Submission to the Department of Social Protection on Budget 2024

16th June 2023

Age Action is Ireland's leading advocacy organisation on ageing and older people. Age Action advocates for a society that enables all older people to participate and to live full, independent lives

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Age Action's Key Social Protection Priorities for Budget 2024

- **Raise the full rate of the contributory State Pension by €30** to restore its 2020 spending power, as a first step towards benchmarking the rate at 34% of average earnings, which should be achieved by 2026 as a 'living pension' alongside the introduction of the new national living wage.
- **Revise the income thresholds for the non-contributory State Pension to take account of inflation** which hasn't been done since 2007.
- **Set the maximum rate of the non-contributory State Pension at the same level as the contributory State Pension** and benchmark both the contributory and non-contributory State Pension against 34% of average earnings, to reduce gender pension inequality.
- Given the concentration of poverty among older people living alone, **raise the Living Alone Increase to the state pensions by €8 (from €22/week to €30/week)**, as part of a benchmarking of the state pension income of older people living alone against the Minimum Essential Standard of Living (and above poverty thresholds).
- **Introduce an Energy Guarantee for Older Persons**.

1. Background and Context

Protecting the core state pension rates is essential as the pension is the ‘bedrock’ of income in older age, with most older persons relying on a state pension as their main—on only—weekly income. Older people need adequate incomes so that they can live independently and have choice and control over their lives. An adequate income is essential to support people to age in the communities where they are built their lives. Ageing in place in recognised in the programme for government and that recognition needs to be followed up with investment in the state pensions.

Following two years of extremely high price inflation, there is a need to restore the rate of the state pensions so that they have, at least, the same spending power they had in 2020.

Work towards benchmarking the state pensions is welcome, but it needs to be a legal requirement, so that the benchmarking process provides certainty and stability of income for older persons, as well as a measure of income adequacy.

While one-off payments were welcomed by those older persons who received them, they were only temporary solutions to what is the long-term problem of income adequacy and security of income in older age. One-off payments cannot substitute for the necessary increases that are required to safeguard the spending power of the core state pensions.

Older Person’s Lived Experience Shows Increasing Strain

Age Action values the lived experience of older people which informs our advocacy work. Age Action conducts an annual Lived Experience Survey to inform our Pre-Budget submissions. The experience of some older people is outlined in their own words.

Older people have told Age Action that they are finding it harder to make ends meet. While most older persons will be frugal about their spending and will turn to their own resources before seeking state help, many are telling us that they can no longer afford the essentials.

“I really tried to use less oil and electricity to a point where it was not a very pleasant winter.”

“I am glad they helped us out a bit, but if they are talking about a ‘living wage’ what about a ‘living pension’? When you are young you can go anywhere to improve yourself. When you are old you have very few choices.”

“My savings keep going to nil after any emergencies. I try my hardest to save. My income means less and less each week.”

“I do worry because I'm dipping into my savings just to live and pay my bills, what will I do when my savings are gone? No way will I be able to meet the expense of a medical emergency or home repairs.”

“Inflation is the great fear of all who live on a fixed income.”

—Respondents to Age Action survey on incomes, 2023

The spending power of occupational and private pensions, and of savings, has declined due to inflation. There is likely to be a long-term scarring effect on the financial situation of all older persons due to the current period of inflation.

Poverty Among Older People Grew Rapidly in 2022

Most older persons will turn to their own resources before seeking state support, but the reality is that many older people are running out of options. High inflation has eroded the spending power of private and occupational pensions, which often are not inflation-linked. Savings gain near-zero interest but their spending power has been eroded too.

Most older persons rely on the State Pension as the ‘bedrock’ of their income, and so it is essential that the core rate of the State Pension rises with inflation.

Successive governments have chosen to prioritise low taxation over social protection, which has meant greater prosperity for some but hardship and deprivation for others to an extent that does not occur in other wealthy EU countries.

- Severe material deprivation in Ireland affected 5.1% of the population in 2021, which ranked Ireland 14th out of 27 EU member states. Deprivation was as low as 1.1% in Finland, 1.4% in Sweden and 1.8% in Slovenia.[1]

Risk of poverty among older adults (65+) in Ireland is ranked 10th in the EU.

- In 2020, 18.7% of older people in Ireland were at risk of poverty or social exclusion. The lowest rates were 7.3% in Luxembourg and 10.8% in France. The average rate across the EU was 19.4%.[2]

Note that the above figures were from *before* the cost-of-living crisis. Poverty and deprivation are rising for older adults due to high price inflation, with risk of poverty having doubled and consistent poverty more than tripled since 2020.

- The Survey of Income and Living Conditions (SILC) 2022 showed that the risk of poverty among people aged 65+ was 19% (up from 9.8% in 2020).
- Deprivation among older adults was 12.7% (up from 8.1% in 2020).
- Consistent poverty among older adults was 3.3% (up from 1% in 2020).[3]

[1] https://ec.europa.eu/eurostat/databrowser/view/tespm030/default/table?lang=en
[2] https://ec.europa.eu/eurostat/databrowser/view/TESPM090/default/table?lang=en&category=es.tespm
[3] https://www.cso.ie/en/releasesandpublications/ep/p-silc/surveyonincomeandlivingconditionssilc2022/poverty/

At the launch of the SILC data, the CSO said that the overall rise in national poverty was driven by more older persons falling below the poverty threshold. In 2020, many older persons' incomes were just above the poverty line, but in 2022 they were below it.

While some of the rise in poverty may have been countered by the exceptional one-off lump sum payments, not everyone received those payments and while they went some way to addressing the lost spending power of the State Pension, they did not compensate for other losses in spending power not least from savings.

The level of poverty among older people living alone was already very high in 2020, the majority of whom are women.

