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A Universal Pension for Ireland

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Social Justice Ireland's Policy Research Series is intended to provide a forum for detailed exploration and analysis of specific socio-economic policy proposals. It also reflects the strategic objectives of this organisation which are associated with playing a leading role in major public policy arenas on issues related to poverty, inequality and social exclusion; providing accurate social analysis, credible alternatives and effective pathways from the present situation to the future in areas of public policy in which we engage. This study, *A Universal Pension for Ireland*, is a very valuable contribution to this Policy Research Series.

We wish to thank Adam Larragy for the detailed, rigorous and painstaking research of pensions and for writing the study. We also wish to acknowledge the contribution of a number of peer reviewers who, through their comments and suggestions, greatly added to the quality and focus of this study.

We commissioned this study as a contribution to the debate on pension provision. We realise that it proposes a reform which is challenging given the current fiscal climate. However it is clear that major structural reform is necessary to ensure the long term viability of pension provision. This study shows that a Universal Pension can be introduced in Ireland and can be financed even in these difficult times.

Seán Healy
Brigid Reynolds
Directors,
Social Justice Ireland
September 2013



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Introduction

This study proposes that a universal pension, provided as a right to every Irish citizen and resident over the eligible age, be introduced to replace the current contributory and non-contributory state pension. Such a proposal would achieve five key objectives;

- it would provide older citizens, regardless of their previous social insurance contribution record or means, with a guaranteed income during old age;
- it would provide those older people who do not receive any support through the state pension system with a pension thus achieving universal coverage;
- it would provide a secure and certain framework around which citizens can plan for their retirement;
- over time it would distribute income from the wealthiest in society to the poorest, creating a more egalitarian society and
- it would ensure the long-term sustainability of the state pension system.

Taking account of the National Pensions Framework and the existing structure of the Irish pensions system, this study elaborates a feasible and sustainable universal pension, provides a full costing for such a proposal, and proposes that the existing tax relief for private pensions be reformed to fund the universal pension. The OECD's *Review of the Irish Pension* system in 2013 concluded that the State pension should move to either a flat-rate universal basic pension, or to a means tested basic pension on the grounds that '[b]oth of these options would have the advantage, compared with the existing scheme, of introducing a much simpler, more transparent and less costly public pension scheme' (OECD, 2013: 11).

The economic climate in which the 2007 Green Paper on Pensions was compiled has changed dramatically. Indeed, the financial, economic and social crisis has worsened considerably since the publication of the National Pensions Framework in March 2010. Many of the assumptions and certainties of the Celtic Tiger years have been shattered. Policymakers must take account of the transformed economic environment and build a just and sustainable pension system. The OECD review has provided a new context for a discussion of the future trajectory of the pension system in Ireland. However, *Social Justice Ireland* believes a universal pension must be higher than that implicitly envisioned by the OECD, with less emphasis on individual private pensions as a means of providing post-retirement income.

The crisis facing the country's private pension system is currently the focus of attention of policymakers. Falling asset prices in equities and bonds, combined with opaque fee structures, have rapidly denuded the value of Irish pension assets. Against official expectations of annual fund growth of

between 3.5% and 7% of Irish managed pension funds, nominal returns have been only 1.2% per annum over a ten year period ending November 2010 (Stewart, 2011: 15). Defined benefit scheme members face the winding up of their schemes, closure to new members or no future accrual to members. Less than one-in-five defined benefit schemes met the regulatory funding standard in 2010 (Mercer, 2010).

The private pensions policy of the 1990s and 2000s failed to expand pensions coverage, and where savers took up pensions, they witnessed their yields reduced by pension charges, or declining yields as successive asset-price bubbles collapsed. During the late 1990s and up to the present day, pension policy has provided large tax subsidies to those who needed it least, at significant cost to the Exchequer, while failing to guarantee adequate post-retirement incomes to the majority of the population.

Neither the proposed pensions system contained in the National Pensions Framework, nor the current system – a combination of a flat-rate state pension and a heavily subsidised private pensions industry – currently provide the basis for an egalitarian or sustainable pension system. The state pension has been perhaps the greatest tool for combating poverty in Ireland – in Professor Cormac Ó'Gráda's words, '[no] other welfare measure in twentieth-century Ireland would match what Sir Henry Robinson dubbed 'the greatest blessing of all' (Ó'Gráda, 2002: 160).

Increasing private pension coverage would not necessarily provide an adequate post-retirement income for all. The reduction in yield faced by contributors to an individual private pension scheme is particularly high, and low-income savers in particular would see a large proportion of their contribution reduced by the charges imposed by the private pensions industry. Restricting private pension tax relief to

 *During the late 1990s and up to the present day, pension policy has provided large tax subsidies to those who needed it least, at significant cost to the Exchequer, while failing to guarantee adequate post-retirement incomes to the majority of the population.*

fund an adequate universal pension can provide adequate post-retirement incomes for all.

Over the next sixty years, the Irish population will age considerably, albeit at a far slower pace than our European neighbours. This must not be seen as a cause for concern, but a challenge to be met. The lesson of the last six years is that our economic and social challenges must be faced collectively, and our policies constructed upon the principles of solidarity, sustainability and justice.

The words of the 1919 Democratic Programme of the First Dáil provide the guiding principles to construct a new pension system for Ireland: '[to create a] sympathetic native scheme for the care of the Nation's aged and infirm, who shall not be regarded as a burden, but rather entitled to the Nation's gratitude and consideration'.

Social Justice Ireland recognises that there is a perception that those receiving the State Pension have been relatively insulated during the economic crisis, compared to those in different age groups on lower incomes. However, the 20% of elderly citizens on lower incomes have seen a reduction of 11.5% in their average weekly equivalised income between 2009 and 2011. It is important to note that the biggest inequalities in Ireland are not those between the generations, but between those on higher and lower incomes.

That is why *Social Justice Ireland* advocates that funding for the universal pension come entirely from reducing pension tax reliefs, which benefit older workers on higher incomes. *Social Justice Ireland* believes that every adult and child should receive a guaranteed income. This study focuses on a guaranteed income for older people.

This study is part of a wider project *Social Justice Ireland* has been developing in which the desirability, viability and technical challenges of ensuring every person in society has a guaranteed basic income is analysed in detail.



It is important to note that the biggest inequalities in Ireland are not those between the generations, but between those on higher and lower incomes.

1. Executive Summary

This study was carried out to ascertain the cost of introducing a residency based universal pension system to replace the current social insurance and means-tested state pension system, and to project the cost to 2046. The objective of the universal pension is to provide an adequate and sustainable post-retirement income for all citizens and residents of Ireland. To fund the universal pension, tax reliefs for private pension would be reduced.

The key characteristics of the universal pension are detailed below:

- The universal pension would replace the State Pension (Contributory), State Pension (Non-contributory), the Death Benefit and the Widow's, Widower's or Surviving Civil Partner's (Contributory) Pension for all those above the state pension age. It would also be paid to those who are currently only receiving an income through their spouse or partner's state pension as Qualified Adults aged 66 and over.
 - The rate at which the universal pension is paid would be the current rate of the State Pension (Contributory), which is €230.30 a week. This would immediately raise the payments to those on the State Pension (Non-contributory), two-thirds of whom are women, by a minimum of €10 a week. It would also provide a pension in their own right to those receiving the Qualified Adult increase for those aged 66 and over.
 - The Universal Pension would be residency-based. Each full year an eligible individual is resident in Ireland between the ages of 16 and the state pension age they would accumulate a 1/40th or 2.5% increase in the Universal Pension. For example, if the state pension age was 66 and an individual had been legally resident for 30 years between the ages of 16 and 66 they would receive 75% of the full rate of the Universal Pension.
 - On the introduction of the Universal Pension, all pensioners who had been in receipt of a full state pension – contributory or non-contributory – would be allocated a full Universal Pension at the full contributory rate.
 - Those pensioners who had then been in receipt of no state pension or reduced pension amounts - as Qualified Adults or on the basis of a means test or on the basis of their PRSI contribution history – would initially receive their current amounts. However, they would be entitled to apply to have their payment increased based on the length of residency in Ireland.
- If they have been resident in Ireland for 40 years, from age 16 to pensionable age, they would receive the full Universal Pension.
 - If they have less than 40 years residency, they would receive as their Universal Pension the more favourable of the following:
 - A residency-related pension (2.5% of the full Universal Pension per year of residence)
 - Their current pension amount.
 - This means that no existing pensioner would lose out and many would experience an increase in the Universal Pension. In particular, those adults aged 66 years and older, in respect of whom reduced payments are now made due to their status as 'Qualified Adults', would receive a Universal Pension in their own right.
 - Qualified increases for children and adults under the age of 66 would continue to be paid on the basis that they are currently paid and the rate that they are paid would be a certain percentage of the Universal Pension rate.
 - The increase for those aged over 80, those living alone and those living on designated islands would be maintained and the rate that they are paid would be a certain percentage of the Universal Pension rate.
 - The Universal Pension would remain frozen until 2016, and thereafter would gradually rise to 40% of average earnings by 2025. It would remain linked at 40% of average earnings thereafter.
 - Many public servants recruited prior to 6 April 1995 do not receive the State Pension (Contributory) as they were members of the public service's occupational pension scheme and subsequently paid a modified rate of PRSI. It is proposed that these public servants are included in the Universal Pension scheme, but that a claw-back mechanism operates to return some or all of the Universal Pension to the state, depending on the amount of their public service occupational pension. Those public servants recruited on or after 6 April 1995 would receive the Universal Pension, as their occupational pensions have been 'integrated' with the state pension system.

Key aspects of the costing of the Universal Pension are detailed below:

- While full comparisons between the scope of the proposed Universal Pension and the current state pension are difficult, it is estimated that the maximum cost of introducing the Universal Pension in 2014 would be €710m.
- The cost of the Universal Pension system as a percentage of GDP would rise from nearly 4% of GDP in 2014 to just over 7% of GDP in 2046 in the base scenario used in this study.
- The M2F1 scenario used by the Central Statistics Office in their *Population and Labour Force Projections, 2011-2046* is utilised for the base scenario.
- It is assumed that a number of European and other citizens who reside in Ireland and retire abroad, perhaps in their own country, could claim a portion of the Universal Pension upon reaching the Irish state pension age.



No existing pensioner would lose out and many would experience an increase in the Universal Pension. In particular, those adults aged 66 years and older, in respect of whom reduced payments are now made due to their status as 'Qualified Adults', would receive a Universal Pension in their own right.

It is proposed that the Universal Pension is funded by a reform of the structure of tax relief for private pensions:

- The marginal rate of tax relief on private pension contributions should be reduced to the standard rate of 20% and this measure should also apply to the Public Service Pension Related Deduction (or 'pension levy'). The Department of Finance believe, according to an answer to a parliamentary question, that this could raise €560m. This would be a strongly progressive change, as nearly 82% of the tax relief for private pensions accrue to the top 20% of earners, with 56% accruing to the top 10% of earners.
- The earnings contribution cap should be reduced from €115,000 to €75,000. The Department of Finance believe, according to an answer to a parliamentary question, that this would raise €133m.
- The standard fund threshold should be reduced from €2,300,000 to €622,500. The data required to ascertain how much could be raised by this change, which would interact with other changes, is not available. However, *Social Justice Ireland* estimates that this measure, in combination with the other measures, could raise up to €270m.
- These measures combined could raise up to €960m in a full year, which is in excess of the €710m required.
- Government has committed to pension changes in 2014 that would raise €250m in a full year. However, this policy has not yet been forthcoming. If Government introduces changes to raise €250m on a full-year basis in 2014 then, depending on the changes introduced, the additional measures proposed by *Social Justice Ireland* might raise €710m.
- Depending on Government actions, the combined tax and pension changes would either provide additional sums to the Exchequer in the first year of introduction, with at least €250m being contributed to the Exchequer in that year. Alternatively, if government introduces the changes to pension tax relief in Budget 2013, the Universal Pension would be revenue neutral.

