Submission to the Department of Social Protection for Budget 2023

Age Action is Ireland's leading advocacy organisation on ageing and older people. Age Action works for a society that enables all older people to participate and to live full, independent lives. To achieve this, Age Action supports and advocates for equality and human rights for all older people.

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Overview

Budget 2023 is occurring at a time of extremely high price inflation driven by energy costs. At the same time, inflation in the economy provides more tax revenue and social insurance, which permits the Government to significantly increase core pension rates and other cash supports to keep pace with the rising cost of living.

The budget must put in place the necessary resources to challenge ageism and age discrimination, to promote the independence and health of older persons, and to provide economic security to everyone in older age.

Most older persons have no capacity to raise their incomes. Many experience declining income and most have little or no cash savings. After a lifetime of contributing to society, it is right for the government to protect those who have no other way of coping with soaring living costs, especially for energy. Home heating oil is now 144% more expensive than it was two years ago (April 2020 to 2022) and 89% more expensive than it was in December 2016. Income inadequacy means that many older persons have no choice but to go without essentials like heating or a protein-rich meal, resulting in poor health outcomes and lower life expectancy.

Even before the recent period of high price inflation, one in eight older persons was unable to afford a meal with meat, chicken or fish every second day. One in 20 was unable to afford to have family or friends to their home for a meal once a month. Nearly a third of single adults aged 65+ would be unable to face unexpected financial expenses, as would one in five older couples. People need adequate incomes to live in dignity and to age in as good health as possible.

Budget 2023 cannot be an ordinary budget. The reality of high price inflation is that the full rate contributory State Pension will lose €22.80 in spending power in 2022 and will further lose spending power in 2023 as inflation will still be high. The Budget needs to deliver an evidence-based increase in the State Pension that is poverty-proofed and equality-proofed. **If the maximum rate of the Contributory State Pension is not raised by at least €22.80, it will represent a cut in purchasing power in real terms.**

The State Pension and other social welfare rates must increase ahead of projected inflation to prevent more people being pulled further into hardship. This is the minimum required to prevent further poverty and to meet the Government's targets in the *Roadmap for Social Inclusion*. **Age Action is calling for a €23 increase on the maximum contributory State Pension rate, €22 on the maximum rate non-contributory State Pension, and €15 on Qualified Adult increase. We are also calling for €15 on the Living Alone increase and the introduction of a new Energy Guarantee for Older Persons to help with energy costs.**

The State Pension and other welfare payments should be benchmarked against a minimum standard of living that includes all the costs associated with ageing and indexed to rise annually in line with the cost of living and/or average wages. Across Europe, welfare rates are routinely indexed in this way. Providing an adequate income is and should be just another part of the wide system of public services. The Irish social protection system needs to move away from stigmatising social welfare and to view the provision of adequate incomes as a basic requirement that allows people to live in dignity while also increasing demand in the economy.

Boosting the spending power of people on the lowest incomes does not drive inflation and a substantial increase in the social protection budget is affordable if there is political will. Ensuring everyone can live in dignity also reduces many costs associated with poverty and deprivation, not least premature illness and disability.

The high rate of inflation increases tax revenue and shrinks the national debt relative to economic output. The state has additional resources at its disposal in Budget 2023 to take the necessary action to protect older persons, most of whom have no way of increasing their own incomes. In early 2022, tax revenue for the year was projected to be €75.8 billion,[1] up from €68.4 billion in 2021,[2] an increase of €7.4 billion. The outturn is likely to be even higher revenue by December, given that tax revenue in May 2022 was €6.3 billion higher compared to May 2021, of which €4 billion was from other sources than Corporation Tax.[3] In addition to this figure, social insurance revenue will be substantially higher, in line with higher income tax receipts. Even allowing that Corporation Tax receipts may be a temporary windfall, the state has substantial capacity in Budget 2023 to keep core social protection incomes in line with inflation in the cost of living. **A Government decision to raise social welfare incomes by less than the rate of inflation will be a political choice, not a necessity.**

Context: Price Inflation and the Cost of Living

In March 2021, consumer prices in the economy went past the highest point of the Celtic Tiger period (September 2008) and have continued to rise ever since, accelerated by the effects of the war in Ukraine. The projected inflation rate for 2022 (8.5%) is the highest annual rate of price increase since the early 1980s.

