Opening Statement to the Joint Committee on Employment Affairs and Social Protection

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Good morning Cathaoirleach and to the other members of the committee.

On behalf of Age Action, I would like to thank you for the invitation to speak with you today.

I will focus my remarks this morning on the issue of the State Pension, and specifically changes that occurred and that have been proposed since the publication of this Committee's report on the State Contributory Pension in July 2017.

An increasing number of older people are experiencing fear about retirement due to worries about income adequacy.

Less than half of those aged between 20 and 65 have a private pension.[1] Three out of four private sector workers have no pension apart from the Contributory State Pension.[2]

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Pension poverty

A substantial percentage of older people are reliant on the State Pension for the majority of their income. For those over 65 more than three-quarters of their income is made up of public transfers. To this end, the State Pension has provided a critical, and often sole, source of income for many older people.

Latest CSO SILC figures show a largely unchanged 'at risk of poverty' and 'consistent poverty' rates for the over 65s. One in five people aged over 65 who live alone experience deprivation.

The 'at risk of poverty rate' line currently stands at €12,358 (or €237.35 pw). A full State Pension is slightly over this figure and stands at €12,651 (€13,182 for those over 80) A State Pension for those with an average of 39 or fewer contributions is below the at risk of poverty rate.

While the State Pension remained largely unchanged in times of austerity during the Recession, vital secondary income supports for older people were devastated.

Between 2009-2015 an older person on the State Pension and Household Benefits Package lost €13.18 per week. For example, the Telephone Allowance was abolished, which led to many older people giving up their land line and so losing their personal alarms, as was the Christmas Bonus.

[1] CSO QNHS Pension Provision Q4 2015. Available at www.cso.ie.
[2] Irish Life pension research quoted in https://www.independent.ie/business/personal-finance/half-of-workers-have-no-access-to-pension-35654880.html. 26 April 2017.

Some of the cuts to secondary income supports have been partially restored and this is very welcome but a lot more progress is needed, particularly for those in receipt of the Fuel Allowance.

There has been a 200-300% increase in prescription charges, new taxes on water and property, rising energy and medicine costs.

These new taxes, charges and rising prices in recent years can have a greater impact on older people generally living on a fixed income than on younger people who have more opportunities to improve their income.

2012 State Pension Cut

A key issue we are seeking to have addressed this year is the change introduced in September 2012 to the eligibility criteria for the Contributory State Pension.

An extension of band rates and minimum qualifying contributions saw the top rate for the Contributory State Pension left alone but it became harder to qualify for it and easier to qualify for the lower payment rates. While those with a full PRSI contribution record and entitled to a full pension were unaffected, many of those with a reduced record lost out.

Under the old system, for example, if you had an average of 20 to 47 contributions you would be entitled to €238.70 but in September 2012 this band was divided in two, so that people with 20 to 29 contributions now only get €207.10 while those with 30 to 39 Contributions only get €218.70. These changes represent a drop of €31.60 and €20 per week respectively.

Research commissioned by Age Action on this issue, and discussed here previously, shows that this change, combined with the averaging rule used to calculate contributions, is punishing women who took time out of work to care for their children or for other reasons.

Of the 36,000 (now estimated to be more than 50,000) initially affected by these changes between September 2012 and June 2016, more than 62% were women. They will continue to be affected in the years to come, receiving smaller pro rata increases in the pension.

In the October Budget Age Action is asking the committee to support two specific proposals:

- An increase in the top rate of the State Pension Contributory of €5 per week
- Reverse the 2012 cut in the State Pension.

We welcomed the announcement in January 2018 by the Department that those affected by the 2012 changes would be offered the option of reassessment under a Total Contributions Approach (TCA) including a new 'HomeCaring Credit' of up to 20 years. At the time of announcement, it was noted that the TCA2012 system will 'address anomalies from the yearly averaging scheme'.

Age Action welcomes the genuine efforts made by the Minister and the Department to resolve the pension cuts imposed by the 2012 changes and the averaging system.

In particular, the new 'HomeCaring Credit' will have a real impact on people's lives and enable many more people to avail of a Contributory State Pension while recognizing the contribution they have made to Irish society.

The announcement of the TCA2012 scheme saw a commitment to target 'the benefit at those who had periods caring (for children, or for others with a care need), without undermining the contributory nature of the pensions scheme'.

However, thousands of people (both men and women) who lost out because of the 2012 changes will not benefit from the announced initiatives.

Among this group are people who worked in countries without bilateral agreements and the self-employed who were not required to pay PRSI contributions prior to 1988.

Changes in 2012 saw an increase in the minimum level of contributions required for a State Contributory Pension from 260 to 520. This change has meant that many people are now excluded from the Contributory Pension, in some cases overnight.

We continue to be contacted by those affected by the 2012 changes who are angry that there is no backdating of lost pensions to 2012.

Administration of the Scheme

At this moment in time, much uncertainty exists regarding implementation of the TCA2012 scheme. Callers to Age Action's Information Line frequently express confusion as to how the new system will operate and whether there is an onus on them to contact the Department.

Age Action understands that drafting of the legislation is underway, with letters to those affected expected in the Autumn and payments beginning early in Q1 2019 to be backdated to March 2018.