2. Policy Context

2.1 Introduction

Ireland's pensions system consists of three pillars: the first pillar comprising a flat-rate state pension; the second pillar occupational pensions attracting significant subsidies through tax expenditures; and a third pillar composed of private pensions, also attracting significant tax expenditures. Additionally, the third pillar includes all other post-retirement income derived from non-pension wealth, such as property or equities. Irish pension policy has, from 1998 to 2010, been guided by the recommendations of the National Pensions Policy Initiative (The Pensions Board, 1998). The Board recommended a social welfare pension of 34% of Gross Average Industrial Earnings (GAIE) to sustain a minimum income, while 'measur[ing] adequacy of gross retirement income from all sources against a benchmark of 50% of gross pre-retirement income'. While this is not a binding target, government policy has broadly followed this metric. The Board also set an ultimate target of 70% supplementary pension coverage of the workforce over 30. In 2010, the government published the National Pensions Framework, which recommended a social welfare pension of 35% of average earnings and an auto-enrolment scheme for employees. However, due to the depth of the economic crisis, pension policy remains in flux.

2.2 History of the Irish State Pension

The Irish state pension – or social welfare pension – comprises the first pillar of the Irish pensions system. The state pension, then called the old age pension, dates from the Old Age Pensions Act of 1908, when the British Chancellor of the Exchequer, David Lloyd-George, introduced a means-tested, tax-financed state pension for those aged over 70 years (Murray, 1980). In 1924, the new Free State government cut the old age pension and tightened some of the conditionality attached to receiving the pension (McCashin, 2005: 95; O'Gráda, 151-152). The pension cut was reversed in 1928, and from 1932 the means test became less onerous – indeed the Local Government Department in practice relaxed the means-test, much to the chagrin of the Department of Finance – with the removal of the 'benefit and privilege' clause and the Poor Relief disqualification. The 1949 White Paper *Social Security* – strongly influenced by the approach of the Beveridge Report in Britain – introduced the idea of the contributory principle to the Irish pension system (Carey, 2007). The 1952 Social Welfare Act laid the basis for, and the 1960 Social Welfare Act introduced, a contributory system in which all workers except for the self-employed, public servants, and those above the Pay-Related Social Insurance (PRSI) threshold would pay social insurance contributions and in return would receive a flat-rate

contributory state pension from the age of 70 (McCashin, 2005: 97).

In the 1970s, the PRSI ceiling was removed and the age of eligibility for the old age state contributory and non-contributory pensions was reduced to the current level of 66. In 1985 the National Pensions Board was established, and in 1989 the self-employed were included in the social insurance system (Schulze & Moran: 770). Since 6 April 1995, new public servants have been 'integrated' into the state pension system, and as such post-6 April 1995 public servants are entitled to the State Pension (Contributory). The development of the Irish pension system has left significant historical gaps in the coverage of the state pension system arising from gaps in social insurance contributions. The Green Paper on Pensions estimated that some 47,000 people on average – those previously self-employed and those women affected by the marriage bar in the public service – remain outside the state pension system (Department of Social and Family Affairs, 2007a: 69). Though the Homemaker's Scheme – a means of recognising homemakers contribution to society by 'disregarding' up to 20 years spent caring for children under 12 or an incapacitated child or adult from the calculation of average social insurance contributions – was introduced in 1994, it was not backdated, and so provided little relief for those affected by the more conservative societal norms that prevailed in the 1960s and 1970s.

2.3 The current Irish State Pension

The State Pension (Contributory), the State Pension (Transition) and Widow's, Widower's or Surviving Civil Partner's (Contributory Pension) are financed through the Social Insurance Fund which is funded by PRSI with the Exchequer making up the shortfall while the State Pension (Non-Contributory) and Pre-Retirement Allowance are funded through the Exchequer. In 2012, expenditure on the state pension system totalled nearly €6,306m (see Table 2.1) with 543,892 recipients. The State Pension consists of six mutually exclusive payments: the State Pension (Contributory); the State Pension (Non-contributory); the State Pension (Transition); the Pre-Retirement Allowance; where it is higher than the State Pension (Contributory) for an individual, the Widow's, Widower's or Surviving Civil Partner's (Contributory Pension); and finally, a small number of individuals receive the Death Benefit. The Pre-Retirement Allowance has been closed to all new entrants since 4 July 2007 under the 2006 Social Welfare and Pensions Act. Table 2.1 displays the breakdown of expenditure by payment type.¹

¹ The schema utilised here differs slightly from the classification of the schemes used by the Department of Social Protection in 2012 in that it includes the Pre-Retirement Allowance. Additionally, it does not include the Widow's, Widower's, or Surviving Civil Partner's Pension (Non-contributory) as this payment is not paid to those aged 66 and over. Recipients of the State Pension (Transition) and Pre-Retirement Allowance are under 66 but payments are paid to those recipients for qualified adults aged 66 and over. Additionally, the Bereavement grant is not included as it is a once-off payment.

Table 2.1 – Irish Pension Expenditure by Gender and Payment Type of Recipients, 2012

	Male	Female	Total	Expenditure (€m)
State Pension (Contributory)	203,474	108,840	312,314	3,800
State Pension (Non-Contributory)	35,671	60,455	96,126	963
State Pension (Transition)	8,934	5,438	14,372	146
Pre-Retirement Allowance	2,834	850	3,684	46
Widow's, Widower's, or Surviving Civil Partner's Pension (Contributory)	16,248	100,503	116,751	1,342
Death Benefit	5	640	645	8
Total	267,166	276,726	543,892	6,306

Source: *Statistical Information on Social Welfare Services 2012*, Department of Social Protection (2013).

Since 2009, the Christmas Bonus, which was paid to those receiving the state pension amongst others, has not been paid constituting a cut in the state pension of 1.9%. Table 2.2 displays the current maximum weekly rates.

Table 2.2 - Irish State Pension Rates, 2011-2013

Pension Scheme	Age of Eligibility	Maximum weekly payment (€)	Maximum Increase for Qualified Adult (€)	Maximum increase for Qualified Child (€)
State Pension (Contributory)	66+	230.3	153.5	29.8
State Pension (Non-Contributory)	66+	219	144.7	29.8
State Pension (Transition)	65	230.3	153.5	29.8
Pre-Retirement Allowance	55-66	196	130.1	29.8
Widow's, Widower's, or Surviving Civil Partner's Pension (Contributory)	N/A	230.3	N/A	29.8
Death Benefit (over 66)	66	234.7	N/A	29.8

Source: *Statistical Information on Social Welfare Services 2012*, Department of Social Protection (2013).

Reduced rates are payable to those with lower social insurance contributions in the State Pension (Contributory) and to those who exceed certain income and wealth thresholds under the State Pension (Non-contributory). The data to assess the different rates payable was not available for the year 2012 but the figures in Table 2.3 could be extrapolated from data provided to KPMG in the *2010 Actuarial Review of the Social Insurance Fund* in regard to the State Pension (Contributory).

² Estimated.

Table 2.3 – Distribution of Weekly Personal Rates for the State Pension (Contributory), 2012²

	Male	Female	Weekly Pension Rate (€)
Full Pension	116,061 (57%)	44,499 (41%)	230.30
98%	41,142 (20%)	26,060 (24%)	225.80
75%	6,004 (3%)	5,883 (5.5%)	172.70
50%	20,311 (10%)	18,937 (17.5%)	115.20
Other Pensions	19,956 (10%)	13,461 (12%)	37.60
Total	203,474	108,840	

Source: Department of Social Protection (2012: 112).

Means tested Increases are provided in respect of Qualified Adult Dependents whose income is below €310 weekly. A full increase is given in respect of those earning below €100 with payments decreasing proportionately for every €10 to €310. Means-tested increases for child dependents are also available, either at the full rate or half-rate, depending on the result of the means test.

Table 2.4 – Number of Recipients by Pension Payment, 2012

	State Pension (Contributory)	State Pension (Non-Contributory)	State Pension (Transition)	Widow's, Widower's, or Surviving Civil Partner's Pension (Contributory)	Pre-Retirement Allowance	Death Benefit
Personal Rate Only	224,422	93,067	11,682	116,751	2,739	645
With Qualified Adult Over-66	49,936	0	353	0	1	0
With Qualified Adult Under-66	17,974	3,059	2,337	0	797	0
With Qualified Child Allowances	2,092	383	258	6,670	147	77

Source: *Statistical Information on Social Welfare Services 2012*, Department of Social Protection (2013: 29, 44).

The state pension system provides additional payments for those over 80 years, those living on specific islands, and those living alone. Total expenditure on those allowances in 2012 can be estimated to be nearly €127m (see Table 2.5).

Table 2.5 - Number of Recipients of Living Alone Allowance, Over 80 Allowance and Island Allowance by Pension Type, 2012

Pension Type	Living Alone Allowance	Over 80 Allowance	Island Allowance
State Pension (Non-Contributory)	32,854	35,842	254
State Pension (Contributory)	60,437	61,490	144
Widow's, Widower's, or Surviving Civil Partner's Pension (Contributory)	48,973	36,022	51
Death Benefit	232	128	0
Total	142,496	133,482	448

Source: *Statistical Information on Social Welfare Services 2012*, Department of Social Protection (2013: 31).

The indexation of the rates of the state pension to the GAIE or average earnings is not official policy and increases in the state pension have remained at the discretion of the Minister of Finance (The Pensions Board, 2005: 32). Table 2.6 compares GAIE and the State Pension. However, the CSO has discontinued their *Industrial Earnings and Hours Worked* dataset in 2007 which measured GAIE and replaced it with a more comprehensive *Earnings and Labour Costs* (Collins, 2011). As such, the earnings data for 2007 is from the CSO's *National Employment Survey* and the data from 2008 onwards the weekly average earnings data are taken from the CSO's *Earnings and Labour Costs*.

Table 2.6 – Irish State Pension Maximum Weekly Rates as a % of Weekly Average Earnings, 2002-2012

Year	Weekly GAIE/Average Earnings	Maximum State Pension (Contributory)	Maximum State Pension (Non-contributory)	SP (C) as % of GAIE/average earnings	SP (NC) as % of GAIE/average earnings
2002	501.51	146.05	132.72	30.2	30.2
2003	535.74	157.30	144.00	30.7	30.7
2004	560.77	167.30	154.00	31.3	31.3
2005	580.88	179.30	166.00	32.2	29.8
2006	601.95	193.30	182.00	33.6	31.6
2007	687.51	209.30	200.00	30.4	29.1
2008	706.90	223.30	212.00	31.6	30.0
2009	707.05	230.30	219.00	32.6	31.0
2010	693.73	230.30	219.00	33.2	31.6
2011	690.38	230.30	219.00	33.4	31.7
2012 ³	691.29	230.30	219.00	33.3	31.7

Source: CSO (2012), CSO (2002-2007), CSO (2007), Department of Finance (2002-2012).

The current state pension constituted the main source of income for over 80% of those aged 65 and over in 2011. As Table 2.7 indicates, in 2011 the State Pension and associated transfer payments accounted for 88.6% of the first quintiles retirement income, 95.1% of the second quintiles, 88.3% of the third quintiles, and 63% of the fourth quintiles retirement income. Only the highest earning 20% of pensioners did not rely on the state pension for a majority of their retirement income. Even then, the state pension constituted the single largest source of income for the top quintile.

More recent research as part of the 'The Irish Longitudinal Study on Ageing' which focused on retirees found that 'the most consistent and statistically significant findings that hold for both men and women are that individuals with third level education, home-owners, Dublin residents, employees of large firms or the public sector and white-collar workers are more likely to have supplementary pension arrangements' and therefore have larger post-retirement incomes (Nivakoski & Barrett, 2012: 25).

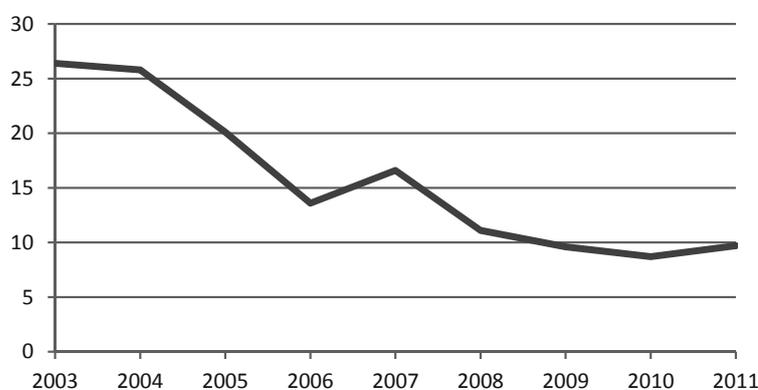
³ This figure is from Q3 2012.