- The Survey of Income and Living Conditions 2022 showed that the risk of poverty among people aged 65+ living alone was 33.6% (up from 20.5% in 2020).

There is gender inequality in the State Pension system, as women who have spent long periods as full-time carers are often disadvantaged and do not receive a full rate pension.

Only two-thirds of State Pension recipients are on the full rate, with many receiving a lower rate including one in five on a substantially lower rate. This means that poverty-proofing based on the full rate fails to account for those on lower rates.

Fewer Older People Can Afford a Minimum Essential Standard of Living in 2023

The *Minimum Essential Standard of Living: Annual Update 2023* finds that the living costs for older persons have risen by up to 14.9% to meet the same basket of goods and services as last year.[4]

The rural scenarios in the research show between 5.1% and 6.8% increase in living costs for older persons, due to recent reduction in the cost of home heating oil, which is assumed to be the main home heating fuel in these scenarios. In contrast, gas-fired central heating is assumed in urban areas, where older person households faced increases of between 14% and 14.9% to meet a minimum essential standard of living (MESL).

Due to the higher cost of living, five of the ten older person household types have an inadequate income in 2023, with the gap between achieving a MESL ranging between €21.81 for an older couple in a rural area to €93.07 an older person living alone in a rural area.[5] Only three out of ten household types had an inadequate income to meet an MESL in 2022. These are best case scenarios as they assume home ownership, full rate State Pensions and access to a Medical Card. With two-thirds of State Pension recipients receiving less than a full rate, the gap between income and living standards will be wider for many older persons.

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[4] https://www.budgeting.ie/publications/mesl-2023/

[5] See pages 6A and 7A, https://www.budgeting.ie/download/pdf/mesl_2023_-_appendix_tables.pdf

To illustrate the detail of the findings, weekly food costs are up 17.6% for older persons living alone in rural areas and 18.4% for older persons living alone in urban areas. Household energy costs are up 66% for older persons in urban areas due to the high cost of natural gas, whereas the price of home heating oil in 2023 is similar to 2022.

The State Pension Has Lost Spending Power

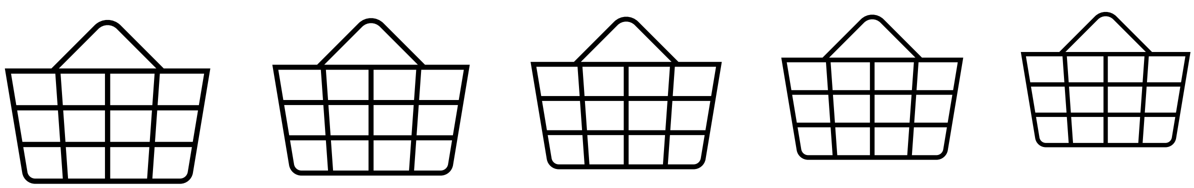
The analysis below sets out the lost spending power of the State Pension which is undoubtedly a driver of the increase in poverty among older persons and which has had a negative impact on their living standards.

The impact of inflation

Box 1. The Spending Power of €100 in 2020-2024 (in 2020 terms)

The spending power of money is rapidly decreasing, as it did in the 1980s and to an extent in the early 2000s.

€100 in 2024 only has the spending power that €84.32 had in 2020 in terms of the basket of goods and services that it will afford.



2020	2021	2022	2023	2024
€100	€97.66	€90.58	€86.36	€84.32

Inflation Data

Table 1. Average annual inflation and the spending power of €100 in 2020 terms

Year	Annual average Inflation (%)[6]	Cumulative annual average inflation (%)[7]	Average spending power of €100 relative to 2020
2020	Baseline	0%	€100.00
2021	2.4%	2.4%	€97.66
2022	7.8%	10.4%	€90.58
2023(p)	4.9%	15.8%	€86.36
2024(p)	2.4%	18.6%	€84.32

(p) = projected figures

When the rate of the state pensions is seen in terms of the loss of spending power due to inflation, it is quite apparent that recent rate rises of €5 and €12 were effectively cuts in real terms, as the spending power of the pensions has fallen despite the nominal rate increases.

Table 2. Loss of Spending Power (Contributory State Pension) – figures in brackets are negative

Year	Average spending power of €100 relative to 2020	Maximum weekly rate Contributory State Pension	Spending power relative to 2020	Change in weekly spending power (€)	Change in weekly spending power (%)
2020	€100.00	€248.30	€248.30 baseline	€0 baseline	0% baseline
2021	€97.66	€248.30	€242.49	(€5.81)	(2.3%)
2022	€90.58	€253.30	€229.44	(€18.86)	(7.6%)
2023(p)	€86.36	€265.30	€229.11	(€19.19)	(7.7%)
2024(p)	€84.32	€265.30 [2023]	€223.70	(€24.60)	(9.9%)

(p) = projected figures

Based on the latest projections for inflation in 2023,[8] the maximum rate of the contributory State Pension is currently €19.19/week (7.7%) lower in spending power than the same payment in 2020.

By 2024, the same rate will have lost €24.60/week in spending power, which equates to a cumulative loss that year of over €1,280 (9.9%)[9] unless the weekly rate is significantly increased to restore spending power.

[6] Inflation forecast for 2023: https://assets.gov.ie/260158/50762603-827c-4269-a5cf-995edaa651dd.pdf
Inflation forecast for 2024: https://assets.gov.ie/236336/20d6e7e9-dc17-4875-9965-7aa2d1719923.pdf
[7] Inflation over four years is the product not the sum; 1.024 * 1.078 * 1.049 * 1.024 = 1.186
[8] From the National Economic Dialogue (12th June 2023), where inflation for 2023 is projected to be 4.9%
[9] €24.60 * 52.143 = €1,282.72

Similarly, the spending power of working age welfare rates (€220 in 2023) is €13.01/week lower in spending power in 2023 compared to 2020, and their spending power will be €17.50/week lower in 2024.

