Submission to the Department of Employment Affairs and Social Protection on Benchmarking and Indexing of Social Welfare Payments

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1. Introduction

Age Action is the leading advocacy organisation on ageing and older people in Ireland. Our mission is to achieve fundamental change in the lives of all older people by eliminating age discrimination, promoting positive ageing and securing their right to comprehensive and high-quality services.

We want to make Ireland the best country in the world in which to grow old and we work with older people to build a society free of ageism where their rights are secured. A central feature of our work is raising awareness about the lived experience of growing old in Ireland.

We are glad to have the opportunity to make a submission to the Department of Employment Affairs and Social Protection on benchmarking of social welfare rates.

Any setting of benchmarks and indexing of social welfare rates should have the desired outcome of ensuring people have income adequacy and security, lifting them out of poverty and away from social exclusion.

2. Context

i) Demographic Changes

According to the most recent 2016 Census figures, the number of people aged over 65 saw the largest increase of population since 2011. This age group has increased since 2011 by 19.1 per cent (to 637,567). The number of people aged over 85 increased by 15.6 per cent (to 67,555).[1]

At present, just over 13 per cent of the total population is over 65 years of age.[2] Each year in Ireland, the over 65 age group increases by 20,000 people.

The number of people aged over 65 is projected to increase very significantly to close to 1.4 million by 2041,[3] from one-fifth to over one-third of the working population over the next two decades. The number of people over 80 is set to rise even more dramatically, increasing by over 250 per cent to between 470,000 and 484,000 in 2046.[4]

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[1] http://cso.ie/en/media/csoie/newsevents/documents/pressreleases/2017/prCensussummarypart1.pdf
[2] http://www.cso.ie/en/releasesandpublications/er/q-cv/qnhscrimeandvictimisationq32015
[3] http://rebuildingireland.ie/Rebuilding%20Ireland_Action%20Plan.pdf
[4] Based on 2011 base figures.
http://www.cso.ie/en/csolatestnews/pressreleases/2013pressreleases/pressreleasepopulationandlabourforceprojections2016-2046

ii) Poverty and Income Adequacy for Older People

Older people are generally living on a fixed income and are particularly vulnerable to social welfare cuts and price increases. Since 2004 to date, among all those in poverty, the retired have experienced the greatest volatility in their poverty risk rates.[5]

Pensioners are at a real risk of poverty because the State pension is inadequate. Many older people on the top rate of the State pension live either just above or below the poverty line.[6] The latest 'at risk of poverty rate' line in Ireland currently stands at €12,521 (€240.78 per week). A full Contributory State pension (with March 2019 increases) is just over the at risk of poverty figure and stands at €12,911 or €7.50 per week over the poverty rate (€13,431.60 for those over 80).[7] The top rate of the Non-Contributory State pension sits under the poverty rate at €237.00.

The latest official poverty statistics from the CSO indicate that 8.6% of people aged 65 years and over were 'at risk' of poverty in 2017[8] and a largely unchanged 'at risk of poverty' and 'consistent poverty' rates for the over 65s.

While the notable decrease over the last 20 years in those over 65 below the poverty line is welcome, it remains worrying that just under 1 in 10 older people remain in poverty.

Table 1: Percentage of Older People (65yrs+) Below the 60 Per Cent Median Income Poverty Line, 1994-2017

1994	1998	2001	2004	2008	2012	2017
5.9	32.9	44.1	27.1	11.1	12.4	8.6

Source: Social Justice Ireland[9] citing material from Whelan et al[10] and CSO online database.

[5] Social Justice Ireland (2019) *Indexation of Social Welfare Rates Review and further proposals by Social Justice Ireland. Available at https://www.socialjustice.ie/sites/default/files/attach/publication/5752/2019-03-26-indexationandsocialwelfarerateswithcover.pdf?cs=true.*

[6] The nominal median equivalised disposable income was €20,869 and the nominal at risk of poverty threshold stood at €12,521 i.e. 60% of the median in the latest EU SILC data release for 2017. See Survey on Income and Living Conditions (SILC) 2017 available at https://www.cso.ie/en/releasesandpublications/ep/p-silc/surveyonincomeandlivingconditionssilc2017/income/.

[7] The top rate of the contributory State pension (€12,911, or €13,431.60 for those over 80) is just over the poverty line in Ireland (€240.78 or €12,521) A State Pension for those with a yearly average of 39 or fewer annual social insurance contributions over the course of their working life is below the at risk of poverty rate, and for those on the top rate of the non-Contributory State Pension at €12,324.

[8] *Survey on Income and Living Conditions (SILC) 2017*. Available at www.cso.ie.