Table 2.7 - Pensioner Unit Incomes Classified by Gross Income Quintiles, 2011

	First Quintile	Second Quintile	Third Quintile	Fourth Quintile	Fifth Quintile
	(€)	(€)	(€)	(€)	(€)
All pensioner units by weekly threshold	<257.83	<286.52	<350.71	<520.11	>520.11
Earnings	15.82	5.03	13.63	70.97	222.76
Occupational Pension	5.83	3.49	14.64	67.86	226.66
Private Pension	0.88	2.52	2.6	8.08	26.02
Investment Income	2.74	1.13	2.76	3.13	29.16
Property Income	1.4	1.34	3.01	6.76	21.64
Other income	0.09	0.02	0	0.01	21.64
Social Transfers	158.69	260.55	275.45	266.85	314.4
Social Transfers as % of Gross income	85.6	95.1	88.3	63	37.3
Gross Income	185.45	274.07	312.08	423.66	842.14

Source: CSO (2013b: 17).

Increases in the state pension from 2004 have played an important role in reducing the percentage of those aged 65 and more at risk-of-poverty (see Chart 2.1). In 2004 the elderly were the single largest group of people at risk of poverty with 27.1% at-risk-of-poverty while consistent poverty was at 3.9% (CSO, 2012c: 8). Between 2004 and 2009, there was a concerted effort to increase the state pension, so that many recipients were taken out of poverty. In 2011, the former had fallen to 9.7% - a measure of the elderly's gain vis-à-vis other age groups - and the latter had fallen to 1.9% (CSO, 2013a). However, the deprivation rate for those aged 65 and older in 2011 was 11.3%, higher than the 10% recorded in 2004 (CSO, 2013a: 9).⁴

Chart 2.1 – At risk-of-poverty figures for those aged 65 and over, 2003-2011

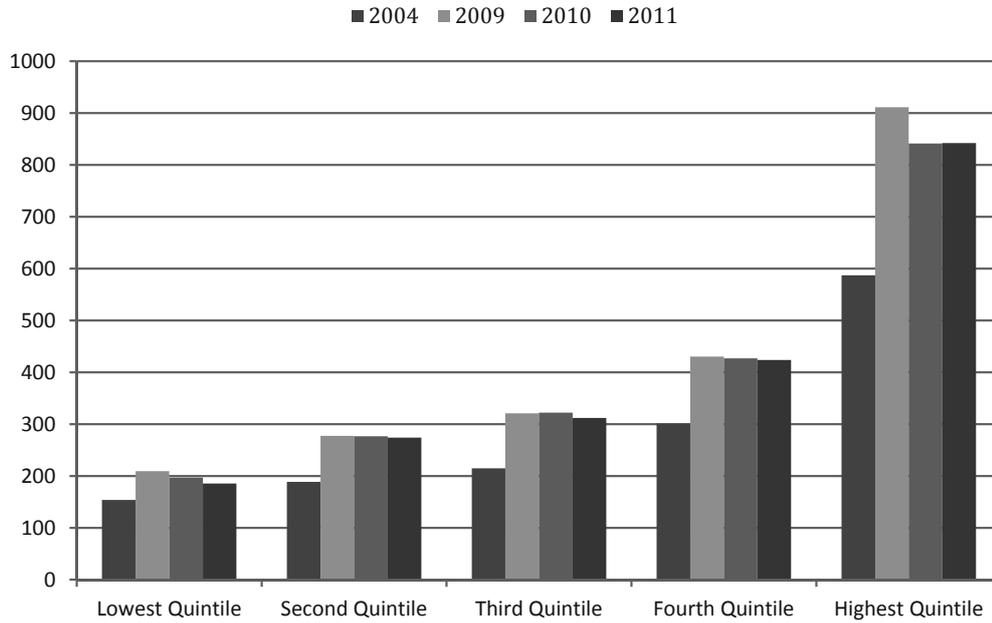
Source: CSO (2003-2011).

Incomes amongst those aged 65 and over have not remained static during the recession. Indeed, as Chart 2.2 shows it has been the 20% of the elderly on lowest incomes that have experienced the largest drops in average weekly equivalised income, with income falling by 11.5% between 2009 and 2011. This reduction has been driven by a reduction in social transfers to this group, from €183.79 per week in 2009, to €158.69 per week in 2011.⁵ Income inequality between quintiles has risen amongst the elderly between 2004 and 2011: in 2004, the average income of those in the highest quintile was 3.8 times the average income of those in the lowest quintile (commonly referred to as the quintile share ratio), while in 2011 the differential was 4.5 times. In terms of the total population, the quintile share ratio was 5.0 in 2004 and 4.9 in 2011.

⁴ The Deprivation Rate is designed to capture social exclusion and marginalisation and is measured on the basis of eleven indicators. Lacking two of the eleven indicators is considered enforced deprivation.

⁵ Unfortunately there is not more data on the composition of this group.

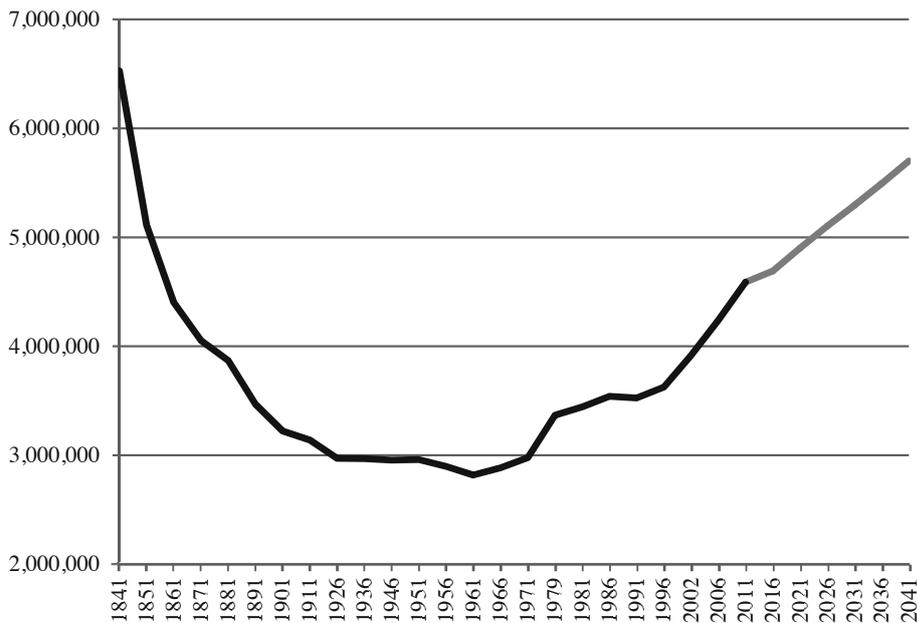
Chart 2.2 Average weekly equivalised income of persons aged 65 and over by quintile, 2004, 2009, 2010, 2011



2.4 Ireland's Demographics

Ireland's demographic history has been, and continues to be, dominated by the Great Famine of 1845-1852. The Famine transformed social and economic behaviour, and the consequences were later marriage ages and persistent outmigration. Despite gains from the natural increase of the population, the population of what became the Republic of Ireland continued to decline due to outmigration until the beginning of 1961 when the population of the South finally began to rise (see Chart 2.3). During the 1960s and 1970s declines in outward migration led to an increase in the population.

Chart 2.3 Population of the Republic of Ireland, 1841-2046 (2011 in Grey)⁶



Source: CSO (2013).

⁶ Future projections using M2F1.

Persistently high unemployment in the late 1980s led to higher levels of outmigration, and population growth was negative between 1987 and 1990 (CSO, 2013). One of the effects of persistent outmigration – which tended to be concentrated amongst those aged 18-44 – was an increasing old-age and total dependency ratio. As outmigration slowed, this effect reversed. Total fertility in Ireland was also higher than the European average, falling dramatically in the late 1970s and early 1980s. Therefore, by the 1980s Ireland had completed the ‘demographic transition’ towards low fertility rates and low mortality rates characteristic of advanced economies.

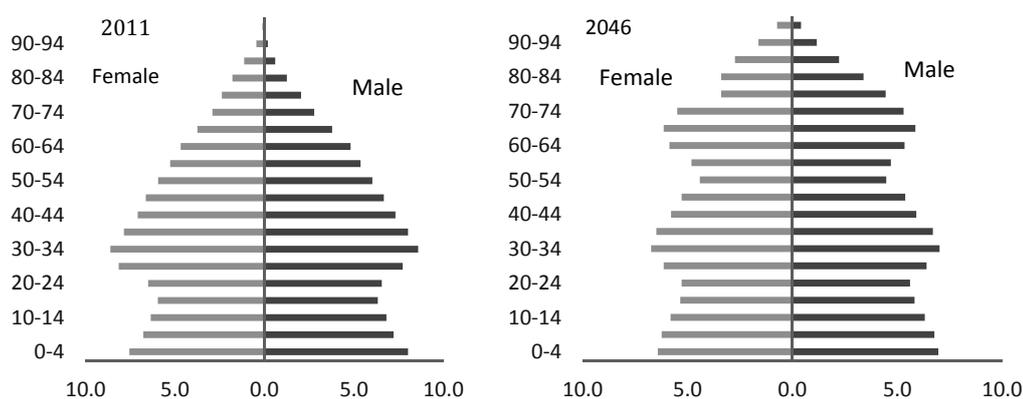
During the 1990s Ireland reaped the benefits of a ‘demographic dividend’ as the total dependency ratio fell to its lowest level since the 1950s and women entered the labour force in much greater numbers, substantially increasing economic activity. Table 2.8 shows the effect of a falling total, and old-age, dependency ratio due to the dual effects of a growth in population and a declining total fertility rate.

Table 2.8 - Total Dependency Ratio (<15 & 65+)/$(15-64)$ and Old-age Dependency Ratio (65+)/$15-64$, Ireland, 1950-2005

Date	Total Dependency Ratio	Old-age Dependency Ratio
1950	65.5	18.2
1955	67.4	18.4
1960	72.8	19.4
1965	73.3	19.5
1970	73.3	19.4
1975	72.1	18.6
1980	70.0	18.4
1985	67.0	18.2
1990	62.3	18.5
1995	55.4	17.8
2000	49.2	16.7
2005	46.3	16.2

Source: United Nations, Department of Economic and Social Affairs, Population Division (2011).

Chart 2.4 – Population Pyramid for Ireland in 2011 and 2046 by age group and % of population in each age category



Source: CSO M2F1 Projections (2013).

Under the M2F1 assumptions used in this proposal (see Chapter 4 for more details), the age structure of the population will change over the next forty years; a larger share of the population will be aged 65 and over (see Chart 2.4). In 2011, those aged 65 and over made up 11.6 per cent of the population; by 2046 they will comprise over 24 per cent of the population. This population shift poses significant challenges in nearly every area of public policy, as society and Government must re-orientate itself in multiple areas to take account of the aging population. Table 2.9 indicates projected old-age dependency ratios for selected European countries. According to the EUROPOP 2010 projections carried out by the European Commission Ireland will have the lowest old-age dependency ratio in 2040 of the EU27. However, if the outmigration witnessed in the last four years is followed by moderate net in-migration, as estimated by the M2F1 CSO projection, Ireland's old-age dependency ratio will still be second lowest in the EU27 in 2040.

Table 2.9 - Projected Old-Age Dependency Ratios for Selected European Countries, 2010-2040

	2010	2015	2020	2025	2030	2035	2040
EU (27 countries)	25.92	28.48	31.37	34.57	38.33	42.31	45.52
Germany	31.26	32.52	35.78	40.22	47.21	54.2	56.44
Italy	30.78	33.13	34.76	37.02	41.14	46.5	51.73
Denmark	24.87	28.83	31.42	33.85	37.00	40.13	41.91
United Kingdom	24.86	27.76	29.63	31.74	34.83	37.7	38.86
Ireland (Europop)	16.82	19.98	22.79	25.09	27.59	30.04	33.07
Ireland (M2F1)	N/A	20.07	23.11	25.99	29.24	32.77	37.06

Source: Eurostat, 2013 (extracted from EUROPOP 2010 Projections).