While one-off payments were welcome, not everyone received all of them and even if they did the total amount was less than the loss of spending power. This extra income was temporary in the face of long-term cost of living increases and in the following year the gap in core weekly income will grow wider if the core rate does not keep up with inflation.

2. Raise the State Pension by €30/week

At a minimum, Age Action is calling on the government to restore the spending power of the state pensions to what they were in 2020.

Age Action is calling for a €30/week increase in the full rate contributory State Pension. This is justified on the basis that €29.17 of that rate increase would simply give older persons the same spending power they had in 2020. The domestic economy has grown significantly in size since then, and this increase, rounded up to €30, is reasonable.

Qualified Adult Increases and partial rate payments should all increase on a pro rata basis. For example, Qualified Adult Increase has lost €21.99 in spending power versus 2020, and should be increased by €22 in Budget 2024.

For the full rate contributory State Pension, a nominal rate increase of €29.17 (in 2024 terms) is required to restore the spending power of the full rate contributory State Pension.[10]

3. Benchmark and Index the State Pension at 34% of Average Earnings

We welcome the statement by Minster Humphreys in May 2023 that "a smoothed earnings method to calculating a benchmarked/indexed rate of State Pension payments will be introduced as an input to the annual budget process and will be submitted to Government in September each year, commencing this year."[11]

Benchmarking with earnings could be a gamechanger for the state pension if it was automatic (not just an "input" into the budget process), as it would provide more certainty and security about annual rate changes, and ensure changes to the pension are consistent and fair. The government is proposing automatic indexation of income tax bands and credits for that reason, and there is no justification in terms of horizontal equity for treating welfare rates differently from taxation.

In the medium term, average earnings are likely to rise more than inflation, which means that a state pension linked to earnings will provide a more adequate income than

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[10] The full rate contributory State Pension has lost €24.60 in spending power relative to 2020. A nominal rate increase of €29.17 in 2024 is equivalent to the spending power of €24.60 in 2020.

[11] https://www.oireachtas.ie/en/debates/question/2023-05-18/355/speech/640/

a pension linked to consumer prices alone. Benchmarking against earnings would better ensure that the prosperity in the economy from higher wages is shared with older people. At the same time, for those who rely on the state pension as their main or sole income, there is a need to prevent inflation shocks from damaging their spending power, as has occurred since 2021. The proposal for a 'smoothed earnings' benchmark, where inflation is factored in, is a welcome initiative to address this concern.

It is uncertain whether a benchmark of 34% will be sufficient, as the Commission on Pensions has cautioned that it may be too low to prevent poverty. Age Action has called for a cost of ageing study to be conducted, to explore the full range of costs associated with ageing, to inform the benchmarking process.

The benchmark of 34% of average earnings has been proposed since at least 1998 when it was suggested by the state-sponsored National Pensions Policy Initiative.[12]

Successive governments have given mixed messages in relation to the proposed benchmark of 34% of gross average industrial earnings. It was not formally adopted in 1998, nor in the subsequent National Pensions Review of 2006 when the Pensions Board reiterated its support for the target. Nonetheless, the government's 2007 *Green Paper on Pensions* notes in reference to average industrial earnings that "the various targets" … "have influenced pension policy in recent years".

The *Green Paper on Pensions* notes that "if it was considered appropriate to benchmark pensions against EU poverty measures then a pension of 40% of GAIE [gross annual industrial earnings] would be required. The higher rate of pension suggested, 50% of GAIE, would exceed all poverty thresholds and provide a pension for those of average earnings, without supplementary pension coverage, which would be in keeping with targets suggested in the National Pensions Policy Initiative (1998) and reaffirmed in the National Pensions Review".[13]

To put this kind of benchmarking into a European context, Ireland currently has the third lowest replacement of working income by pension income in the EU. In 2021, pensions from all sources received by people aged 65-74 replaced 39% of the earnings from work of people aged 50-59. The EU average was 58% and the highest rates were 81% in Luxembourg and 79% in Spain.[14] Ireland is the only EU country that does not have a second tier, top-up pension in addition to the basic rate, and the forthcoming auto-enrolment pension is designed to address this. Nonetheless, the relatively low level of pension income in Ireland shows the disparity between older persons' living standards in Ireland compared to some other European countries. The Irish pension system assumes home ownership and other non-income resources to compensate, but this is growing less accurate with the increasing numbers of older renters. Hence there needs

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[12] https://www.pensionsauthority.ie/en/news_press/news_press_archive/securing_retirement_income_-_national_pensions_policy_initiative_nppi_report,_1998.html

[13] https://www.pensionsauthority.ie/en/trustees_registered_administrators/policy/national_pensions_framework/green_paper_on_pensions.pdf

[14] https://ec.europa.eu/eurostat/databrowser/view/TESPM100/default/table?lang=en&category=es.tespm

to be a strong focus on the state pensions providing what society deems to be a minimum essential standard of living.

3.1 The 34% target

The 34% target is developed in *The Roadmap for Pensions Reform 2018-2023*[15] and *The Roadmap for Social Inclusion 2020-2025*[16], and a technical analysis of the benchmark is conducted as part of the *Report of the Commission on Pensions*.[17] However, Technical Sub-Committee 4 of the Commission on Pensions proposes a definition of average earnings that substantially weakens the original intent.

Age Action rejects any attempt to dilute the original commitment to benchmarking the full rate of the state pensions at a minimum to 34% of average earnings. If the definition of 'average earnings' is not agreed, it should be brought into national social dialogue including older persons and their representative organisations.