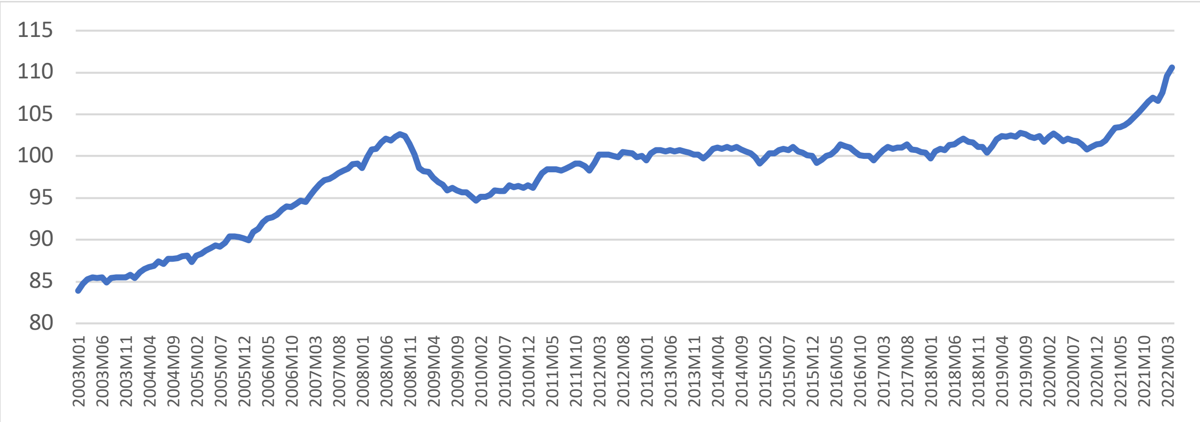
Nine in ten older persons rely on fossil fuels, with half using home heating oil, a quarter relying on gas for home heating and 14% relying on solid fuels. Across the

[1] https://www.gov.ie/en/publication/29e0b-summer-economic-statement-2022/
[2] http://databank.finance.gov.ie/FinDataBank.aspx?rep=TaxYrTrend
[3] http://databank.finance.gov.ie/FinDataBank.aspx?rep=TaxYrOnYr

whole population, 85% of people use fossil fuels, including 40% using home heating oil, 33.5% using gas and 10% using solid fuels. Many lower income households cannot afford to change their central heating systems and are unable to "transition" away from reliance on fossil fuels.

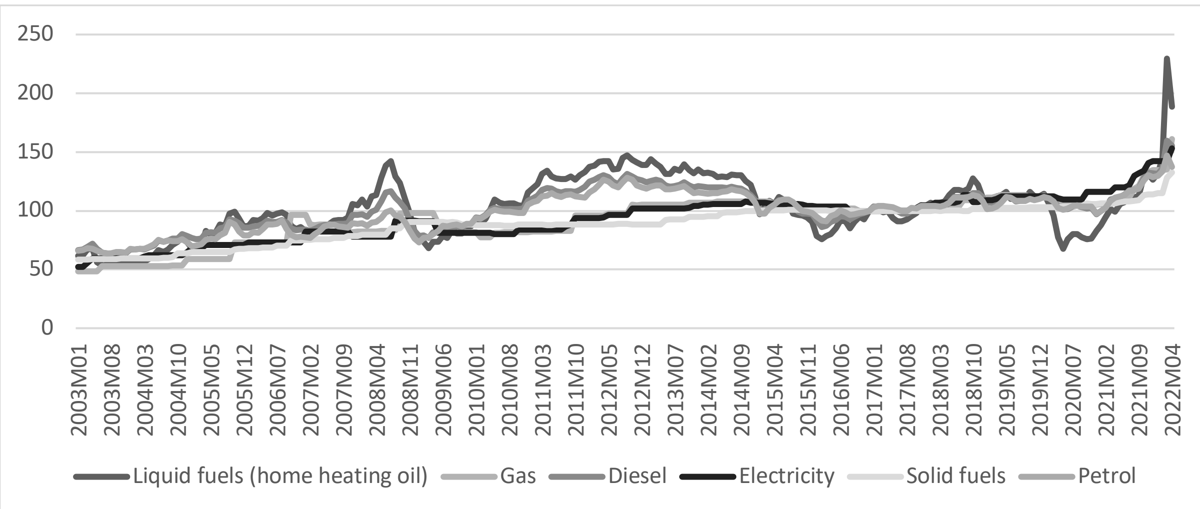
After a period of relative stability, energy prices have soared and many people on low to moderate incomes are struggling to cope with the increased cost of home heating. The extraordinary spike in energy prices seems likely to continue for some time, and it has worsened the gaps and flaws in the existing Fuel Allowance scheme and other social welfare income supplements.