2.5 2005 & 2010 Actuarial Review of the Social Insurance Fund

The Department of Social Protection has been statutorily obliged to carry out an actuarial review of the Social Insurance Fund (SIF) since 2005. The *2010 Actuarial Review of the Social Insurance Fund* set the position of the SIF as of 31 December 2010, while the *2005 Actuarial Review* set out the position of the SIF as of 31 December 2005. The State Pension (Contributory) is one of a number of benefits paid out of the Social Insurance Fund. It will become more important as the population ages. The first *Actuarial Review* estimated the expected growth in the cost of the State Pension (Contributory) as shown in Table 2.10.

Table 2.10 - Total Cost of State Pension (Contributory) in the 2005 Actuarial Review

Year	Linked to Earnings Growth (€m)	Linked to Inflation (€m)	Pension at 40% GAIE (€m)
2010	3,216	3,004	3,338
2011	3,405	3,118	3,579
2016	4,756	3,945	5,345
2021	6,710	5,066	7,668
2026	12,676	8,246	14,572
2031	21,549	12,078	24,831
2036	33,812	16,330	39,033
2041	41,993	17,476	48,458

e: *2005 Actuarial Review of the Social Insurance Fund*, Department of Social and Family Affairs (80-83).

In the *2005 Actuarial Review of the Social Insurance Fund* the long-run sustainability of the Social Insurance Fund with unchanged rates of PRSI (at 2005 levels) was considered. However, the prolonged economic crisis has significantly changed this outlook, and the Social Insurance Fund has moved into deficit as the income collected through PRSI is reduced and unemployment related outgoings such as Jobseeker's Benefit have increased.

The *2010 Actuarial Review*, published in 2012, presented a smaller shortfall than the *2005 Review*, as the new *Review* took account of reforms to the pension age and PRSI, and changed macroeconomic and demographic assumptions. Table 2.11 presents the estimates for pension expenditure contained in the *2010 Actuarial Review*.

Table 2.11 – Pension Expenditure, Total Expenditure and Total Receipts for SIF, 2010-2060 in the 2010 Actuarial Review⁷

	Total Receipts (€bn)	Pension Related Expenditure (€bn)	Other expenditure (€bn)	Total Expenditure (€bn)
2010	6.7	4.9	4.5	9.4
2011	7.5	5.1	3.9	9
2016	7.9	6.7	3.5	10.1
2020	8.9	8.6	3.5	12.1
2030	11.8	13.2	4.1	17.3
2040	14.3	20.9	5.1	25.9
2050	16.9	30.5	5.9	36.4
2060	20.7	38	6.6	44.7

Source: *2010 Actuarial Review of the Social Insurance Fund*, Department of Social Protection, 2012c: 60.

Historically, the Exchequer has provided funding to the Social Insurance Fund, but between 1996 and 2007 the Fund was in surplus due to a rapid increase in the number of people employed in the economy in the 1990s and early 2000s.

Table 2.12 - Social Insurance Fund Projected and Actual, 2008-2011

Year	Income	Expenditure	Surplus/Deficit	2005 Actuarial Review Expected Surplus/Deficit ⁸
	€m	€m	€m	€m
2008	8,144	8,400	-255	41
2009	7,298	9,784	-2,487	-4
2010	6,710	9,461	-2,751	-68
2011	7,148	9,055	-1,906	-147

Source: Department of Social Protection (2012)⁹; *2005 Actuarial Review of the Social Insurance Fund*, Department of Social and Family Affairs (2007: 80-83).

The Minister for Social Protection has indicated that the deficit for 2012 will be around €1.5bn, as will the deficit for 2013.¹⁰ It is unclear whether this, and future, governments will retain current PRSI contribution levels and fund the Social Insurance Fund deficit through the Exchequer, raise social insurance contributions, or seek to abolish or reduce expenditure items. As long-term unemployment increases, greater numbers of those receiving Jobseeker's Benefit, a flat-rate benefit paid for a period of time based on the individual's PRSI contributions, are being moved onto Jobseeker's Allowance, a means-tested benefit funded by the Exchequer. As such, social insurance expenditures will fall as Exchequer expenditures on unemployment assistance (i.e. Jobseeker's Allowance) increase.

⁷ This is based on the 2010 Actuarial Review's base case assumption that the State Pension (Contributory) would remain at 33% of average earnings.

⁸ Based on the 2005 Actuarial Review's Central Scenario and the State Pension (Contributory) linked to earnings growth.

⁹ <http://debates.oireachtas.ie/dail/2011/11/16/00149.asp>

¹⁰ <http://debates.oireachtas.ie/seanad/2011/12/15/00008.asp>;

<http://oireachtasdebates.oireachtas.ie/debates%20authoring/debateswebpack.nsf/takes/dail2013061100090?opendocument#WRU00550>.

2.6 The National Pensions Reserve Fund

The creation of the National Pensions Reserve Fund (NPRF) in April 2001 constituted, albeit briefly, an attempt to create a quasi-funded approach to future pension liabilities arising from both public sector pensions and the social welfare system and meet those costs from 2025.¹¹ Under the National Pensions Reserve Fund Act 2000 the Minister of Finance was required to pay 1% of Gross National Product into the Fund until 2055. However, since the financial crisis the Fund has been used to recapitalise Allied Irish Bank and Bank of Ireland. The enactment of the Credit Institutions (Stabilisation) Act 2010 allowed the Minister of Finance discretion in contributing to the Fund for the years 2012 and 2013. The NPRF was also used to fund part of Ireland's EU/IMF Programme, committing €10bn of the €17.5bn total contribution made by the state to the Programme (National Pensions Reserve Fund Commission, 2010: 10). As such, the non-bank portfolio of the Fund stands at €6.4bn as against the bank portfolio of €8.8bn (National Pensions Reserve Fund Commission, 2012). It is currently difficult to foresee a return on the Fund's investment in the domestic banking sector. If the bank portfolio of the NPRF is excluded from a calculation of its total assets under management then the portfolio of the NPRF has depreciated in value by over 70% since 2007.

Table 2.13 – Portfolio of the NPRF in €bn, 2007 and 2013

	31 December 2007	June 30 2013
Discretionary Portfolio	21.6	6.4
Non-discretionary Portfolio	0	8.8
Total	21.6	15.2
Total without Bank equities	21.6	6.4

Source: National Pension Reserve Fund (2007; 2013).

2.7 Occupational and Personal ('Supplementary') Pensions

Occupational and individual pensions form the second pillar of the Irish pension system. The National Pensions Policy Initiative (NPPI) (1998: 11) set out a target of 62% coverage for those aged between 30 and 65 in 2002 and a target of 66% for 2008 with an ultimate target of 70% coverage. It was envisioned in the NPPI that supplementary pensions should be adequate – when combined with the State Pension (Contributory) – to provide an individual with 50% of their pre-retirement income. However, the 'coverage' target for supplementary pensions has suffered a setback. While coverage amongst those aged 30-65 increased from 57% in Q4 2002 to 61% in Q1 2008, it subsequently declined to 59% in Q1 2009 (CSO, 2011: 4). Table 2.14 shows the changing levels of supplementary pension coverage amongst the population. Regarding the 'adequacy' target, there is great uncertainty about the adequacy of defined contribution pensions, given volatility in financial markets. Additionally, the Waterford Crystal case showed the vulnerability of defined benefit schemes for active members in cases where an employer faces insolvency.

Table 2.14 – Supplementary pensions coverage as % of selected groups

	2002	2008	2009
Pension coverage - all workforce	51.2	54	51
Pension coverage - 30+	57.4	61	58.8
ILO Employment Status			
Employee	52.8	55	54
Self-Employed	44.1	47	36
Hours of work			
Full-time	N.A	59	60
Part-time	N.A	32	24

Source: CSO (2011), CSO (2004).

Defined benefit occupational pension schemes remain the most subscribed schemes in the country. A majority of occupational benefit schemes – including those used by post-April 1995 employees in the public service – are integrated with the social welfare system so that the State Pension (Contributory) and State Pension (Transition) is considered to contribute towards a targeted post-retirement gross income, usually 1/2 to 2/3 of final or average salary.

¹¹ Before the introduction of the NPRF the occupational pension of many public service pensions remained unfunded. In March 2009 the government introduced a 'public service pension related deduction' which applied an earnings related levy on public servants (<http://www.finance.gov.ie/documents/guidelines/faqprjul09.pdf>). This payment does not fund public service pensions but operates as a pay cut for public servants. However, from a tax perspective, the PSPRD is treated as deductible.

Table 2.15 indicates the percentage of the population covered by Defined Benefit (DB) and Defined Contribution (DC) – including both Retirement Annuity Contracts (RACs) and Personal Retirement Savings Accounts (PRSAs) - schemes. RACs are DC schemes in the form of an insurance contract approved by the Revenue Commissioners and available to the self-employed and those in non-pensionable employment. In 2003, the government introduced PRSAs, a form of individually funded pension scheme, in an attempt to raise coverage rates. However, as Hughes and Stewart (2007) have noted, the number of employees participating and the amount of contributions have been low, with 170,000 individual contracts as of 2009 (Stewart, 2011: 6). This figure includes individuals with multiple contracts.

Since 1999, RACs and PRSAs do not need to be used to purchase an annuity on retirement but can – somewhat unusually - be placed in an Approved Retirement Fund (ARF) or Approved Minimum Retirement Fund (AMRF) net of a tax-free lump sum and following the setting aside of a certain sum if post-retirement income is lower than €18,000 a year. An imputed or actual withdrawal of 5% must be currently paid yearly from an ARF, a measure introduced to prevent abuse of ARFs by high net-worth individuals. Only proprietary director members of occupational pension schemes, those with RACs, PRSAs or AVCs may transfer their money to an ARF upon retirement. This allowed those who were retired to continue managing their investments following their retirement. Additional Voluntary Contributions (AVCs) were introduced to facilitate employees who sought to make additional payments to occupational pensions schemes and PRSAs to increase future benefits. All are covered by the tax reliefs set out in the next section.

Table 2.15 – Pension Funds in Ireland in terms of Member Numbers and Coverage ('000)

	2005	2006	2007	2008	2009	2010
Defined Benefit	499	522	555	580	586	550
Defined Contribution	269	255	269	272	267	260
Coverage %	52	56	53	54	51	n.a

Source: Stewart (2011: 6).

Supplementary pension coverage is highest amongst those at the higher end of the earnings distribution (see Table 2.16). Those citizens without coverage tend to be those on low-incomes, and those in certain sectors of the economy such as the hotel and restaurant sectors. For example, only 17% of those classed as working in the accommodation and food services sector had any form of private or occupational pension coverage (CSO, 2011).

Table 2.16 - Pension Coverage by Decile of Earnings, 2009

Decile	Pension Coverage Rate
Lowest	19.6
2	17.6
3	23.2
4	34.1
5	45.2
6	55.2
7	62.5
8	74.5
9	83.7
Highest	94.2
Overall Coverage	51

Source: Callan, Keane, and Walsh (2009: 14).

There has been a significant shift in Ireland from Defined Benefit schemes, which promise a fixed post-retirement income dependent on age, earnings and length of service, to Defined Contribution schemes where contributions are fixed but benefits are dependent on the performance of investments, the level of contributions and the rate at which the final fund is annuitised. Most DB schemes are closed or are considering closure to new members and no new DB schemes have been opened since 2008 (Irish Association of Pension Funds, 2010; Commission on Taxation, 2009: 378).¹² Defined Contribution schemes force workers to rely on the performance of pension fund managers and expose workers to market forces for provision of their supplementary pension.

¹² The Commission noted that nearly all registrations to the Pensions Board were restructurings rather than new schemes opening up.

Irish pension funds have exhibited a preference towards investments in equities, with a bias towards domestic equities. Stewart (2011: 15) has pointed to the underperformance – at least against official expectations of annual returns of between 3.5% and 7% - of Irish managed pension funds with nominal returns of just 1.2% per annum. Another feature of the pensions fund sector is the opacity of its various charges. The Department of Social Protection published a *Report on Pension Charges in Ireland* in 2012 in response to concerns about the potentially excessive charges levied by the pensions fund industry (Department of Social Protection, 2012b). The *Report* attempted to gauge the size of the Reduction in Yield (RIY) in the various group and individual private pension schemes in operation in Ireland through the use of a survey of relevant stakeholders: life insurance companies, investment managers, and pension advisors. The report recommended more transparency in the reporting of charges but did not find charges were unreasonable (Department of Social Protection, 2012b: 19). However, Stewart and McNally (2013:3-4) have pointed to difficulties in the *Report*, both in terms of potential bias within the self-reporting survey used, opacity in the methodology by which the average RIY was calculated, and confusion as to the incidence of charges in DB schemes.