[9] Social Justice Ireland (2019) *Indexation of Social Welfare Rates Review and further proposals by Social Justice Ireland. Available at https://www.socialjustice.ie/sites/default/files/attach/publication/5752/2019-03-26-indexationandsocialwelfarerateswithcover.pdf?cs=true.*

[10] Whelan, C.T. et al. (2003) 'Monitoring Poverty Trends in Ireland: Results from the 2001 Living in Ireland Survey', *Policy Research Series No. 51*. Dublin: ESRI as cited in Social Justice Ireland (2019) *Indexation of Social Welfare Rates Review and further proposals by Social Justice Ireland. Available at https://www.socialjustice.ie/sites/default/files/attach/publication/5752/2019-03-26-indexationandsocialwelfarerateswithcover.pdf?cs=true*

Many of those in retirement are without adequate coverage for their cost of living and rely solely or mainly on State pension supports. For those over 65 more than three-quarters of their income is made up of public transfers.

To this end, the State Pension and secondary benefits have provided a critical, and often sole, source of income for many older people.

In addition, vital secondary income supports for older people have remained low over the last few years, while eligibility criteria have tightened in many cases.

Table 2: Weekly Income Supports Comparison 2009 versus 2016-2019

Income	**Jan 2009**	**Jan 2016**	**Mar 2017**	**Mar 2018**	**Mar 2019**
State Pension (Contributory)	€230.30	€233.30	€238.30	€243 30	€248.30
Christmas Bonus (weekly equivalent)	€4.42	€3.36	€3.89	€3.97	€4.78
Total A	**€234.72**	**€236.66**	**€242.19**	**€247.27**	**€253.10**
Secondary Income Supports					
Telephone Allowance	€6.00	€0.00	€0.00	€0.00	€2.50*
TV Licence	€3.08	€3.08	€3.08	€3.08	€3.08
Electricity/Gas	€9.63	€8.07	€8.07	€8.07	€8.07
Fuel Allowance (Means tested payment)	€12.31	€11.25	€11.25	€11.68	€11.68
Total B	**€31.02**	**€22.40**	**€22.40**	**€22.83**	**€25.33**
Total A+B	**€265.74**	**€259.06**	**€264.59**	**€270.10**	**€273.63**
Difference from Jan 2009 to date		*(€6.68)*	*(€1.15)*	*€4.36*	*€7.89*

*This is available only to those who live alone and get the Fuel Allowance

While social welfare increases announced in recent Budgets are welcomed, they have seen many people subsequently pushed just over the threshold for secondary benefits by small increases and losing their entitlement to some of these benefits. Many of the calls received by our Information Line following the application of Budget increases in 2018/2019 have been from people pushed just over certain thresholds (e.g. for the medical card) by the extra €5 pension increase.

It is crucial that any social welfare increases are matched by corresponding threshold increases, and for the system to work together to protect against poverty.

Combined with a 200-300 per cent increase in prescription charges, new taxes on water and property, rising energy and medicine costs in recent years, the capacity of many older people to develop resilience to economic shocks, even small ones such as any slight changes to utility costs, has been eroded. These new taxes, charges and rising prices can have a greater impact on older people generally living on a fixed income, with limited opportunities to return to the labour market or increase income.

In addition, the ending of the State (transitional) pension in early 2014 saw older people forced to retire early discriminated against and in receipt of up to €60.30 lower per week. With increases in State pension retirement ages due to take place in 2021 and 2027, this gap is likely to increase.

Looking at income replacement in retirement, an increasing number of older people are experiencing fear about retirement due to worries about income adequacy, particularly in the context of rising costs. Recent CSO figures show that almost 45 per cent of workers aged 20-69 had no supplementary pension coverage.[11]

For average earnings of €38,000, the Department of Employment Affairs and Social Protection estimates a replacement figure of 60 per cent of earnings to achieve income adequacy in retirement. Taking current pension rates, a 26 per cent gap in replacement earnings currently exists for those on the State pension alone.[12]

3. Recommendations

Social welfare rates should be benchmarked at a level sufficient to lift people above the poverty line and to provide them with a minimum essential standard of living.

To facilitate proper planning and provide peace of mind for people, it is crucial that a system to depoliticise the annual budgetary process by benchmarking and indexing any increases in the State pension and secondary benefits should be put in place

i) Ensure adequacy in both setting of benchmark rate and indexing

An adequate income for older people is that which enables them to age with dignity and with independence, keeping them out of poverty.

Any definition of adequate social welfare supports must address what can be considered an adequate standard of living, when it is measured and how often it will come under review.

[11] This includes occupational pension coverage from current or previous employments, and personal pension coverage including those where payments have been deferred for a period of time or are currently being drawn down by the pension holder. CSO (2019) Pension Coverage Q3 2018. Available at www.cso.ie.

[12] Based on average earnings of €38,000, with the state pension replacing approximately 34 per cent of earnings.

Clarity is welcome regarding the anticipated oversight for future review as well as the consultation process.

