:

- **clarity:** for all current and future pensioners on the design of the scheme and the impact it will have, or is likely to have, on their future state pension entitlements.
- **information:** presented in an accessible and approachable format which would enable all future pensioners to easily understand their contributions records and provide a forecasting facility to enable them to estimate their likely future pension entitlements.

We also believe that the general approach should reflect:

- the need for a transition period (as proposed) between the old (yearly averaging) and new (total contributions approach) contributory pensions systems which would take into account legacy issues arising from anomalies in the averaging system and those with limited social insurance coverage
- a commitment to address anomalies as they arise within the new system. In particular it is important to ensure that people with more social insurance contributions do not receive a lower pension than those with fewer contributions.
- a need to retain beyond 2020 the option to calculate a person's pension entitlement under either yearly averaging or total contributions for certain categories of people. This option would be appropriate for people at a stage of life when they would experience difficulties in improving their contributions record but had a reasonable expectation that their future state pension entitlement would not change significantly.

**3. ADEQUACY - Please rank, in order of preference, what you believe the priorities in the TCA formula should be in guaranteeing adequacy (i.e. the level of payments being sufficient)**

To minimise number of contributions required for a full pension	4
To minimise number of <i>paid</i> contributions required for a contributory pension	5
To reward caring in the home as much as possible	2
As generous recognition for credited contributions as possible	1
There should be special arrangements for those who were self-employed before 1988, before the introduction of Class S PRSI, and who may only have 32 years contributions in 2020	3
The maximum rate of the (means-tested) non-contributory pension should be increased relative to the contributory pension (currently the non-contributory pension is just over 95% of the contributory rate)	6

**4. ADEQUACY -If you wish, you may add additional text explaining your preference in question 3 here**

From the perspective of the adequacy of future pension incomes, the new system should as much as possible accommodate those who, through various public policy decisions in the past (e.g. marriage bar, limited childcare provision, non-inclusion of self-employed income in the PRSI system), are unable to accumulate sufficient contributions to qualify for a full, or near-full, state contributory pension. Such an accommodation should be considered a time-limited transition measure for the cohort of the current working population impacted by the aforementioned public policy decisions.

**5. SUSTAINABILITY - Even without improvements, the State pension system increases in cost by approximately €200 million each year. In the coming decades, the number of pensioners compared to workers is set to double. Future increases in the rate of payment, and any improvements in eligibility criteria will further endanger the sustainability of the pension system. Please rank what you believe to be the best approach to take to ensure sustainability.**

Ensure greater control of future increases in the rate of payment	4
Increase conditionality for pensions over time (e.g. increase minimum required number of paid contributions, or the number of contributions required for the maximum rate pension etc)	5
Reduce the contributory pension rate, relative to the non-contributory rate	6
Increase State pension age, in line with increased life expectancy	3
Increase the rate of PRSI/taxes paid by current taxpayers	1
Reduce tax relief for pensions	2

**6. SUSTAINABILITY- If you wish, you may add additional text explaining your preference in question 5 here**

From the perspective of the fiscal sustainability of the state pension system, we believe the following should be taken into account:

- Current rates of employee, employer and self-employment PRSI contributions are low relative to other EU and OECD countries. Increasing PRSI contributions would increase the sustainability of the state pensions although this would have implications for the tax wedge faced by employees and employers' costs. The proposed merger of PRSI with the universal social charge (USC) provides an opportunity to consider the potential of changing PRSI contribution levels.
- The sustainability of the state pension system should be judged across all of the aspects of state pension supports and not just those funded from the Social Insurance Fund. For instance, such an assessment should take account of the large annual amounts of tax relief allocated to the accumulation and drawdown of private pension savings and the cost of ancillary benefits/supports available on a non-means tested basis to pensioners (e.g. free travel, household benefits etc). Notably the benefits of pension tax relief accrue predominately to higher rate tax payers and the benefits of non-means tested ancillary supports accrue to all pensioners irrespective of means. A distinction between tax relief on pension drawdown and pension contributions should be considered with a more nuanced approach to tax reliefs for pension drawdowns, i.e. a higher rate of relief for drawdowns than for pension accumulation.
- The future rate of payment for the state pension should be determined in the context of living costs faced by pensioners and the adequacy of these payments relative to the poverty line and, particularly in the case of the state contributory pension, also average earnings.