More than 80% of Irish DB pension schemes fail to meet the funding standard set out by the Pensions Board (Mercer, 2010). The government responded to funding shortfalls in the pension system by introducing a number of changes to the law surrounding Defined Benefit schemes in the Social Welfare and Pensions Act 2009 and by establishing a Pensions Insolvency Payment Scheme whereby the Exchequer will take responsibility for an insolvent pension fund provided the trustees pay a lump sum to the Exchequer (Department of Family & Social Affairs, 2010: 7). In April 2013, the Court of Justice of the European Union ruled that Ireland had failed to correctly transpose European Directive 2008/94/EC, which requires the state to provide protection for employees whose pension scheme winds up in deficit in the event of the insolvency of their employer. The judgement will likely cause government to amend the current insolvency scheme. As it stands, scheme members who find themselves in a similar situation to the Waterford Crystal workers may have a potential cause of action against the state.

The most recent response to the difficulties faced by DB funds has been for the Pensions Board to change the standard funding requirement – under provisions in the Social Welfare and Pensions Act 2011 - to facilitate the purchase by pension funds of amortising Irish government bonds, or ‘sovereign annuities’, rather than low-risk, low-yield German and French government debt. Given the nature of such bonds, fund managers will find it easier to match assets and liabilities. Moreover, the higher yields will reduce the cost to pension funds of securing pensioner liabilities. While potentially this policy could

simultaneously facilitate the funding of the government’s deficit and debt payments and restore the solvency of Irish DB schemes it potentially exposes pensioners to the risk of a complete or partial sovereign default. However, it should be noted that such policies of ‘financial repression’ are common tools utilised by governments in the aftermath of private and public debt crises (Reinhart & Sbrancia, 2011).

2.8 Tax reliefs for private pensions

Ireland operates an exempt/exempt/taxed (EET) model whereby pension contributions may be deducted from taxable income, investment income of pension funds are tax-free but income tax is charged upon withdrawal. The exception to the latter is the tax-free lump sum payment allowable upon retirement. From the late 1990s tax expenditures relating to private pensions rose rapidly as policy moved towards incentivising supplementary pensions. By 2006, spending on the State Pension (Contributory), State Pension (Non-Contributory), and State Pension (Transition), and PRETA exceeded the net cost of tax reliefs on private pensions by only €379m.¹³ In 2008, the OECD reported that the EET model in Ireland functioned more like an “‘exempt-exempt-exempt’ (EEE) system where income channelled through pensions is unlikely to be taxed at any point of the life-cycle” (OECD, 2008: 90). The OECD also noted that the tax subsidy, if left unchanged, to private pensions would rise rapidly as a percentage of GDP with a fiscal outlay of over 2.5% of GDP by 2040 (OECD, 2008: 90). However, the last fifteen years has witnessed first, a cumulative increase in tax subsidies to private pensions up to 2005, and from 2008 some reductions in eligibility for tax reliefs on private pensions. Significant tax expenditures remain in place.

Before 1996, the limit set to tax-free pension contributions was that they could not exceed 15% of salary. In 1996, age-related limits were introduced (Hughes, 2011: 12). The age related limits were later adjusted significantly upwards between 1999 and 2005 (See Table 2.17).

In 1999, an earnings contribution cap of £200,000 was placed on contributors to RACs but no limit was placed on the size of a fund which could be accumulated. From 2002, the limits also applied to PRSAs. However, because there was no limit on the size of pensions following the introduction of ARFs extremely large funds were accumulated by company directors. The Department of Finance reviewed the introduction of ARFs in 2006 and reported that some individuals had circumvented the annual contributions cap by utilising employer’s contributions (Department of Finance, 2006; Hughes 2007, 2011: 13). The Department reported that 116 individuals accumulated ARFs worth more than €5m each and 2 individuals had accumulated funds worth around €100m each (Department of Finance, 2006: G22). Although it was considered that employer’s contributions should be included within the annual

¹³ The Commission on Taxation gives a net expenditure of €2,900m on pension tax relief for 2006 (Commission on Taxation, 2009: 309). The total outlay on those payments then categorised as state pensions by the Department of Social and Family Affairs for that year was €3,279m.

**Table 2.17 - Age-Related Maximum Pension Contribution as a Percentage of Earnings
Eligible for Tax Relief, 1999-2005 and 2006-2012**

Age Band	1996-1999	1999-2005	2006-2012
Under 30	15	15	15
30-39	15	20	20
40-49	15	25	25
50-54	15	30	30
55-59	20	30	35
60+	20	30	40

Source: Hughes (2011: 13).

contributions earnings cap this option was rejected in lieu of creating a limit on the lifetime size of an individual pension fund (Hughes, 2011: 15). Subsequent decisions have reduced significantly the maximum tax relieved on employee contributions (see Table 2.18).

Estimates of the total cost of tax expenditures on private pensions have varied. The Green Paper on Pensions estimated a gross cost of €3,220m for 2006 while the Department of Finance's Tax Strategy Group estimated a gross cost of €3,035m for 2007 (Department of Social & Family Affairs, 2007; Department of Finance, 2010c: Appendix1). Table 2.19 lists the component parts of those tax expenditures. The National Recovery Plan 2010 gave the total gross cost of pension tax expenditures as €2,500m for 2010 comprising: the costs of tax relief on employee/employer/individual contributions to pension savings at €1,000m; the cost of the tax exemption for employer contributions as Benefit-in-Kind (BiK) in the hands of employees at €500m; and the cost of exempting from tax the accrued income and gains growth of pensions funds at €1,000m (Department of Finance, 2010b: 93). Most recently, the Revenue Commissioners estimated a gross cost of €2,929m (see Table 2.19) for pension tax expenditures (Revenue Commissioners, 2010). Collins and Walsh (2010: 24-25) estimated the total cost of tax expenditures allocated to private pensions in 2007 was €3,100m (see Table 2.20).

**Table 2.18 - Limits on Annual Pension Contributions and the Size of the Pension Fund,
1999-2013**

Tax Year	Annual Contribution Earnings Cap	Limit on Size of Pension Fund	Maximum Tax Relieved Employee Contribution
1999	€ 254,000	No limit	€ 76,000
2006	€ 254,000	€5m or value of fund at 7 December 2005	€ 101,600
2007	€ 262,382	€5.165m or indexed value of the personal fund threshold (as agreed with Revenue)	€ 104,953
2008	€ 275,239	€5.418m or indexed value of the personal fund threshold (as agreed with Revenue)	€ 110,095
2009	€ 150,000	€5.418m or indexed value of the personal fund threshold (as agreed with Revenue)	€ 60,000
2013	€ 115,000	€2.3m or indexed value of the personal fund threshold (as agreed with Revenue)	€ 46,000

Source: Hughes (2011: 15).

Table 2.19 – Estimated Costs of Tax Expenditures, 2006 and 2007

	Department of Finance TSG Estimated Costs 2007 €m	Green Paper on Pensions Estimated Cost 2006 €m
Employees' Contributions to approved Superannuation Schemes	590	540
Employer's Contributions to approved Superannuation Schemes	150	120
Estimated cost of exemption of employers' contributions from employee BIK	540	510
Exemption of investment income and gains of approved Superannuation Funds	900	1200
Retirement Annuity Contracts (RACs)	420	380
Personal Retirement Savings Accounts (PRSAs)	65	120
Estimated cost of tax relief on lump-sum payments	130	130
Estimated cost of PRSI and Health Levy relief on employee and employer contributions	240	220
Gross cost of tax relief	3,035	3,220
Estimated tax yield from payment of pension benefits	410	320
Net Cost of Tax Relief	2,625	2,900

Source: Department of Social & Family Affairs (2007); Department of Finance (2010c: Appendix 1).

Table 2.20 – Collins and Walsh Estimated Costs of Tax Expenditures, 2007

	€m
Tax relief to employee contributions to occupational pension schemes, additional voluntary contributions (AVCs) and personal saving retirement accounts (PRSAs)	660
Exemption from benefit in kind on employer contributions to pension schemes	510
Exemption from PRSI and health contributions on employee contributions and exemption from employer PRSI on employee contributions	220
Tax relief on pension contributions by self-employed persons	380
Tax exemption on tax-free lump sums	130
Tax exemption on investment income of pension funds	1,200
Total Tax Expenditure on Pensions	3,100

Source: Collins and Walsh (2010: 24-25).

The National Recovery Plan 2010 estimated that cumulative savings of €865m could be achieved over 2011-2014 through the reduction and removal of a number of tax expenditures (Department of Finance, 2010b: 91). In 2011, these were to include the reduction of the annual earnings cap for employee/personal pension contributions from €150,000 to €115,000, and elimination of the PRSI and the health levy exemption on pension contributions for employees, both of which were subsequently included in Budget 2011 (Department of Finance, 2010a: B10).¹⁴ Further to these measures, the employer PRSI tax exemption on employee pension contributions was reduced by 50% in Budget 2011, and the maximum tax-free lump sum was reduced to €200,000. Additional savings of €165m annually, with a full year saving of €500m, were to come from the phased reduction of income tax relief on private pensions from 41% to 34% in 2012, to 27% in 2013 and 20% in 2014 and an additional €240m was expected due to the consequential reduction of tax relief on the public service pension levy (see Table 2.21).

In May 2011, the government introduced a Jobs Initiative, a package of measures including a temporary reduction in Employer's PRSI relating to low-wage employees and VAT on certain goods and services, which was funded by a levy of 0.6% - expected to yield €470m - applied to the capital value of assets under management in Irish-based pensions funds. These include occupational pension schemes, Retirement Annuity Contracts, and Personal Retirement Savings Accounts. In Budget 2012, the 50% relief on employer PRSI for employee contributions was removed completely; comprising €90m of the €94.7m of measures targeted at restricting pension tax relief that year.

In Budget 2013 the Government committed to raise €250m from cutting tax expenditure related to pensions. Government believes it can raise €250m by reducing the maximum tax-subsidised pension to €60,000, and raise up to €200m (provisionally €100m) by allowing a once-off withdrawal by individuals from AVC accounts (Department of Finance, 2012: B10). The Minister for Finance announced in Budget 2012 that 'although the EU-IMF programme commits us to move to standard rate relief on pension contributions, I do not propose to do this or make changes to the existing marginal rate relief at this time'. He confirmed this policy in Budget 2013 when he announced that 'tax relief on pension contributions will continue at the marginal

rate of tax'. Though the May 2011 review of the Memorandum of Understanding included commitments to reduce private pension relief the more recent reviews do not (IMF, 2011: 78; IMF, 2012).

2.9 The National Pensions Framework

The National Pensions Framework (2010), published by the government in 2010, seeks to 'deliver security, equity, choice and clarity for the individual' (Department of Social and Family Affairs, 2010). In relation to the social welfare pension, the Plan proposes to retain mandatory coverage, maintain the social welfare pension rate at 35% of average weekly earnings, move from an average contributions to a 'total contributions' approach in 2020, make provision for the postponement of receipt of the State Pension to make up contribution shortfalls. Under the proposed total contributions approach a citizen needs a total of 30 years contributions to qualify for the maximum State Pension (Contributory). A citizen would receive the minimum pension - one third of the maximum State Pension (Contributory) - if they have paid 520 full-rate contributions (10 years) and would receive a further 1/30th of the pension for each additional year over the minimum they have paid. The Social Welfare and Pensions Bill 2011 has already given effect to the increase in the state pension age to 66 in 2014, 67 in 2021 and 68 in 2028 as per the IMF/EU Programme (IMF, 2011: 19). The National Pensions Framework recognised that 47,000 older people do not receive any income from the state pension system but does not propose any changes to remedy this (Department of Social and Family Affairs, 2010: 25). Some people in this figure may receive a smaller occupational public pension due to the marriage bar.