Figure 1. Inflation, all items (CPI January 2003-April 2022; source: CSO)



With peaks and troughs linked to the Celtic Tiger economy, the 2008 crash and COVID-19, there is nonetheless a steady upward trajectory in the cost of fossil fuels, which are rising significantly faster than wages or social welfare. For example, home heating oil is now 144% more expensive than it was two years ago (April 2020 to April 2022) and it is 89% more expensive than in December 2016. Electricity is 38.2% more expensive than in 2020 and 53.1% more expensive than 2016. Other prices have similarly increased since 2016: gas up 61.0%; solid fuels up 32.6%; petrol up 37.6%; and diesel up 55.2%. While we have seen especially steep increases this year, unaffordable energy is going to remain a problem for the foreseeable future. If we are serious about transitioning to a low carbon economy, including through carbon taxation, fossil fuel prices will only continue to rise.

Figure 2. Inflation in energy costs (CPI January 2003-April 2022; source: CSO)

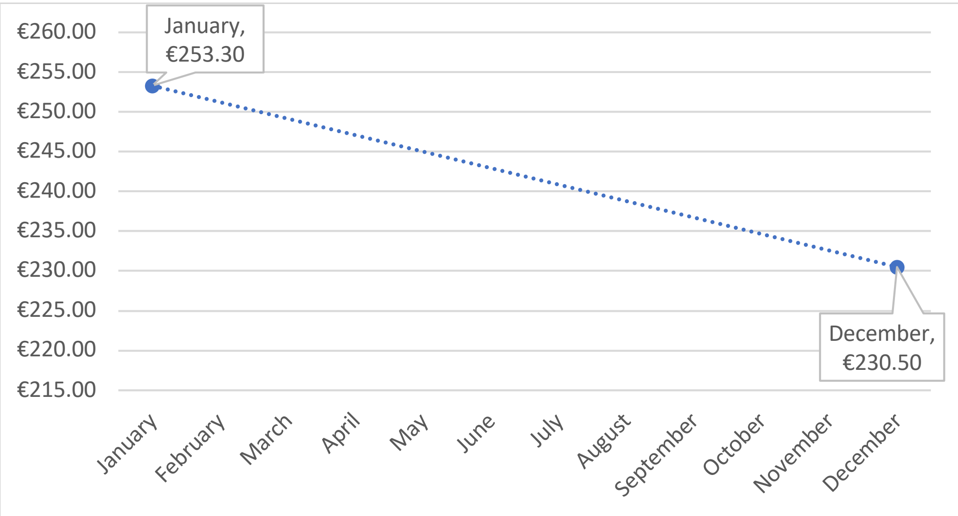


While the effects of the war on Ukraine may be one-off, the embargo on Russian fossil fuels will have long-lasting effects on European fuel costs. Moreover, many gas and electricity bills had already risen significantly before the war began.

The CSO has found that lower income households and other household types experience a higher rate of inflation than average because energy and food are a larger part of their weekly costs. Compared to a base rate, older persons (65+) experienced inflation 0.5 percentage points higher and those on the lowest incomes 0.8-0.9 percentage points higher.[4] As such, the projection of 8.5% inflation for 2022 is likely to be 9% on average for older persons, which represents an erosion of the Contributory State Pension's spending power by €22.80 (i.e. 9% of the maximum rate of €253.30).