The last three successive Budgets have seen overall social welfare increases of €5 across the board. It is unclear whether this is a sustainable annual increase or whether it may now be considered Government policy. The setting of a benchmark and indexing of increases will provide people will certainty and stability as to annual rates. As discussed above, **older people are particularly vulnerable to income inadequacy, living on a fixed income and often facing higher costs around health, transport and energy costs.**

A recent paper by Social Justice Ireland highlighted the role that social welfare plays in lifting over 65s out of poverty.[13] The CSO showed that EU SILC data reported that in 2009 (the last year measured), poverty among those aged 65 plus fell from 88 per cent to 9.6 per cent once social welfare payments were included.[14]

The Vincentian Partnership for Social Justice Minimum Essential Standards in Living (MESL) estimated that in particular a pensioner living alone demonstrates greater vulnerability to income inadequacy. The 2018 MESL report shows that while the needs of a single pensioner is 80 per cent of that of a pensioner couple household, their income (State pension and secondary benefits) is only between 50 – 60 per cent of a couple's household.[15]

Age Action welcomes the commitment in the Roadmap for Pension Reform to benchmark and index the State pension.[16] This will bring Ireland into step with most other countries in the EU that apply a formula for indexing the State Pension to some combination of prices, wages or GDP.[17]

However, the National Pensions Framework contains a commitment to "sustain the value of the State Pension at 35 per cent of average weekly earnings" and clearly states that this is to prevent poverty among older people.[18] Age Action recommends a roadmap to get to this commitment of 35 per cent to reach this benchmark commitment and then to apply the indexing formula.

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[13] Social Justice Ireland (2019) *Indexation of Social Welfare Rates Review and further proposals by Social Justice Ireland. Available at https://www.socialjustice.ie/sites/default/files/attach/publication/5752/2019-03-26-indexationandsocialwelfarerateswithcover.pdf?cs=true.*

[14] These were not updated in subsequent CSO publications.

[15] See www.budgeting.ie.

[16] The Roadmap contains a commitment 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 (CPI) or average wages.

[17] Department of Social Protection presentation to the Joint Oireachtas Committee on Social Protection (15 December 2016).

[18] Government of Ireland (2010) *National Pensions Framework.* Available at http://www.welfare.ie/en/downloads/nationalpensionsframework_en.pdf

Preliminary CSO figures for Q4 2018 indicate that average weekly earnings amongst current workers were €761.65 and using the 35 per cent benchmark would result in a State pension of €266.58. This is substantially higher than the current rate. Benchmarking the State pension to 35 per cent of the current average weekly earnings would provide older people with an additional €950 per year.[19]

We urge the Government to consider applying a safeguard for annual indexes in the form of a triple lock which guarantees that the basic State pension will rise by a minimum of either 2.5 per cent, the rate of inflation or average earnings growth, whichever is largest.

Looking at indexing of annual social welfare payments, there is merit in considering the Social Justice Ireland proposal to revisit the stated target of 30 per cent of the older Gross Average Industrial Earnings (equivalised to 27.5 per cent of average weekly earnings) and **develop a proposal to move towards a higher target and closer to the MESL and EU poverty line – a suggested 30 per cent of average weekly earnings.**[20]

ii) Develop a comprehensive benchmarking and indexing methodology

Clarity is needed as to which formula will be used for indexing of all social welfare rates.

The VPSJ **Minimum Essential Budget Standards (MESL) is a useful mechanism to link to yearly indexing of payments.**

The Consumer Price Index (CPI) may not be the most relevant measure to use as it is not an effective guide to the specific purchasing habits of older people or those on lower incomes.[21] The VPSJ Minimum Essential Budget Standards (MESL) provides useful quantifiable data on the costs of living for those on lower incomes, including pensioners e.g. those living alone versus in a couple, rural and urban comparison etc.

Following on from proposals in the Roadmap for Pension Reform to index the State contributory pension, it remains unclear whether the contributory state pension may decrease in line with lessening CPI (or alternative) and average wage levels or whether there will be a commitment to maintain a minimum State pension regardless of this.

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[19] CSO (2019) *Earnings and Labour Costs Quarterly Q3 2018 (Final) Q4 2018 (Preliminary Estimates).* Available at www.cso.ie.

[20] Social Justice Ireland (2019) *Indexation of Social Welfare Rates Review and further proposals by Social Justice Ireland. Available at https://www.socialjustice.ie/sites/default/files/attach/publication/5752/2019-03-26-indexationandsocialwelfarerateswithcover.pdf?cs=true.*

[21] See also VPSJ (2013) *Changes in the cost of a MESL in Comparison to CPI Inflation* – available at http://budgeting.ie.

With regard to pensions, clarity and assurance is needed around any implication arising from the indexing of the contributory State pension on the non-contributory State pension, and whether any protection for the non-contributory state pension rate will be applied. **Particular regard is needed for the situation of older people who are eligible only for lower rates of the non-contributory State pension.**

Further information and discussion regarding favourable alternative models for indexing and benchmarking would be welcome, in particular the timeframe for review.

iii) Need for effective public consultation

To enable the consideration and engagement of those most impacted upon by the issue of benchmarking and indexing, **an effective public consultation process is needed.**

To empower and enable the participation of older people in any consultation, **we hope to see a move away from a reliance on online correspondence (versus paper-based channels) and towards regional face-to-face consultations** to provide a greater opportunity for older people to meet with the Department and provide their views directly.

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