The National Pensions Framework indicated a desire to modify the existing pensions framework and integrate employees into defined contribution schemes with the intention of supplementing the state pension and increasing pensions coverage. It proposes the auto-enrolment of workers over 22 (when not in existing schemes) into a defined contribution (DC) scheme managed by private pension managers, with funding split equally between employee, employer and government (Department of Social and Family Affairs, 2010: 35). However, the National Pensions Framework does not establish a target replacement

Table 2.21 – Comparison of National Recovery Plan 2010-2014 and Budgets 2011-2013

	2011	2012	2013	2014	Total
	€m	€m	€m	€m	€m
National Recovery Plan	260	225	225	155	865
Actual	233	94.6	350 ¹⁵	N.A	N.A

Source: Department of Finance (2010b: 91); Department of Finance (2011: B10); Department of Finance (2010a: B10); Department of Finance (2012: A10).

¹⁴ In Budget 2011 the health levy and income levy were replaced by the Universal Social Charge.

¹⁵ The Government have yet to provide detail on the measures contained in Budget 2013 due to consultation with stakeholders.

rate for the combined state pension and auto-enrolled DC scheme. This proposal seems inspired by the philosophy of the World Bank's controversial 1994 report 'Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth' – which pointed to funded private defined contribution pensions as a panacea for ageing populations *and* stagnant economic growth – combined with the incorporation of some of the insights of behavioural economics. However, the National Recovery Plan 2010 indicated that the introduction of the auto-enrolment scheme in 2014 would 'depend on economic conditions' which – given the deterioration in the economic outlook – implies that this proposal is suspended for the foreseeable future (Department of Finance, 2010b: 76).

An auto-enrolment scheme for workers would face many obstacles. In the current economic climate, workers may change their savings behaviour in other areas. Given the costs imposed by the private pensions industry, it is also likely that fees and other charges would eat up a large portion of the auto-enrolled pension, leaving less to future pensioners.

2.10 The 2012 European Commission White Paper on Pensions

The European Commission White Paper on Pensions was published in 2012 in the context of an aging population in the EU, particularly in central European member-states such as Germany. The paper noted the divergence in pensions spending – both the state pension and public service pension – as a percentage of GDP in the EU today, with Ireland spending just 6% of GDP on pensions compared to Italy's 15% of GDP in 2010, and projected an overall increase in expenditure on pensions from 10% of EU GDP in 2010 to 12.5% of GDP in 2060 (European Union, 2012: 4). The White Paper recommended '(a) link[ing] the retirement age with increases in life expectancy; (b) restrict[ing] access to early retirement schemes and other early exit pathways; (c) support[ing] longer working lives by providing better access to life-long learning, adapting work places to a more diverse workforce, developing employment opportunities for older workers and supporting active and healthy ageing; (d) equalis[ing] the pensionable age between men and women; and, (e) support[ing] the development of complementary retirement savings to enhance retirement incomes' (European Commission, 2012: 9). Table 2.22 provides a comparison with plans to increase the pension age in other EU countries. Ireland, despite having the most favourable demography, has shown the greatest alacrity in planning increases to the pension age.

Table 2.22 – Relative pension ages for the purpose of receiving the state pension in the EU-25

Member-State	Pension age (M/F) 2009	Pension age M/F (2020)	Pension Age post-2020
Austria	65/60	65/60	65/65
Belgian	65/65	65/65	-
Bulgaria	63/60	63/60	65/63
Cyprus	65/65	65/65	-
Czech Republic	62/60	63y10m/63y8m	65/65
Germany	65/65	65y9/65y9m	67/67
Denmark	65/65	66/66	67+/67+
Estonia	63/61	64/64	65/65
Greece	65/60	65/65	Linked to life expectancy
Spain	65/65	66y4m/66y4m	67/67
Finland	65/65,63-68	65/65,63-68	-
France	60-65/60-65	62-67/62-67	-
Hungary	62/62	64/64	65/65
Ireland	65/65	66/66	68/68
Italy	65/60	66y11m/66y11m	Linked to life expectancy
Lithuania	62y6m/60	64/63	65/65
Luxembourg	65/65	65/65	-
Latvia	62/62	64.5/64.5	65/65
Malta	61/60	63/63	65/65
Netherlands	65/65	66/66	67/67
Poland	65/60	65/60	67/67
Portugal	65/65	65/65	-
Romania	63y4m/58y4m	65/60	65/63
Slovenia	61-67	61-67	-
United Kingdom	65/60	66/66	68/68

Source: European Commission (2012: 23-39)

2.11 The OECD Review of the Irish Pension System 2013

The OECD has recently conducted a review of the Irish pension system on behalf of the Minister for Social Protection. It concluded that the State Pension should move to a flat-rate universal basic pension, or to a means tested basic pension on the grounds that '[b]oth of these options would have the advantage, compared with the existing scheme, of introducing a much simpler, more transparent and less costly public pension scheme' (OECD, 2013: 11). It also noted, in relation to the tax expenditure schemes, that 'there is a misalignment to correct between the existing tax deferral structure in Ireland that provides higher incentives to high-income earners and the policy goal of increasing coverage, especially for middle to low-income people'.

Social Justice Ireland welcomed the OECD's recognition of the role that a universal pension could play but recognised that its proposal places greater emphasis on the universal pension's role in providing post-retirement income than the OECD report, which implicitly envisions a lower rate for the universal pension than our proposal. Additionally, *Social Justice Ireland* argues strongly for the maintenance of the Household Benefits Package and the Free Travel Pass.

2.12 Britain's single-tier pension

In January 2013 the British Department for Work and Pensions published a White Paper entitled 'The single-tier pension: a simple foundation for saving' (Department of Work and Pensions, 2013). The document proposed the introduction of a single-tier pension to Britain, with a rate higher than the current means-tested state pension in Britain (currently £142.70 or €168.70 at current exchange rates), by April 2017. A full pension would be paid following 35 years of National Insurance Contributions, with smaller pro-rata amounts paid to those who have smaller contribution records. The British government have already introduced a triple lock whereby the state pension rises by whichever rate is higher of 2.5%, the rate of inflation, or average earnings. While there are substantial differences between this proposal and the Universal Pension proposal – particularly regarding the crucial role that the British government envisions for the private pension funds sector in supplementing their single-tier pension – it does show that radical changes to state and private pension systems are possible administratively.

14 In Budget 2011 the health levy and income levy were replaced by the Universal Social Charge.

15 The Government have yet to provide detail on the measures contained in Budget 2013 due to consultation with stakeholders.

3. Why the Universal Pension

3.1 What is the Universal Pension?

A Universal Pension is a universal flat-rate entitlement paid as a matter of right to all residents over a defined qualifying age regardless of previous contributions or income. The final amount of the Universal Pension would depend on years of residency in Ireland. The Universal Pension would replace the State Pension (Contributory) and the State Pension (Non-Contributory) and act as Ireland's first tier pension. A Universal Pension proposal would constitute a dramatic break from the contributions based approach inaugurated in Ireland by the 1949 White Paper *Social Security*.

3.2 Universal Pension Proposals in Ireland

A scheme for a universal pension was originally examined by the National Pensions Board in its report *Final Report of the National Pensions Board - Developing the National Pensions System* (1993: 96). The National Pensions Board argued that despite the scheme's simplicity, the current system better met the Board's criteria of entitlement, consistency, financial sustainability, simplicity, equality of treatment and comprehensiveness. The TASC/Trinity College Dublin Pensions Policy Research Group and the National Women's Council of Ireland proposed the introduction of a universal pension as part of wider reform of the Irish pension system in their respective submissions to the most recent Green Paper on Pensions (Connell, Hughes, McCashin & Stewart, 2008; National Women's Council of Ireland, 2008). Both submissions argued for an additional second-tier pension based on contributions to supplement the first-tier universal pension (Connell, Hughes, McCashin & Stewart, 2008: 33; National Women's Council of Ireland, 2008: 60). Both advised that the state pension should aim to replace at least 40% of the average wage.

The Green Paper rejected the Universal Pension on the grounds that it threatened the long-term financial sustainability of the pensions system, could undermine the contributory principle and the social insurance fund by breaking the link between contributions and eligibility, complicate the operation of current bi-lateral and EU pension agreements, and posed administrative challenges in the form of implementation of the residency test (Department of Family and Social Affairs, 2007: 71-72). The Green Paper also raised the immediate costs of introducing the Universal Pension, an issue which will be examined in Chapter 5. The objections contained in the Green Paper are discussed point by point in the conclusion.

3.3 What is wrong with the current pension system?

There are serious flaws in the current Irish pensions system. These include:

- i. the implicit and substantial subsidisation of high-income earners by the current structures of tax expenditure;
 - ii. the combination of limited coverage and adequacy;
 - iii. gaps and anomalies in coverage in the state pension system;
 - iv. the shifting of risk from the employers and the pensions industry onto employees through defined contribution schemes, and through underfunding of defined benefit schemes.
- i) The Irish pension system favours those on higher incomes. Private pension provision remains highly unequal as high-income earners have benefited, and continue to benefit, proportionately and absolutely more from the provision of tax reliefs by the government. As Table 4.1 shows, the net cost of contributing to a private pension fund for higher rate taxpayers is lower than that for standard rate taxpayers. While the Exchequer has limited its contributions since 2009 the fundamental inequality between higher rate and standard rate taxpayers persists. Hughes (2005) and Callan, Walsh and Kelly (2009) have noted that up to 80 per cent of pension tax relief accrues to taxpayers in the top 20 per cent of the income distribution.

Hughes (2010, 2011) has found that the most beneficial pension arrangements in Irish society tend to be found amongst executive directors in Ireland's publicly listed companies. Arrangements for pension provision for senior management in those financial institutions covered by the bank guarantee are well-known, as they have been subject to significant press coverage and a report by the Department of Finance. The Covered Institution Remuneration Oversight Committee's report on remuneration in the Irish banking sector stated 'top management make little or no employee contribution for their pensions', a stark contrast with employees within Irish banks (Department of Finance, 2009: 16). Hughes (2011) has found that Executive Directors retire earlier, are more likely to have DB pensions than their employees, and receive much higher pension contributions from their employers than other employees. This is facilitated by the generous tax relief at the higher rate, the generous cap on pension contributions qualifying for tax relief, and the generous limit on the size of a lifetime pension fund.

While the recent changes to the treatment of private pension contributions enumerated in Section 2.8 are to

Table 4.1 – Exchequer Contribution where pension contributions made, 2009 & 2012

	Higher Rate Taxpayer (2009)	Standard Rate Taxpayer (2009)	Higher Rate Taxpayer (2012)	Standard Rate Taxpayer (2012)
Contribution made to a pension scheme by an employee	100	100	100	100
Employee gets - tax relief of:	41	20	41	20
relief from PRSI and the health contribution	8	8	0	0
Employer gets PRSI relief of:	10.75	10.75	0	0
Exchequer contribution	59.75	38.75	41	20
Savings by employee	49 (41+8)	28 (20+8)	41	20
Savings by employer	10.75	10.75	0	0
Amount in pension fund	100	100	100	100
Net cost to employee	51	72	59	80

Source: Commission on Taxation, (2009: 398).