In October 2021, the State Pensions were raised by €5, but they had already lost more than €10 in purchasing power since the last increase. Purchasing power was further depressed by higher-than-expected inflation in 2022.

Figure 3. Purchasing Power of the State Pension in 2022 (based on 9% price inflation)



If the maximum rate of the Contributory State Pension is not raised by at least €22.80, its purchasing power will have fallen in real terms. This means that many older persons will have to reduce their spending on fuel, food and other essential items because they have no way of increasing their incomes and have little or no cash savings.

It should also be recalled that further inflation in 2023 will also reduce the purchasing power of the State Pension from January 2023 onwards. Inflation-proofing the pension for next year would require a more substantial increase, or else quarterly adjustments to the rate to maintain its purchasing power. Raising the State Pension (or any welfare payment) to meet inflation will not drive further inflation and is affordable based on tax revenue boosted by inflation.

[4] https://www.cso.ie/en/releasesandpublications/frp/frp-eihc/estimatedinflationbyhouseholdcharacteristicsmarch2022/summaryofmainresults/

Context: Income, Wealth, Poverty and Deprivation

Across the board, pension incomes are significantly lower than incomes from employment or other economic activity. While nearly one in nine people aged 66+ is at work, most older persons have no means of increasing their incomes once they are no longer economically active, and many have declining incomes and/or declining savings. For many older persons "in old age, there is effectively nothing individuals can any longer do if their income from all sources is insufficient to keep them from poverty" (NESC).[5]

The CSO's Survey of Income and Living Conditions (SILC)[6] finds that the median average income of people aged 65 or older is just 52.7% of those aged 35-49. Moreover, incomes for this age group grew by 4.2% in one year, compared to 1.5% for older persons.

SILC found that half of older persons (65+) living alone have an annual disposable income of under €18,131 – or less than €347.72 per week. Half of older couples have an annual disposable income of less than €39,182 – or less than €751.43 per week. While this amount represents the median, many older persons have significantly lower incomes. For example, the maximum rate contributory state pension for a person living alone is €275.30 per week (inclusive of the €22 living alone increase), and for a couple, the maximum rate is €480.30 per week. **It is important to recall that only two-thirds of older persons receive a full rate state pension, whether contributory or non-contributory.**

When incomes are compared across different household types, 46.9% of older persons living alone have an income in the bottom 20%, and 70.3% have incomes in the bottom 50%. This highlights the extent to which older persons living alone, who tend to be the oldest and are more likely to be women, have low incomes.

The CSO's Household Finance and Consumption Survey[7] finds that half of older persons (65+) living alone have cash savings under €8,100, and half of older couples have savings of less than €18,100. Unlike other households, this typically represents the life savings of older persons most of whom have an inadequate income to save money, meaning that they must draw on these savings for many major costs during the remainder of their lives, including for home maintenance and repair, home adaptation for disability, replacing a second-hand car, replacing a boiler/central heating system, retrofitting for energy efficiency, care costs and medical expenses.

Compared to an EU average of 57%, Irish people aged 65-74 have the third lowest income replacement rate at 38% (2020), compared to incomes at age 50-59.[8] One of the Government's benchmarks for pension adequacy is for it to be equal to 34% of

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[5] NESC (2005) *The Developmental Welfare State*. https://www.nesc.ie/publications/the-developmental-welfare-state/

[6] CSO (2022) *Survey on Income and Living Conditions (SILC) 2021* https://www.cso.ie/en/releasesandpublications/ep/p-silc/surveyonincomeandlivingconditionssilc2021/ See Table 2.3a

[7] CSO (2022) *Household Finance and Consumption Survey 2020* https://www.cso.ie/en/releasesandpublications/ep/p-hfcs/householdfinanceandconsumptionsurvey2020/

[8] https://ec.europa.eu/eurostat/databrowser/view/ILC_PNP3/default/table?lang=en

median incomes, however the report of the Pensions Commission warns that the 34% benchmark may not be sufficient to prevent poverty in future.[9]

In the context of relatively low incomes, SILC finds that nearly one in eight (11.9%) older persons is at risk of poverty, one in eleven (8.4%) suffers deprivation and one in 25 (2.5%) lives in consistent poverty, up by 250% from the previous year. These figures are from 2021 and before the recent spike in energy costs. These poverty indicators are considerably worse for older persons living alone, of whom 21.5% are at risk of poverty, 12.1% suffer deprivation and 4.3% live in consistent poverty.