The context for this is that the old statistics for 'average industrial earnings' ceased to be collected from 2010, and the CSO provided a range of options to the Pensions Commission for which statistics from the new Earnings, Hours and Employment Costs survey (EHECS) best represent 'average earnings' for the purpose of benchmarking. It is quite clear that the decision on which data to use is a policy decision, not a simple technical matter, and there is clear disagreement about what data most accurately represents average earnings.

According to SIPTU's projections, 34% of average earnings in 2024 would be nearly €319, meaning that the contributory State Pension rate of €265.30 is more than €53 below the 34% benchmark.

Given that average earnings are increasing, it is likely that three budgets would be needed for the rate of the State Pension to reach 34% of average earnings, with a rate increase of approximately €25-30 for each of those three years. Age Action proposes starting with €30 in Budget 2024 to at least address lost spending power since 2020.

The government has announced that a new national living wage, benchmarked at 60% of median earnings, will be in place by 2026. It makes sense to deliver on the promise of a 34% benchmark to create a 'living pension' by 2026 too.

4. Ireland has a High Level of Gender Pension Inequality

In 2019, an ESRI paper found that Ireland has a gender pension gap of 35 per cent.[18] They found the gender pension gap to be because more than half (55%) of retired men receive a private or occupational pension, compared to only 28% of women. While the state pension rates are the same for men and women, the researchers noted that women less often receive a contributory pension and when they do, the average income

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[15] https://www.gov.ie/en/publication/abdb6f-a-roadmap-for-pensions-reform-2018-2023/
[16] https://assets.gov.ie/46557/bf7011904ede4562b925f98b15c4f1b5.pdf
[17] See, in particular, *Technical Working Paper 4: Benchmarking and Indexation* https://www.gov.ie/en/publication/6cb6d-report-of-the-commission-on-pensions/
[18] https://www.esri.ie/publications/gender-pensions-and-income-in-retirement

they get is much lower than the amount received by men for reasons including women receiving lower personal rates due to fewer years in employment.

In 2021, the OECD has called on governments to reduce the gender gap in retirement incomes, which averages 26 per cent across the OECD.[19] Ireland was ranked 20th out of 35 OECD members, with an above average gender pension gap. Among their recommendations are for policy makers to relax eligibility requirements so more women can participate in pension savings, and to allow flexibility for women to contribute to plans however and when they can. These recommendations are relevant to the design of the state pensions as well as to auto-enrolment, private and occupational pension schemes.

It is notable that Ireland was only one of three European countries where regular private pensions were held by over 10% of people, with a large gender divide between men and women due to the importance of labour market participation in generating pension savings. Most European countries rely on occupational schemes as well as stronger state pension systems, which can be designed to be fairer to women.

In this context, a NESC report has identified that the auto-enrolment pension scheme is likely to exacerbate gender inequality of pension incomes,[20] which is another reason to re-examine the design of the state pension system. Ireland's commitment to gender proofing and equality budgeting (such as those outlined in the *National Strategy for Women and Girls*) are also reasons to do this.[21]

A report by TILDA found a range of gender inequalities, including that women with long work histories (40+ years) were still far less likely to have occupational pensions than men. The report also found, among the sample of people included in the longitudinal study, that older men's median income was 58% higher than women's.[22] The National Women's Council has highlighted gender inequality in pensions,[23] as has Age Action.[24] The core state pension is seen by both as more important for reforms aimed at gender equality, given the wider challenges involved in achieving gender equality in the labour market and employment-linked pensions. The *Report of the Citizens' Assembly on Gender Equality* also recognises the high level of gender inequality in pensions.[25]

According to the latest annual report of welfare statistics (2021), "60% of State Pension (Contributory) recipients were male, while females accounted for 60% of State Pension (Non-Contributory)".[26]

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[19] https://www.oecd.org/pensions/towards-improved-retirement-savings-outcomes-for-women-f7b48808-en.htm
[20] http://files.nesc.ie/nesc_background_papers/151_background_paper_4.pdf
[21] See, for example, https://assets.gov.ie/191236/0c042469-1df6-4470-95a8-3830f1661827.pdf
[22] https://tilda.tcd.ie/publications/reports/pdf/Report_PensionsIncome.pdf
[23] See, for example, https://www.nwci.ie/images/uploads/COTW_NWC_submission_Jan_2022_2.pdf
[24] https://www.ageaction.ie/sites/default/files/attachments/final_towards_a_fair_state_pension_for_women_pensioners.pdf
[25] https://citizensassembly.ie/wp-content/uploads/2023/02/report-of-the-citizens-assembly-on-gender-equality.pdf
[26] https://assets.gov.ie/232416/d474f67e-f392-4b48-99a6-bce9b0cf41a0.pdf

While significant improvements have been introduced, there is still concern that long-term carers do not have equitable access to a state pension. The limited rate of the Qualified Adult Increase to the state pensions is also typically disadvantageous for women (who are 90% of its recipients) as it is at a lower rate and does not have all the features of a full pension, such as the additional €10/week from age 80.

As things stand, the Irish state pension system (comprising the contributory and non-contributory pensions) perpetuates gender inequality. The static means test for the non-contributory State Pension—which hasn't compensated for inflation—and the lower rate paid to non-contributory State Pension recipients affects 50% more women than men because there are 1.5 women in receipt of the non-contributory State Pension for every 1 man. These inequalities are on top of the other gender inequalities in pension incomes generally. The government has the means at its disposal to take a decisive step towards more gender equality in the state pension by revising the means test for the non-contributory state pension and equalising the rates paid under both pension schemes.