**7. Do you agree with the statement?**

***"There should be a phase-in period, where those who qualify in the earlier years (2020-2027) need less PRSI for a full pension than those who retire later (i.e. who have a greater opportunity to build up entitlements under the PRSI system that applies to them)"***

Strongly agree	✓
Agree	
Neither agree nor disagree	
Disagree	
Strongly disagree	

**8. Do you agree with the statement?**

***"There should there be more generous home-caring provisions for those reaching State Pension age in the 10 years following 2020 than someone reaching State pension age in later years, in light of the marriage bar (abolished in 1973), limited childcare availability until the 1990s, and other social changes"***

Strongly agree	
Agree	✓
Neither agree nor disagree	
Disagree	
Strongly disagree	

**9. Do you agree with the Statement?**

***"A person with limited PRSI contributions will usually be paid another payment at a higher rate. It would be better for them to be paid a contributory pension, based on their own PRSI record, but with an increase in that rate, based on the same criteria that attracts them a higher alternative payment at present"***

Strongly agree	
Agree	✓
Neither agree nor disagree	
Disagree	
Strongly disagree	

**10. Do you agree with the Statement?**

***"Pensioners who were self-employed in 1988 when Class S was introduced should have special arrangements, not available to others, in assisting them obtain a full pension"***

Strongly agree	
Agree	✓
Neither agree nor disagree	
Disagree	
Strongly disagree	

**11. Do you agree with the statement:**

***Arrangements to accommodate those self-employed before 1988 should also benefit others who had no PRSI coverage before that date.***

Strongly agree	
Agree	✓
Neither agree nor disagree	
Disagree	
Strongly disagree	

**12. If you have any further comments on the State Pension (contributory) or the proposed Total Contributions Approach, please use the text box below.**

It is important to remember that a core objective of the state pension system is to provide an adequate income to people in their retirement and, in doing so minimise poverty, among the older population. While the proposed total contributions approach may result in more affordable contributory pension costs for the exchequer, it is also likely to result in lower contributory old age pensions for some pensioners. Should the latter occur, the state non-contributory pensions scheme and other income support measures are likely to be called upon to ensure all pensioners have adequate incomes. As such, some of the anticipated savings for the Social Insurance Fund generated by the total contributions approach may be offset by additional exchequer funded means tested social protection expenditure and exceptional needs payments.

The proposed Total Contributions Approach envisages that from 2020 pensioners' state contribution pension eligibility and rate of payment will be assessed on the basis of 40 years of PRSI contributions. This is a departure from the proposal set out in the *National Pensions Framework* published in 2010 which envisaged that a record of 30 years of PRSI contributions would be required to qualify for a full state contributory pension. It is also a marked departure from the yearly average system which is currently used to calculate state contributory pension and enables claimants to qualify for a full state contributory pension after ten years of contributions. Even assuming that workers retire later in future, the increasing tendency to stay longer in full-time education and therefore enter employment later, coupled with the continuing necessity or preference to take time out of the workforce to fulfil caring responsibilities or return to education means that accumulating 40 years of PRSI contributions is likely to prove a significant challenge for many. Calculating state contributory pension eligibility on the basis of 30 years of contributions would therefore be a more equitable approach.

While pre-1990 measures may allow for absence from the work force for reasons of caring responsibility, in the years since it is important that workers who have reduced hours and moved to part time work are not disadvantaged in accessing a SPC.

Further consideration of the operation of credited contributions (commonly called credits which are awarded to those unable to pay PRSI contributions for specified reasons such as maternity, unemployment, training etc.) under the Total Contributions Approach may also be required.

In particular the interaction between the proposed 40 years of PRSI contributions which will be assessed under this approach and the proposed limits on the duration of credits which can be claimed should be examined in depth. If implemented, the interaction of these measures could make it very challenging for workers with an uneven record of employment to qualify for a full state contributory old age pension.