Men in the bottom 20% of the income distribution have a lower life expectancy by 2.6 years compared to the top 20%, and it is 2.3 years for women. Older persons in the bottom 20% of incomes are more than half again as likely to report "fair" or "bad" health compared to those in the top 20%.

Context: Demographic Transition

There are over one million people aged 60 and over in Ireland, including half a million people in their 60s, over 350,000 people in their 70s, over 150,000 people in their 80s and nearly 30,000 people aged 90 or older.

The fact that many more people are surviving well into their 80s and beyond is a tremendous success story, but it also poses challenges for the state and society, in terms of the need for health and social care infrastructure and staff, and a greater public awareness of the rights and needs of older people, especially the minority who suffer from disabilities or dementia.

Compared to other EU countries, Ireland still has a relatively young population – boosted by inward migration – with the advantage of having more people of working age and fewer children and older persons. Nonetheless, the structure of Irish society is changing, and in future the age profile of the country will be older. Older persons are more likely to need healthcare and social care, and the State Pension is the bedrock of their income for most people in older age.

By 2032, it is projected that there will be 30% more older persons (aged 60+), of whom 295,000 will be aged 80 or older, who are more likely to have significant health and/or social care needs. Budget 2023 needs to ensure investment continues to be made in the necessary infrastructure and public services to meet the needs of our ageing population.

[9] https://assets.gov.ie/200480/564ea175-28b2-417d-aa9b-3f1750225310.pdf

Older Persons' Lived Experience

"I am concerned about the approaching winter on a fixed income."

"I live with a disability and the cost of heating is terrible, sometimes I go to bed early."

"My home, built in the early 70s, is very expensive to heat and I can't afford to avail of the grants to upgrade it."

"I'm 83 and live in a house built in the late seventies... It's impossible to warm my house! The last few years I haven't been able to put the heat on till 5.30 every day. Can't imagine what I'm going to do this winter!! I can cut down on food! My worry is keeping warm. Please help."

"I am living cautiously, there is less variety in my diet, over the winter I put the central heating on for an hour in the morning, I light my fire in the evening for about two hours, I counted the number of briquettes I could use. No coal this past winter to help the environment. Wore lots of layers, used a rug for heat, using car once a week for shopping."

"I am not able to move house because rents are too high, and fuel and food costs are taking more of my budget"

"Against advice, I often carry heavy shopping because I can't afford to put petrol in car. I can't afford to replace my winter shoes."

"Everything from food to heating, etc. seems to get dearer by the week. Thank God for our free travel or we'd be like prisoners in our own homes."

"I had plans to get more dry lining and cavity walls filled to make house warmer. Also my car needs replacing and was looking into getting electric car. Because of my savings over years, I would not qualify for grants. I wanted to do this for the environmental benefits. Rising costs have made me feel I should not undertake any major costs at this time."

"I try my best to not put the heating on at all and just use extra clothes, throws etc. to keep warm. Also petrol costs have meant that I have cut down my already very low usage of my car to just one trip a week to visit my elderly mother in a nursing home. This affects my ability to socialise, especially in the evening. During the day I use the free travel on public transport but am too nervous to utilise this in the later evening time or at night."

– Respondents to Budget 2023 survey

Recommendations: Provide Economic Security

When people do not have adequate incomes, they are forced to choose between essentials like food and fuel. Many older persons will limit their social activities to reduce weekly costs, which can lead to isolation and social exclusion. Most older persons cannot raise their incomes and have limited cash savings. As such, most older persons rely on the combination of the State Pension and whatever private or occupational pension income they may receive, with the majority relying heavily on the State Pension.