- be welcomed, the inequality between the higher rate taxpayer and standard rate taxpayer remains.
- ii) The NPPI set a target of increasing supplementary private pension coverage amongst 30-65 year olds to 70% by 2013 and ensuring that combined state and occupation or private pensions were adequate to cover 50% of pre-retirement income. However, despite the existence of a generous tax regime, pension coverage in 2009 amongst 30-65 year olds was only 58.8%. Pension adequacy is also under severe pressure due to the economic downturn, as citizens have been forced to change savings behaviours and prioritise current spending or paying down debt. The current system has a very high fiscal cost, while it is currently failing to meet the targets identified in the NPPI.
- iii) Professor Jacob Hacker has termed the transfer of risk from corporations and governments to individuals as the ‘Great Risk Shift’ (Hacker, 2008). One of the mechanisms through which this has occurred has been through the shift from a defined benefit approach to a defined contributions approach. Another has been pervasive underfunding of defined benefit schemes (Cotter, Blake & Dowd, 2012). Both of these phenomena are present in the Irish case, with defined benefit schemes closing to new entrants, and existing defined benefits schemes facing serious funding shortfalls due to inadequate contributions and poor performance of pension funds. Defined contribution schemes will subject scheme members to the ebb and flow of global markets, placing the risk of dramatic changes in financial markets – more common than previously assumed – on the shoulders of those with defined contribution pensions. In this context, it is vitally important to have an adequate state pension capable of supporting all pensioners.
- iv) Gaps and anomalies in the coverage in the pensions system have already been identified. The average contributions approach to social insurance has been poorly equipped to facilitate those who have worked in the home, or had mixed contributions record. The consequence is a system where women outnumber men 2 to 1 in terms of the numbers of recipients of the State Pension (Non-contributory), and where over 48,000 of those aged over-66 rely on the status of their spouse or partner to receive an income from the state through the qualified increase system. Additionally, Ireland’s post-independence economic performance indicates that a period of prolonged macro-economic stability over the period of a citizen’s or resident’s lifetime is particularly unlikely. Gaps in an individual’s social insurance record may occur during such periods of macro-economic instability – even if the welcome move to a total contributions approach occurs – thus punishing citizens and residents who work in more precarious parts of the economy. Additionally, the logic of the average contributions system is at present unfair, so that pensioners who start work early in their careers and have later sporadic employment receive a lower state pension than those who started working late and paid continuously into the social insurance system for ten years before approaching the state pension age.
- This failure of the pension policy of the last twenty years can be attributed to a policy fixation on private pensions rather than on the more important – from a pensioner income perspective - state pension (see Table 2.7). This led to a taxation policy that encouraged and subsidised the growth of private pensions. The structure of management fees potentially favoured and favours Irish pension funds - as against their clients and despite the poor performance of funds the pensions industry continues to accumulate significant income from fees (Stewart & McNally, 2013: 6). The high levels of tax

expenditures on private pensions represent an enormous subsidy from the Exchequer to the private pensions industry (see Tables 2.19 and Tables 2.20). During the late 1990s and up to the present day, pension policy has provided large tax subsidies to those who needed them least, at significant cost to the Exchequer, while failing to guarantee adequate post-retirement incomes to the majority of the population. Utilising Exchequer resources to fund a universal and adequate pension that combats pensioner poverty would be a far more effective use of resources than an expensive subsidisation of private pension provision.

3.4 Why introduce the Universal Pension?

The National Pensions Framework seeks to provide ‘security, equity, choice and clarity for the individual’ (Department of Social and Family Affairs, 2010). To these aims must be added the principles of solidarity and social justice. All of these aims can be met by a reform of the tax system as it relates to pensions and a transition to a universal pension. Furthermore, a Universal Pension would be sustainable, predictable and administratively efficient.

- **Security:** As noted in the introduction, the Ireland of 2012 is vastly different from the Ireland of 2007. The numbers of people in employment in Ireland peaked in the third quarter of 2007 at 2,149,800 and currently stands at 1,845,600 as of the first quarter of 2013 (CSO, 2011; CSO, 2013d). Unemployment has risen from 4.5 in 2007 to 13.7% as of March 2013 (CSO, 2011; CSO, 2013d). The long-term unemployment rate has risen from 1.2% in the first quarter of 2007 to 8.4% in the first quarter of 2013 (CSO, 2013d). The International Monetary Fund estimates that unemployment will fall to 12.4% by 2016, indicating that unemployment in certain sectors – particularly construction – will remain stubbornly high (IMF, 2013: 34). The minimum number of paid contributions to be considered eligible for the State Pension (Contributory) rose from 260 to 520 for those who reach 66 on or after 6 April 2012 (Department of Social and Family Affairs, 2010: 20).

If the National Pensions Framework is implemented in full, then anyone born after 1 January 1954 would be required to pay 30 years of social insurance contributions to receive the full State Pension (Contributory). Even if Credited Social Insurance Contributions are provided to the unemployed it is possible given the increasing incidence of long-term unemployment – and consequently, those individuals receiving Jobseeker’s Allowance – that gaps would emerge in an individual’s contribution records. Moreover, those out of employment would obviously be unable to save for a private pension, and would be forced to utilise savings that they may otherwise have used to fund their retirement. In an economy increasingly characterised by short-term and part-time employment on one hand and high unemployment on the other, a Universal Pension would provide security to all citizens, based on residency.

- **Equity (gender equality):** The introduction of a Universal Pension would provide those excluded from the current pension system for historical reasons with a pension from the state in their own right for the first time, recognising their contribution to society. Furthermore, women are currently penalised for the societal norms that prevailed – and were enforced by the state and society – in the past. As Table 2.1 shows, the ratio of women to men receiving the State Pension (Non-Contributory) is nearly 2:1 while the ratio of women to men receiving the State Pension (Contributory) is nearly 1:2. Moreover, a recent report by Duvvury et. al. (2012) has indicated that gender differences remain entrenched in both Northern Ireland and the Republic of Ireland to this day, as many women are penalised for taking on caring roles for adults and children. This leads to lower contributions to the social insurance system, and also a difficulty in entering occupational pension schemes, and paying into other forms of private pension.
- **Clarity/Certainty:** All individuals can be assured they would receive the Universal Pension which would rise to forty per cent of national average earnings. With this knowledge, individuals can plan to achieve a certain level of retirement income above an assured state pension.
- **Solidarity:** The Universal Basic Pension would be an expression of society’s determination to provide a guaranteed income to ensure the elderly have a decent standard of living. For those on lower incomes, a universal pension set at 40% of average earnings would provide a relatively high replacement rate without the need for a high private pension contribution.
- **Social Justice:** A Universal Basic Pension would be progressively redistributive as the pension would be funded solely by removing tax reliefs for higher-income earners and the state pension would be increased for many pensioners who now receive the Non-Contributory pension or the Qualified Adult amount.
- **Administrative Efficiency:** The Universal Pension would be more efficient than current arrangements, eliminating the cost of administering the means test. The OECD has pointed to the efficiency gains to be made from moving to a universal pension (OECD, 2013).
- **Predictability:** The future cost of the Universal Pension is predictable as the eligible population can be estimated in a simple manner using population projections. The projected costs of the current system are heavily dependent on the contribution records of citizens. Unexpected economic contractions of great intensity have been a feature of Irish economic history.
- **Sustainability:** Chapter 6 outlines the long-run sustainability of the Universal Basic Pension.

3.5 Why a rights-based Universal Pension?

There has long been a desire to maintain the contributory principle in Ireland. The Commission on Social Welfare (1986) recommended a differential of 10% between the contributory and non-contributory state pension ‘to preserve the acceptability of the social insurance concept’ while the National Pensions Board (1993) considered the fact that the contributory state pension did not require a means test as a requisite recognition of the contributory principle (Department of Social and Family Affairs, 2008: 63).

Social Justice Ireland does not agree with the maintenance of this distinction. In Ireland, the division between the State Pension (Contributory) and State Pension (Non-contributory) has not been based – as previous reports and government thinking often assumed – on contribution, but rather on gender. Historically, the state has recognised only certain types of work (paid work in the PAYE sector) as counting for social insurance purposes. Only recently has the state come to acknowledge different forms of work in the social insurance system and even then it has done so in a very restricted manner. The historical legacy of this differential treatment can be seen in the contrast between the respective gender ratios of the State Pension (Contributory) and State Pension (Non-contributory).

Instead of this sometimes arbitrary distinction, *Social Justice Ireland* advocates that certain social protection payments should be seen as a right. The state should recognise the principle that every citizen and resident of Ireland is entitled to a pension, regardless of what the state at that time deems as a ‘contribution’ for social insurance purposes.



Historically, the state has recognised only certain types of work (paid work in the PAYE sector) as counting for social insurance purposes. Only recently has the state come to acknowledge different forms of work in the social insurance system and even then it has done so in a very restricted manner.

4. Social Justice Ireland's Universal Pension Proposal

4.1 Proposed Design of the Universal Basic Pension

The Universal Basic Pension would replace the current State Pension (Contributory), State Pension (Non-Contributory), Death Benefit, and Widow's, Widower's, or Surviving Civil Partner's Pension (Contributory) for those at the pensionable age. The Universal Pension would be set at a rate of €230.30 in 2014 – the current rate of the State Pension (Contributory) – and would eventually rise to 40% of average earnings. It is proposed that the Pre-Retirement Allowance (PRETA) and the State Pension (Transition) be maintained for a short time in line with the current government policy given that both payments are being phased out. The State Pension (Transition) would no longer be paid out as of 1 January 2014 under the Social Welfare and Pensions Act 2011. Since 4 July 2007, no new applicants for the PRETA have been accepted.

Given the age of eligibility for PRETA was 55 the last recipient should transfer to the Universal Basic Pension in 2018 upon turning 66. The recent changes in the state pension age contained in the Social Welfare and Pensions Act 2011 will be integrated into the proposal; the state pension age will rise to 66 in 2014, 67 in 2021, and 68 in 2028. It is also proposed that the increases for Qualified Adults under the age of 66 and increases for Qualified Children be maintained. Additionally, it is proposed that non-monetary benefits continue to be paid and that the additional payments for those aged 80 and over, those living alone, and those living on listed islands are continued.

4.2 Who is Eligible for the Universal Pension?

Subject to meeting the residency requirement, it is proposed that all citizens and residents aged 66 or over be eligible for the Universal Pension. The current contributory state pension is linked to a citizens' PRSI contribution record. It is proposed that a residency requirement accompany the Universal Pension. Of the EU-27 Netherlands, Finland, Sweden and Denmark operate residency based pension schemes. Iceland, Norway and New Zealand also operate residency based schemes. It is proposed that the Universal Pension follow the Dutch model in terms of residency: the Universal Pension would only be paid to residents; a 40-year test of residence would apply between the ages of 16 and the age at which a resident is eligible for the pension. For each year of residence, 2.5% of the full Universal Pension would be payable up to a maximum of 40 years. On the introduction of the Universal Pension, all pensioners who had been in receipt of a full state pension – contributory or non-contributory – would be allocated a full Universal Pension at the full contributory rate.

Those pensioners who had then been in receipt of no state pension or reduced pension amounts - as Qualified Adults or

on the basis of a means test or on the basis of their PRSI contribution history – would initially receive their current amounts. However, they would be entitled to apply to have their payment increased based on the length of residency in Ireland. If they have been resident in Ireland for 40 years, from age 16 to pensionable age, they would receive the full Universal Pension. If they have less than 40 years residency, they would receive as their Universal Pension whichever amount is higher of:

- A residency-related pension (2.5% of the full Universal Pension per year of residence).
- Their current pension amount.

This means that no existing pensioner would lose out and many would experience an increase in the Universal Pension. In particular, those adults aged 66 years or older, in respect of whom reduced payments are now made due to their status as 'Qualified Adults', would receive a Universal Pension in their own right.

It is envisioned that the Universal Pension be paid through the current social welfare pensions system. Any individual aged 66 or over currently receiving the State Pension (Contributory) or State Pension (Non-Contributory) would receive the new Universal Pension. The countries within the European Union that operate residence-based pension schemes all operate population registers. Ireland does not operate a population register and EU/EEA residents must register with their embassy if they wish to have a record of residence in Ireland. Nevertheless, Ireland does possess extensive social welfare records, which would be good evidence of residence for the vast majority of pension applicants. In particular, PRSI contribution records relate to each week of employment history; similarly most social welfare benefits and assistance payments are made on a weekly basis while child benefit is paid monthly. The combination of all of these records should provide sufficient evidence regarding the residence history of the pension applicants. As such, it is likely that there would be little need to resort to the ad-hoc mechanism used in New Zealand for proving residency (examples include passports, receipted power bills, and employment references).

4.3 Supplementary Assistance

It is possible that an individual who reaches the state pension age in the future may not have accumulated enough years of residency to ensure an adequate income. Furthermore, it may be possible that their pension rights acquired elsewhere are not enough to sustain them in old age. To protect those individuals from poverty it is proposed that if a pensioner's income from all sources is below the rate of the Universal Pension, they receive a top-up to bring their income up to the level of the Universal Pension.

4.4 Additional Payments

It is proposed that the increase for those living alone, those living on islands, and those over the age of 80 be maintained. It is proposed that these rates be indexed to the rate of the Universal Pension.

Table 4.1 Proposed New Rates for Increases for those Eligible for the Universal Pension

Payment Type	Current rate per week (€)	Current rate as a % of State Pension (Contributory)	Proposed new rates as % of Universal Pension (€)
Living Alone Allowance	€7.70	3.34	3.50
Over 80 Allowance	€10.00	4.34	4.50
Island Allowance	€12.70	5.51	5.50

Source: Department of Social Protection (2012: 24).