5. Revise the Means Test for the Non-Contributory State Pension

Means testing is a procedure carried out to validate entitlement to various state schemes, such as the Over-70s Medical Card, Fuel Allowance and the non-contributory State Pension.[27] Applicants submit information on their financial status at a particular point in time to determine if they have any entitlement and what level of support they might receive. Schemes such as the Medical Card or Fuel Allowance have all-or-nothing 'cliff edge' eligibility in terms of income, whereas 101 fine-grained different rates of the non-contributory State Pension are allocated (from €254 to €4) depending on the determination of a person's means.[28]

Means tests are highly sensitive to changes in average earnings across the economy and to inflation. Despite this, they are not automatically indexed and are sometimes neglected for extended periods, which has the effect of reducing public eligibility to schemes and reducing the level of assistance given to a person whose means—in real terms—would have entitled them to more support in previous years. For example, it was welcome that Budget 2022 saw significant improvements to the means test for Carer's Allowance, but it had not been changed in 14 years.[29] This is an example of the long-term impact of the 2008 economic collapse, as some means testing, such as for the non-contributory State Pension, is still frozen 15 years later.

The means test thresholds for the non-contributory State Pension were last changed in 2007. In the period Q1 2008 to Q1 2023, average weekly earnings have increased by

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[27] In relation to the non-contributory State Pension, see https://www.gov.ie/en/publication/66ac9a-operational-guidelines-state-pension-non-contributory/

[28] https://www.gov.ie/pdf/?file=https://assets.gov.ie/11117/6beb1ad2f51346f4ad6f27db1c473e59.pdf#page=21

[29] https://www.oireachtas.ie/en/debates/question/2023-02-02/332/speech/703/

31% from €704 to €923.[30] The national minimum wage has increased by 36% from €8.30 in 2007 to €11.30 today.[31] There is no doubt that the freezing of the means test for the non-contributory State Pension has meant that many older persons are receiving a lower rate pension—or no pension whatsoever—compared to what they would have been entitled to receive in 2007.

Since 2007, a person can have an income of up to €30 and still receive a full-rate non-contributory State Pension. They may also have up to €200 from employment (but non-self employment or farm income), which is subject to a specific income disregard.[32]

In 2024, €30 has much less spending power than it had in 2007. To raise this in line with average earnings, it should be at least €39.30, and **Age Action proposes allowing a full-rate non-contributory State Pension to those with an income of €40 with pro rata changes throughout the income thresholds**. Crucially, each band of the existing scale should increase by 31%. At present, someone with an income of between €277.51 and €280 would receive €4, whereas with a 31% increase, the recalculation of this band would be between €363.54 and €366.80.[33] That is, the cut off point for receiving any income should be €366.80 not €280, which would make more people on low incomes eligible for some level of non-contributory State Pension.

To illustrate the difference involved, in 2007 a person with an income of €100/week would have been entitled to a rate of €184 from the non-contributory State Pension.

In 2023, an income of €131 would be the equivalent to a €100 income in 2007 (based on earnings growth since then). Yet a person with an income of €131 today would only receive a rate of €151.50 from the non-contributory State Pension today because the means test bands have been frozen since 2007, whereas the equivalent person in 2007, with the same spending power, would have received a non-contributory State Pension of €185. The weekly difference is €33.50, which adds up to an annual loss of nearly €1,747.

If this were calculated across the years since 2007, the one in five older persons who rely on the non-contributory State Pension have been deprived of thousands of euro from the non-contributory State Pension because the means test has been frozen since 2007.

Those who rely on the non-contributory State Pension will include people with disabilities, people fleeing domestic violence, carers, full-time parents and others whose life circumstances or unpaid work did not give them entitlement to a contributory State Pension. There is no justification for the systematic discrimination that results from freezing the means test since 2007.

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30 https://data.cso.ie/table/EHQ03

31 https://www.gov.ie/en/publication/9463f6-historic-nmw-rates/ and https://www.citizensinformation.ie/en/employment/employment-rights-and-conditions/pay-and-employment/minimum-wage/

32 https://www.gov.ie/en/publication/66ac9a-operational-guidelines-state-pension-non-contributory/

33 €277.51 * 1.31 = €363.54 and €280 * 1.31 = €366.80.

6. Revise The Treatment of Savings in the Means Test

At present, the first €30 of a person's weekly income is disregarded and that person can still receive a full rate non-contributory State Pension. The €30 weekly income can be any combination of actual weekly income and/or a value assigned to cash savings.

However savings in 2024 will only retain 84% of their 2020 spending power but are still being counted as if they had the same value.

There is a disconnect between the lived experience of older people—who tend to save, even if that involves deprivation—versus the logic of the social protection system, which requires people to use up their savings in order to gain an entitlement to a weekly income. A non-indexed approach to the means testing of savings will reduce many older people's weekly income and force them to use up savings. They will then have reduced ability to meet unexpected expenses, and the state will be required to step in with Additional Needs Payments and other one-off grants. This whole logic needs careful reexamination, which could be part of a cost of ageing study. At the very least, the treatment of savings in means tests needs to be indexed against inflation.

Age Action is proposing a new calculation of how cash savings are treated as income, as shown in the following table.

Current Formula[34]	**Current Weekly Means**	**Proposed New Formula (up 9%)**	**Proposed Weekly Means**
First €20,000	Nil	First €23,720	Nil
Next €10,000	€1 per €1,000	Next €11,860	€1 per €1,186
Next €10,000	€2 per €1,000	Next €11,860	€2 per €1,186
Excess of €40,000	€4 per €1,000	Excess of €47,440	€4 per €1,186

7. Equalise the Rates of the Contributory and Non-Contributory State Pensions

The full rate of the non-contributory State Pension is €254, which is only 96% of the full rate of the contributory State Pension (€265.30). This €11.30 difference is unfair and unjustified. Where a Qualified Adult Increase is paid to someone under the age of 66, the difference is €21.[35] As the above sections make clear, €21/week (€1,095 annually) makes a significant difference to the living standards of older people and it is particularly salient to those on the means-tested non-contributory State Pension who typically do not have much (or any) additional income or savings.