In the UK and many European countries, social protection incomes like pensions are automatically increased in line with inflation and average earnings through indexation. In the UK, this is called the "triple lock", where pensions are raised by whichever is highest: the rate of inflation, average earning increase, or 2.5%. Despite the high level of inflation experienced in the UK like in Ireland, the triple lock will be implemented in 2023,[10] which means that pensions there are expected to rise by 10% or £18.50 [€21.50].[11]

In Ireland, a pension increase of €22.80 is needed for the full rate contributory State Pension to keep the same purchasing power in December 2022 that it had in January. Similarly the maximum Qualified Adult allowance would need to increase by €15.18 to keep pace with inflation.

Older persons living alone are more likely to have lower incomes, and those living alone are more likely to be women. At age 65, average life expectancy is 87 for women and 84 for men.[12] This success story also means that older people have greater need for savings than in previous generations to pay for major costs such as home repair, upgrading central heating or replacing a second-hand car, yet many older person households could not afford an unexpected large expense.

A. Increase the full rate of the contributory State Pension by €23 and the full rate of the non-contributory State Pension by €22. Increase the full rate Qualified Adult rate by €15 and the Living Alone increase by €15.

Based on available data,[13] a €23 increase in the contributory State Pension and associated payments would cost €592 million and a €22 increase in the non-contributory State Pension would cost €111.1 million. All lower rates on the State Pensions should rise proportionately, and similar welfare payments should also increase to a proportionate extent. The Christmas Bonus should be maintained.

B. Commission a comprehensive analysis of the costs associated with ageing, and the cost of living for all older people.

Building on the recent Cost of Disability research report, which demonstrates the additional essential costs experienced by people with different disabilities,[14] there is a need for a comprehensive study on the costs associated with ageing, including

[10] https://www.gov.uk/government/speeches/cost-of-living-support
[11] https://www.ftadviser.com/pensions/2022/05/26/sunak-confirms-return-of-triple-lock-next-year/
[12] https://www.oecd-ilibrary.org/sites/ae3016b9-en/1/3/10/2/index.html?itemId=/content/publication/ae3016b9-en&_csp_=ca413da5d44587bc56446341952c275e&itemIGO=oecd&itemContentType=book#figure-d1e14798
[13] https://data.oireachtas.ie/ie/oireachtas/parliamentaryBudgetOffice/2021/2021-10-08_pre-budget-2022-ready-reckoner_en.pdf
[14] https://www.gov.ie/en/publication/1d84e-the-cost-of-disability-in-ireland-research-report/

one-off costs and additional living expenses that are particular to older persons. For example, home maintenance, mobility and transport costs, care and medical expenses can be additional costs facing older persons. Budget 2023 should set aside a sufficient budget to commission this research (estimated at €0.5 million).

C. Expand all eligibility thresholds across all departments and agencies in line with any changes to the State Pension and other cash payments.

A basic measure of poverty-proofing and prevention of unintended consequences in every budget should be a process to ensure all departments and agencies re-align their eligibility criteria and thresholds whenever changes are made to social protection incomes, including income supplements. For example, eligibility for Fuel Allowance, Medical Cards, social housing waiting lists, and eligibility for a wide range of other schemes and services should all be expanded in line with changes to welfare income. This is particularly important during the current period of high inflation.

D. Expand the means test for the non-contributory State Pension and other means-tested welfare payments and income supplements to compensate for inflation.

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 both cash incomes and savings will be worth 9% less in purchasing power by end-2022 compared to January but are still being counted as if they had the same value. For example, in December 2022, a person's weekly income of €33 will have the spending power that €30 had in January 2022. Yet the means test for the non-contributory State Pension will mean they get €5 less per week than if their income was actually €30. Over a full calendar year, that adds up to €260.72 less income from the non-contributory State Pension for someone who has already lost €156.43 in the purchasing power of their €33 weekly income. Even if the rate of the non-contributory State Pension increases to compensate for inflation, it will not bring a person on €33/week onto the full rate unless the means test calculation is index linked to inflation.