We urge that the burden of proof for those applying for the HomeCaring Credits to be light, recognising that it may be difficult for people to obtain proof of caring responsibilities 30 years after the event, and we welcome the commitment we recently received from Minister Regina Doherty that this will be the case.

Promotion of the scheme in clear and accessible language should be a priority, to alert those affected and to offer a degree of security and certainty to those waiting for their correspondence.

Wider implications of the TCA2012 scheme and in particular back payment from March 2018 remain unclear, specifically ramifications under the 'Fair Deal' system. Clarity is also needed on the reassessment inclusion of those not having a minimum of 520 contributions.

Age Action believes reversing the 2012 changes is the simplest and most straight forward way to deal with the loss of income inflicted on tens of thousands of pensioners since the changes were brought in.

We recognise however that a simple reversal of the 2012 changes would not benefit people who took time out from work to provide care at home or those affected by the remaining ‘anomalies’ mentioned earlier such as the self-employed, farmers, persons with irregular work patterns and those who took time out of the labour market for other reasons such as for study.

We are therefore calling for a reversal of the 2012 changes that also includes the concession of the extra 20 years Homemaker/Carer contributions along with the 10 years contributions for reasons other than homemaking/caring.

A reversal of 2012 changes would also do away with the requirement to put in the new system which will assess people across the stated 40 years of the total contributions approach.

A reversal to a pre-2012 pension calculation would negate the necessity to write to an estimated 40,000 people, wait for their response and to process applications.

Consultation is underway regarding the overall TCA approach due to be implemented in 2020. The final look and implementation of the TCA scheme remains undecided. There is no guarantee that the final TCA approach will be as proposed, or even introduced at all, but this is how the cohort of people in question are going to be treated.

Instead of assessing them using a new system that may or may not be implemented in its current proposed form, Age Action suggests that it is more sensible to reverse the 2012 changes, as the Dáil voted for last year, and simply restore the incomes of those who lost out.

We would not like to see a new set of anomalies created under the TCA system. A proposed requirement for 40 years of contributions to get a full State Pension will mean that people with fewer contributions could be worse off than they are today.

For example, today someone with 50 per cent of the required number of average contributions gets 85 per cent of the State Pension. Under the new system, this would fall to 50 per cent of the State Pension rate.

We urge particular consideration of the situation of those due to retire within the coming years, who entered the system under one set of rules and may be disproportionately disadvantaged by changes introduced just before they retire.

It remains unclear how the self-employed will be dealt with under this system, as well any possibility for purchasing additional credits.

Linking to 35 per cent

In the medium to long term the State Pension system must be reformed, including by putting in place a system to govern the increases in the pension to ensure they are fair but also sustainable.

To date, Ireland is unusual in setting the pension rate in the budget every year without using any particular formula.

We welcome a commitment in the Roadmap for Pension Reform to benchmark the State Pension to 34 per cent of average earnings for the State Pension, with future increases to depend on the Consumer Price Index or average wages.

To ensure that those reliant on the State Pension would not fall into poverty, the National Pensions Framework committed to 'sustain the value of the State Pension at 35 per cent of average weekly earnings'. We recommend a roadmap to get to 35 per cent to reach this commitment.

CSO figures for the first quarter of 2018 indicate that average weekly earnings are €742.19, which would indicate a State Pension of €259.77 and is substantially higher than the current rate. Taking current figures, this would provide older people with an additional €846 per year.

Indexing of current and future pension rates facilitates proper planning, it provides peace of mind for older workers and crucially it depoliticises the budget process.

Clarity is needed around any implication arising from indexing of the Contributory State Pension for the Non-Contributory State Pension, and whether any protection for the Non-Contributory State Pension rate will be applied.

Allocation of resources

Departmental figures show that the State pension system cost approximately €7.3 billion in 2017 and made payments for more than 600,000 people over the age of 66 every week. Demographic change alone will lead to an increase in cost of approximately €200 million per year in the State Pension.

By 2041 there will be an estimated 1.4 million people over 65, representing 20-25 per cent of the population.

Even with the retirement age due to rise to 68 by 2028 there is a legitimate question about the sustainability of the State Pension system.

People are living longer, healthier, more active lives. We do not face a demographic crisis but rather a policy crisis as short-term thinking prevents us developing the solutions to funding a State Pension that enables people to age in dignity and to support older people who want to continue working but fall victim to ageism and discriminatory mandatory retirement clauses.

We welcome recent guidance on longer working lives from the Workplace Relations Commission and the Irish Human Rights and Equality Commission.

A more flexible approach to retirement ages is needed in the context of living longer and increasing pension ages. Many older workers would choose to continue working longer if they could.

As we highlighted at this Committee last July, this desire and ability to continue working for longer will vary according to sector and an individual’s circumstance.

We hope to see movement through the Oireachtas of both Bills on mandatory retirement. We would like to see progress on the 2017 Bill to abolish mandatory retirement clauses and for it to move to the Committee Stage.

Age Action’s Information Line frequently receives calls from public sector workers who are due to retire soon but wish to continue working. The delay in the progress of this Bill is leaving people in limbo and forcing them to retire against their wishes.

Towards a solution

A fair State Pension enables older people to age with dignity and with independence, keeping them out of poverty.

We look forward to working with you all to make this a reality.

ENDS