The history of social policy in Ireland from the 17th to the early 20th century involves an enduring theme of dividing social protection recipients into 'deserving' and 'undeserving'. For example, "During this period charitable efforts stand out, but only for

[34] https://www.gov.ie/en/publication/11f23e-means-assessment-guidelines/#property
[35] CSP €265.30 + QAI €176.70 = €442; NCSP €254 + €167 = €421

categories of the ‘deserving poor’, principally children and the sick poor. State intervention was minimal, and strongly linked to the control and punishment of the ‘undeserving poor’.”[36]

Irish social protection continues to be shaped by this logic:

- Means testing is used to minimize the ‘cost’ of social welfare, rather than to ensure that the income of recipients is adequate.
- Adequacy tends to be examined with respect of full rate payments, ignoring that many people with incomplete social insurance records—or on means-tested payments—only receive partial payments or lower rates.
- People are expected to spend down their cash savings before becoming entitled to higher (or any) weekly cash payments, which reduces their future financial resilience.
- Differences in rates are used to signal that some social protection recipients are more ‘deserving’ than others. For example, widows and people with a disability tend to receive higher rates than jobseekers. Social insurance (contributory) social protection rates are set a few euro higher than means-tested non-contributory rates, despite households in each case facing similar costs.

An evidence-based approach to benchmarking is an opportunity to reset the logic of social protection rates in a decisive move away from welfare’s prejudicial historical roots.

The Jobseekers Benefit based on social insurance and the means-tested Jobseekers Allowance have been equalised at €220/week, and again by appeal to horizontal equity, the non-contributory State Pension should be raised up to the rate of the contributory State Pension.

Mandatory retirement at age 65—despite no state pension entitlement—is a common feature of employment contracts in Ireland. While mandatory retirement should be abolished, in the meantime **eligibility for the Benefit Payment for 65-Year-Olds should be extended to any person who is affected by mandatory retirement at age 65**, not just those with a sufficient social insurance record. **The rate of the Benefit Payment for 65-Year-Olds should be raised to the same as the full rate contributory State Pension**.

While there will be a significant cost to these measures, there will also be direct savings through less expenditure on one-off Additional Needs Payments and other supplementary welfare grants, as well as other indirect benefits, not least improvements to health as ill health in older age correlates strongly with income level.

The affordability of increasing spending on the state pensions is discussed below.

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[36] Chapter 1 of Dukelow F and Considine M (2017) *Irish Social Policy: A Critical Introduction*. Second Edition.

8. Raise the Living Alone Increase by €8/week

Given that one in three older persons living alone was at risk of poverty in 2022 (up from one in five in 2020), there is a strong argument for targeting additional income support to older people living alone.

Age Action is proposing raising the Living Alone Increase from €22 to €30/week in recognition of the concentration of poverty among older persons living alone.

9. Older Persons Still Need an Energy Guarantee

Age Action has called for an energy guarantee for older persons.[37] The three key features of such a guarantee would be:

- A cash payment that fluctuates with the wholesale price of energy, to thereby guarantee that a person can afford a certain number of units of energy (as was the case from 1968 to 2012 under the old electricity allowance).
- A tiered payment to avoid the all-or-nothing cliff edge of the existing means test for Fuel Allowance, which approximately 4 in 10 older person households receive.
- Eligibility for the energy guarantee to take account of poorly-insulated housing, where energy costs can be multiples of what they are in well-insulated homes. This eligibility would not only help with weekly energy costs, but would bring recipients into eligibility for the free home insulation schemes under the SEAI.

The expansion of Fuel Allowance eligibility in Budget 2023 was very welcome, especially the more generous means test for people aged 70 and older, which has brought over 20,000 more households into eligibility, with more expected to join the scheme next year as awareness of the new rules grows. This recognises older persons' particular vulnerability to energy poverty. Nonetheless, all three features of Age Action's proposed energy guarantee remain relevant and further development of the Fuel Allowance along these lines should be considered in Budget 2024.

One feature of the Budget 2023 changes should be re-examined, which is the weekly means test of €500 for a single person and €1,000 for a couple. Couples' living expenses are not twice a single person's, and in the case of energy costs this is clearly a household-level cost rather than an individual expense. Age Action often hears from recently bereaved people who have close to the same household costs but only half their previous weekly income.

For example, the MESL data for 2023 shows energy costs for an older person living alone was 85% of the cost faced by a couple in both urban and rural areas. Given that the under-70s income threshold is €465.30, not very many additional single older persons are likely to have been brought into the scheme compared to couples, and

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37 https://www.ageaction.ie/sites/default/files/age_action_energy_guarantee_for_older_persons.pdf

there is an argument for raising the over-70 single person income threshold by a significant amount.

Age Action proposes an income threshold of €700 for older persons living alone to become eligible for the Over-70s Fuel Allowance.

10. Better Target One-Off Payments

The Irish Fiscal Advisory Council has commented on the temporary/one-off measures introduced in 2022 and 2023, that "the measures could have been better targeted with as little as one quarter of measures directed towards households being clearly targeted."[38]

The household energy grants were a visible effort by government to allay public concern over the extreme rises in home energy costs in recent months. Nonetheless, they were expensive, likely to further increase inflation, and unnecessary for at least those in society with higher incomes. They were also a kind of short-term loan, as the state has a public debt that will have to be paid back with interest. It is not clear that the public was fully aware of the opportunity costs involved in largescale universal payments of this nature.