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

Current Formula[15]	**Current Weekly Means**	**Proposed New Formula (up 9%)**	**Proposed Weekly Means**
First €20,000	Nil	First €21,800	Nil
Next €10,000	€1 per €1,000	Next €10,900	€1 per €10,90
Next €10,000	€2 per €1,000	Next €10,900	€2 per €1,090
Excess of €40,000	€4 per €1,000	Excess of €43,600	€4 per €1,090

[15] https://www.gov.ie/en/publication/11f23e-means-assessment-guidelines/#property

In addition, to avoid penalising those with cash incomes affected by inflation rather than savings, it is proposed that a new income disregard for eligibility for the non-contributory state pension should be created, to be equivalent to X% of a person's weekly income where X is the cumulative inflation since January 2022 (currently projected to be 9% for older persons by end of 2022).

E. Introduce an Energy Guarantee for Older Persons

The dwellings occupied by older persons tend to be older and therefore poorly insulated, with an estimated 300,000 homes with a Building Energy Rating of E, F or G occupied by older persons. This means that home heating costs can be exorbitant for many, especially the two-thirds of older households not eligible for Fuel Allowance payments.

The Fuel Allowance and the Electricity/Gas Allowances need to be more effectively targeted at those in need to provide them with stronger support. Age Action is calling for a radical redesign of these schemes in the form of an Energy Guarantee for Older Persons,[16] which has three key characteristics.

Firstly, it is a cash payment benchmarked and indexed against the price of energy. This is modelled on the original version of the Electricity Allowance, which from 1968 to 2013 guaranteed older persons a certain number of units of energy, ensuring that they could always afford to meet their basic home heating needs.

Secondly, eligibility will be determined not only on the basis of income, but also a home's insulation level. This fills a gap where currently older persons who are in the most poorly insulated homes, but on moderate incomes, don't receive Fuel Allowance despite unmanageable energy costs.

Thirdly, the Guarantee would be a banded payment, with persons on lower incomes and/or in more poorly insulated homes receiving a larger income supplement. No one should be worse off under this new scheme than under existing schemes, which means all persons aged 70 or older will be entitled to something under the Guarantee at least equivalent to the Electricity/Gas Allowance.

In Budget 2023, Age Action is calling for an additional €200 million to be allocated to Fuel Allowance from Carbon Tax revenue, as a first step towards bringing in an Energy Guarantee. This money should fund eligibility for Fuel Allowance for people in poorly insulated homes, and it should fund the creation of a partial-rate tier of Fuel Allowance with wider income eligibility, so that access to Fuel Allowance is no longer all or nothing.

F. Increase the rate of the Benefit Payment for 65-Year-Olds to the same rate as the State Pension, with access to the same range of income supplements and supports.

Expand eligibility for the payment to everyone who is forced to retire at 65 by a mandatory retirement clause in an employment contract.

[16] https://www.ageaction.ie/sites/default/files/age_action_energy_guarantee_for_older_persons.pdf

G. Budget 2023 should fund social insurance pension statements to be posted to all adults, spelling out their likely retirement income from the State Pension and encouraging them to save for retirement.

As part of the roll out of auto-enrolment and since many low- to middle-income workers do not currently save for retirement, greater awareness of the State Pension is needed to help people understand what they need to do to secure a higher income in older age.

H. Raise awareness of the Household Benefits Package and the new Additional Needs Payment among older persons.

Many older people are not aware of the existence of these schemes, including the Emergency Needs and Urgent Needs payments now under the unified Additional Needs Payment. All people approaching age 70 should be written to by the Department to inform them of their entitlement to the Household Benefits Package, along with a form to apply for it. Similarly, all households should be sent clear communication about the availability of the Additional Needs Payment.

I. Budget 2023 should provide a stronger mechanism to enhance the pension eligibility of people, especially women, who have spent years providing care, with an allocation of €3 million in annual funding towards a dedicated Carer's Pension for long-term family carers.

Many older persons have been homemakers and carers for well over 20 years, yet the arbitrary cap of 20 years prevents them gaining a full State Pension. Such restrictions, which cause gender inequality, should be removed.

J. Free Travel should be maintained, and expansion should be considered.

The Free Travel scheme is often cited as important by older persons, and for some it is their only means of transport. In areas where public transport is limited, consideration should be given to pilot schemes to allow people to use their Free Travel pass for a set number of taxi fares per annum.