Most importantly, despite their expense and despite some claims to the contrary, neither the rate increases of €5 and €12 nor the one-off payments fully compensated those reliant on the State Pension for their lost spending power.

Table 3. State Pension Annual Loss of Spending Power versus Emergency Payments – figures in brackets are negative

Year	Change in weekly spending power (€)	Annual loss of spending power (€)[39]	Cumulative annual loss of spending power (€)	Value of lump sum payments —*best case scenario* (€)	Difference (€)
2020	€0 baseline	€0 baseline	€0 baseline	€0 baseline	€0 baseline
2021	(€5.81)	(€302.95)	(€302.95)	€0	(€303)
2022	(€18.86)	(€983.42)	(€1,286.37)	€1,278 *	(€8)
2023	(€19.80)	(€1,032.43)	(€2,015.85)	€600 **	(€1,416)
2024	(€25.18)	(€1,312.96)	(€2,345.39)	-	(€2,345)

Best case scenario

* 2022 measures: €225 Fuel Allowance plus €200 electricity credit (Budget 2022), plus additional €200 credit, double welfare payment €253.30 and €400 Fuel Allowance allocated in 2022 by Budget 2023.

** 2023 measures: €400 electricity credit (Budget 2023) and €200 welfare lump sum (February 2023).

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[38] https://www.fiscalcouncil.ie/wp-content/uploads/2023/06/Fiscal-Assessment-Report-June-2023.pdf
[39] Weekly rates are multiplied by 52.143 to reflect a full calendar year.

In the best case scenario, a single receipt of the full rate contributory State Pension could have received €1,878 compared to a loss of spending power of €2,318 in the period 2021-2023 (with both euro values expressed in 2020 spending power terms). This assumes the person received €225 Fuel Allowance plus €200 electricity credit (Budget 2022), plus an additional €200 credit, double welfare payment €253.30 and €400 Fuel Allowance allocated in 2022 by Budget 2023, as well as the €400 electricity credit (Budget 2023) and €200 welfare lump sum (February 2023). The net loss of spending power for a single person in this scenario is €440 (in 2020 terms).

For a couple on the full rate contributory State Pension plus Qualified Adult Increase, their loss of spending power in the period 2021-2023 is €4,332, and one-off payments were worth €2,283, leaving a net loss of €2,049 (all figures in 2020 terms). As Fuel Allowance and electricity credits are shared, only the extra welfare payments would have been received twice, which is why couples have a greater loss of spending power.

At most 4 in 10 older persons receive Fuel Allowance, and the 3 in 10 older persons in households with other adults (e.g. siblings or adult children) may not have gained the full value or any part of the electricity credit.

Older persons tend to rely on home heating oil or gas for home heating, or solid fuels in some rural areas, none of which were covered by the electricity credit. As a result, some older persons had a theoretical surplus on one bill, but insufficient weekly income to cope with their home heating costs. Measures such as ordering a partial fill of a home oil tank are ultimately more expensive than getting a full tank, so while some older persons 'made do', they were disadvantaged by their lack of spending power.

In 2024, in the absence of one-off payments, the lost spending power of the full rate contributory State Pension will be €24.60/week or €1,282 in the full year, on top of the €440 already lost. Couples are facing a loss of €46.58/week, or €2,429/year, on top of the €2,049 net loss of spending power in previous years.

The Society of St Vincent de Paul (SVP) believes that many households are going without food or other essentials due to lack of money.[40]

In Age Action's experience, most older persons will look to their own resources before seeking help from the state or charitable bodies, and they will restrict their spending in ways that will have long-term consequences. For example, many people will limit their socialising as a 'luxury', even when psychological evidence shows that some measure of contact with others is essential for mental health and wellbeing, not least post-COVID. Similarly, lack of nutritious food or adequate heating will have health effects.

Many older persons rely on the state pensions as their main or only weekly income, to a greater extent than in other western European countries. TILDA found that state pensions "are the most important source of income among older people in Ireland and

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[40] See, for example, https://www.svp.ie/news/svp-deeply-concerned-as-more-households-going-without-basics-in-2022/

make up around two-thirds of gross income for those aged 65 and over." Moreover "Around 26% depend on state transfers as their sole source of income."[41]

In this context, it is important to recall that many occupational and private pensions have not kept up with inflation and some—not least some public pensions relied on both those who are not entitled to a state pension due to the class of PRSI they paid—have not had an increase in years. Moreover, the value of savings has also eroded due to inflation. Many older persons will have lost far more spending power than just that from state pension income, with a long-term scarring effect likely to result, where older people will drop down the income distribution, experience a lower standard of living, and have less capacity to meet one-off expenses in future.

Rather than expensive or inflationary universal electricity credits or inflationary income tax changes that only benefit higher earnings, measures in Budget 2024 should target the needs of older persons who have least. Examples could include grant schemes to help people replace a worn-out boiler or a second-hand car, as well as additional one-off cash payments to state pension recipients.

Age Action recommends a one-off payment of €500 to every state pension recipient, including qualified adults, to compensate for lost spending power in the period 2021-2023.

Age Action recommends ring-fencing money under the Additional Needs Payment mechanism for means-tested one-off payments that promote older persons' social inclusion, such as replacing a second-hand car in a rural area, and advertisement of this opportunity through local radio and newspapers.

In the context of one-off payments, older persons place a high value on non-cash benefits such as the Free Travel, Medical Card and access to public health and social care services. While many of these services are outside the purview of the Department of Social Protection, Free Travel is a departmental scheme. **Free Travel should be maintained and consideration given to extending it to more rural transport options such as taxis, where no public transport option is available**.

In addition, because the decisions in relation to the state pensions change the incomes of older persons, it is essential that the department communicate these changes to other departments and impress upon them the importance of moving their income thresholds in line with inflation and income changes. For example, many older persons are deeply concerned about losing access to the Medical Card due to small changes in their income.

[41] https://tilda.tcd.ie/publications/reports/pdf/w1-key-findings-report/Chapter9.pdf

11. Significant Increases in Social Protection are Affordable

Based on the latest available ready reckoner from the Oireachtas Parliamentary Budget Office, the cost of raising the state pensions by €30/week (and pro rata increases to lower rates and Qualified Adult Increase) would be €968 million.[42]

It should always be recalled that net spending on social protection is significantly higher than gross spending, because many welfare incomes (including the contributory State Pension) are taxable and because most people on low incomes spend their money, with a return to the state in the form of VAT, excise, etc.

Similarly, social protection spending is an 'automatic stabiliser' in the economy, providing aggregate demand during downturns. Every €1 added to the weekly state pension rates is likely to add at least €30 million to aggregate demand, which in turn supports local businesses and jobs in all parts of the country in a more efficient way than complex administration of business support schemes. The 'cost' of increasing social protection spending should be analysed in terms of its effects on aggregate demand and its multiplier effect in the economy, as well as its gross cost in the budget.

Significant increases in the state pensions are affordable because spending is at a low starting point in a European context and tax revenue (including PRSI) is buoyant.

Irish public spending on social protection is the lowest in western Europe.[43]

- As a percentage of GDP, Irish spending on social protection is the lowest in the whole EU at 8.7% of GDP.
- But even if we use the modified economic growth figure of GNI*, Irish public spending on social protection is ranked 17th in the EU at 16% of GNI*, which is the lowest in western Europe.[44]
- The average level of social protection spending across the EU was 20.5% of GDP.

Irish public spending on old age social protection is joint second lowest in the EU, even when we use GNI*.[45]

- In 2021, Irish public spending on old age social protection was 3.5% of GDP or 6.4% of GNI*, with Cyprus lowest on 6.3% of GDP and Lithuania on 6.4% of GDP.
- The average across the EU was 10.8% of GDP.

The low level of spending on social protection can be partially explained by Ireland's relatively young population, low unemployment and the structure of our welfare system, but the bigger picture is that the welfare 'safety net' in Ireland is simply smaller than in many other EU countries, especially the wealthier countries of north-western Europe.

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42 https://data.oireachtas.ie/ie/oireachtas/parliamentaryBudgetOffice/2022/2022-09-20_pbo-pre-budget-2023-ready-reckoner_en.pdf
43 https://ec.europa.eu/eurostat/databrowser/view/GOV_10A_EXP__custom_6245743/default/table?lang=en
44 GNI* in 2021 was €230.7 billion, which represented 54.5% of GDP of €423.5 billion.
45 https://ec.europa.eu/eurostat/databrowser/view/GOV_10A_EXP__custom_6245743/default/table?lang=en

Measured in terms of GDP per capita, Ireland is one of the wealthiest countries in the world, but much of that theoretical wealth is held by multinational corporations and is not reflected in the living standards of most people in Ireland.

In the period 2020-2022, tax and social insurance revenue increased from €67.6 billion to €97.2 billion. While some of this revenue may not be sustainable in the long-term, Ireland could still afford to spend much more on social protection.

As the percentage of GNI* figures show, Ireland also has significant capacity to raise funds through tax and social insurance to provide a stronger welfare safety net. Both the Commission on Pensions and the Commission on Taxation and Welfare have recommended increases to PRSI to sustainably fund the expansion of social protection now and into the future. The idea that increasing social protection is too expensive or unaffordable is clearly false when Ireland is compared to other European countries. Likewise, the idea that the ageing of the population makes the state pension unaffordable is equally false, given how far below other countries Ireland's spending on old age social protection is currently, and given the less expensive structure of Ireland's single-tier state pension system.

Age Action recommends raising employers' PRSI in Budget 2024, and setting out a schedule for the progressive increase of PRSI in future years to fund the state pension and other social protection sustainable into the future, in line with the recommendations of both the Commission on Pensions and the Commission on Taxation and Welfare.

One-off social protection payments can be funded from 'surplus' corporation tax or other tax revenue that is deemed to be unsustainable or uncertain in future years.

Summary of Recommendations

In light of recent historic inflation and more long-term flaws in our social protection system, Age Action makes the following recommendations for Budget 2024:

1. **Raise the full rate of the contributory State Pension by €30.**
2. **Revise the income thresholds for the non-contributory State Pension, so that those with a weekly income of up to €40 can access the full rate with pro rata changes throughout the income thresholds.**
3. **Set the maximum rate of the non-contributory State Pension at the same level as the contributory State Pension**
4. **Raise the Living Alone Increase to the state pensions by €8, from €22/week to €30/week.**
5. **Extend eligibility for the Benefit Payment for 65-Year-Olds to any person who is affected by mandatory retirement at age 65, not just those with a sufficient social insurance record, and raise the rate of the Benefit Payment for 65-Year-Olds to the same as the full rate contributory State Pension.**
6. **Implement an income threshold of €700 for older persons living alone to become eligible for the Over-70s Fuel Allowance.**
7. **Give a one-off payment of €500 to every state pension recipient, including qualified adults, to compensate for lost spending power in the period 2021-2023.**
8. **Ring-fence money under the Additional Needs Payment mechanism for means-tested one-off payments that promote older persons' social inclusion, such as replacing a second-hand car in a rural area, and advertise this opportunity through local radio and newspapers.**
9. **Maintain Free Travel Passes.**
10. **Raise employers' PRSI.**