It is proposed that the increases for qualified adults under 66 and qualified children are maintained, and that these payments remain means-tested. It is also proposed that these payments are indexed to the rate of the Universal Pension.

Table 4.2 Proposed New Rates for Increases for Qualified Child and Qualified Adult Payments

Increase Type	Current rate per week (€)	Current rate as a % of State Pension (Contributory)	Proposed new rates as % of Universal Pension (€)
Qualified Child Full Rate	29.80	12.94	13
Qualified Child Half-rate	14.90	6.47	6.5
Increase for Qualified Adult under 66	153.50	66.65	66.6

Source: Department of Social Protection, 2012: 24.

It is proposed that those additional social security payments that may be paid to recipients of the State Pension continue to be paid. These include: the Supplementary Welfare Allowance Scheme; Rent Supplement; Mortgage Interest Supplement; Household Benefits Package; Free Travel Pass; Fuel Allowance; the Centenarian's Payment and the Respite Care Grant.

In relation to the Household Benefits Package *Social Justice Ireland* would strongly argue for the maintenance of the package in its current form and against steps to convert the package into a cash payment.

4.5 Bilateral and European Union Pension Agreements

European Union Regulations on social security co-ordination cover the transfer and protection of pension rights. Regulations (EC) No 883/2004 and 987/2009 are the most recent Regulations governing the accrual of pension rights in the EU. It is proposed that the Irish system operates like the Dutch basic pension (AOW) to facilitate social security co-ordination. As the Green Paper pointed out in its consideration of a move to a residency based pension; 'this means a continuation of existing pro-rata arrangements, but instead of eligibility being based on social insurance contributions, the assessment would be based on periods of residency' (Department of Social and Family Affairs, 2007: 73). The Department expressed uncertainty as to the effect of this transition. However, it is highly unlikely it would have an appreciable effect. In the case of the Netherlands, the distribution of pension payments reflects the Dutch history of migration which has been characterised by; planned post-war emigration, and from the 1960s, planned immigration of non-EU workers to combat labour shortages and patterns of migration by EU citizens (Sociale Verzekeringsbank, 2008: 28-29).

4.6 Claw-back arrangement for pre-6 April 1995 public servants

Pre-April 1995 public servants pay reduced PRSI contributions (Classes B, C, and D), which do not – unless combined with other classes of PRSI contributions – entitle pre-April 1995 public servants to the State Pension (Contributory). All public servants employed after April 1995 are entitled to the State Pension (Contributory) as their occupational public sector pensions were ‘integrated’ with the State Pension (Contributory). Many public service pensioners recruited before the sixth of April 1995 receive an insufficient occupational pension from the state.

Many current public sector pensioners are receiving low public service pensions, and cannot access the State Pension (Contributory) because they paid into classes B, C or D, though a number have accrued mixed insurance through working in the private sector. Parliamentary questions have shown that nearly 25% of pre-6 April 1995 Civil Servants receive Civil Service pensions at a rate below €16,000.¹⁶ The maximum weekly income that qualifies an individual for a (reduced) Increase for a Qualified Adult is €309, or just over €16,000 a year. Currently, those living alone or with a partner who has not made enough social insurance contributions to qualify for a State Pension (Contributory) may receive the State Pension (Non-contributory), either at a full rate or a reduced rate following a means test.

It is proposed that pre-April 1995 public servants are included in the Universal Pension scheme, but that a claw-back mechanism operates to return some or all of the Universal Pension to the state. Given the Universal Pension will rise to 40% of average earnings, it is proposed that if any public sector pensioner earns below this amount they receive an increase to bring their total income from the state (Universal Pension + Public Sector Pension) to 40% of average earnings. In chapter 4 the potential numbers of pre-1995 public sector pensioners requiring a percentage of the Universal Pension is estimated.



Subject to meeting the residency requirement, it is proposed that all citizens and residents aged 66 or over be eligible for the Universal Pension.

¹⁶ <http://oireachtasdebates.oireachtas.ie/debates%20authoring/debateswebpack.nsf/takes/dail2013020500062?opendocument#WRL00100>

5. Data and Methodology

5.1 CSO Population and Labour Force Projections, 2011-2046

To estimate the number of citizens over 66 projected to reside in the state over the next thirty-three years the *CSO Population and Labour Force Projections, 2016-2046* is used (CSO, 2013). The scenario M2F1 is used here as the main scenario. This scenario assumes a declining, and then increasing, net migration rate and a total fertility rate of 2.1 between 2016 and 2046 (see Table 5.1).¹⁷ The assumption of a higher fertility rate is congruent with recent observations that countries particularly high on the Human Development Index (HDI) are witnessing increasing fertility (Myrskylä, Kohler, & Billari, 2009).

Table 4.2 Proposed New Rates for Increases for Qualified Child and Qualified Adult Payments

Increase Type	Current rate per week (€)	Current rate as a % of State Pension (Contributory)	Proposed new rates as % of Universal Pension (€)
Qualified Child Full Rate	29.80	12.94	13
Qualified Child Half-rate	14.90	6.47	6.5
Increase for Qualified Adult under 66	153.50	66.65	66.6

Source: Department of Social Protection, 2012: 24.

5.2 Estimating the Number of Pre-April 6 1995 Public Servants

To estimate the number of individuals eligible for the Universal Basic Pension the number of pre-April 1995 public servants aged 66 and over, 67 and over and 68 and over must be estimated and then subtracted from the total number of individuals 66 and over, 67 and over and 68 and over to effectively analyse the application of the 'claw-back' mechanism. To estimate the numbers of pre-6 April 1995 public servants still in employment the data on PRSI contributions for the latest available date has been used. Pre-April 6 1995 public servants pay the 'modified' PRSI contributions and are identified as PRSI Classes B, C, and D. In 2008 there were 3,133,924 insured citizens (Department of Social Protection, 2011: 21).¹⁸ Of these 3.4% were in Class B, C and D indicating there were 106,553 pre-1995 public servants working in 2008. According the Comptroller and Auditor General, there were 113,384 public sector pensioners in 2008. It is assumed that 70% of those are pre-April 1995 recruits.¹⁹

It is further assumed that there is a 50:50 ratio of women to men amongst pre-1995 public servants. A uniform age distribution is assumed for serving pre-1995 public servants. The age distribution amongst existing public service pensioners is assumed to reflect the age distribution of the general population. It is assumed that the youngest pre-1995 public sector pensioner in 2008 was 60. It is assumed the youngest pre-1995 serving public servant was 33 in 2008. Life tables supplied by the British Office of National Statistics have been used to facilitate the calculation of the future mortality of pre-1995 public sector workers.

While many pre-1995 public sector pensioners are in receipt of occupational pensions over 40% of average earnings, others will not, and will be in receipt of substantially lower occupational pensions. One contributing factor to this is the 'marriage bar' which forced women working in the Civil Service to retire if they married. The 'marriage bar' was removed in 1973. Other contributing factors include service records of less than the maximum 40 years, combined with the effects of retiring on low pay. As a result, some former public servants receive either a non-contributory pension or receive an Increase for a Qualified Adult over 66 as part of their partner's contributory old-age pension. Those who have other sources of income may not receive any income from the state pension system.

¹⁷ The additional assumptions underlying the projections can be found in the CSO's report (CSO, 2013).

¹⁸ This information did not include Class H, the class of PRSI paid by members of the Defence Forces.

¹⁹ This assumption is based on comparing parliamentary questions on the number of civil service pensioners in total and the number of civil service pensioners recruited before April 6 1995. It is assumed that the civil service is reflective of the public sector as a whole.
<http://oireachtasdebates.oireachtas.ie/Debates%20Authoring/DebatesWebPack.nsf/takes/dail2012100200059#N29>;
<http://debates.oireachtas.ie/dail/2012/07/04/00049.asp>.

Table 5.2 – M2F1 Projections for the number of those 66 and over, 67 and over, 68 and over, and 80 and over living in Ireland between the years 2016 and 2046

Year	66+	67+	68+	80+
2011	492,005	455,756	421,370	127,999
2012	508,425	469,376	433,638	131,686
2013	525,272	485,198	446,684	135,148
2014	543,446	502,057	462,501	139,373
2015	562,104	520,196	479,310	143,756
2016	581,050	538,775	497,349	148,506
2017	600,249	557,546	515,734	153,379
2018	619,892	576,568	534,310	158,057
2019	641,389	595,897	553,010	163,584
2020	662,184	617,047	571,997	169,521
2021	684,389	637,472	592,758	175,133
2022	706,287	659,204	612,717	181,334
2023	729,141	680,601	633,939	189,311
2024	752,456	702,915	654,801	198,113
2025	775,695	725,656	676,540	207,684
2026	800,277	748,292	698,674	219,045
2027	826,418	772,233	720,677	230,812
2028	851,595	797,680	743,934	243,171
2029	877,630	822,147	768,660	255,462
2030	904,429	847,433	792,383	267,549
2031	932,171	873,453	816,894	279,412
2032	958,790	900,384	842,108	291,208
2033	985,041	926,173	868,200	304,115
2034	1,011,289	951,563	893,125	316,104
2035	1,037,142	976,932	917,635	328,851
2036	1,065,493	1,001,886	942,103	341,048
2037	1,094,507	1,029,310	966,147	353,704
2038	1,122,961	1,057,380	992,632	366,460
2039	1,151,941	1,084,883	1,019,746	378,877
2040	1,179,803	1,112,906	1,046,295	392,134
2041	1,207,833	1,139,819	1,073,361	406,400
2042	1,234,932	1,166,893	1,099,319	419,682
2043	1,261,387	1,193,055	1,125,448	433,485
2044	1,287,693	1,218,592	1,150,688	447,773
2045	1,315,328	1,243,996	1,175,320	462,716
2046	1,344,654	1,270,741	1,199,840	476,646

Source: CSO, (2013).

Table 5.3 indicates the total numbers of pre-April 6 1995 public servants expected to receive some sort of public service occupational pension.

Table 5.3 – Estimated number of pre-1995 public servants in receipt of a full or partial public service occupational pension, 2011-2046

Year	66+	67+	68+	80+
2011	62,189	54,880	47,756	13,372
2012	67,157	59,829	52,611	13,808
2013	71,994	64,663	57,426	14,244
2014	76,706	69,360	62,121	14,657
2015	77,164	73,930	66,677	15,015
2016	77,511	74,296	71,103	15,423
2017	77,743	74,547	71,372	15,836
2018	77,865	74,685	71,528	16,188
2019	77,882	74,716	71,575	16,570
2020	77,791	74,639	71,513	17,086
2021	77,594	74,454	71,341	17,651
2022	77,292	74,163	71,061	18,258
2023	76,885	73,766	70,675	21,358
2024	76,374	73,264	70,183	24,318
2025	75,761	72,659	69,587	27,148
2026	75,053	71,958	68,894	29,789
2027	74,252	71,164	68,108	32,224
2028	73,366	70,284	67,234	34,453
2029	72,403	69,327	66,283	33,624
2030	71,377	68,307	65,269	32,720
2031	70,303	67,237	64,205	31,757
2032	69,192	66,131	63,103	30,748
2033	68,067	65,011	61,988	29,716
2034	66,947	63,895	60,876	28,681
2035	65,851	62,803	59,788	27,663
2036	64,791	61,745	58,734	26,673
2037	63,777	60,734	57,726	25,725
2038	62,824	59,785	56,780	24,833
2039	61,940	58,903	55,901	24,004
2040	61,133	58,099	55,099	23,249
2041	60,406	57,374	54,378	22,570
2042	56,742	56,742	53,748	21,980
2043	53,212	53,212	53,212	21,482
2044	49,765	49,765	49,765	21,020
2045	46,463	46,463	46,463	20,656
2046	43,294	43,294	43,294	20,372

5.3 Estimating the incidence of the claw-back

Based on parliamentary questions it is estimated that nearly 25% of current pre-1995 civil service pensioners receive a pension below €16,000. It is assumed that this reflects the public sector as a whole.

It is projected that full claw-back operate for incomes over €16,000, though pre-April 1995 public servants who currently receive the State Pension (Non-contributory) should not have any of their pension reduced if their current pension exceeds the amount that they would receive through the proposed Universal Pension system. It is envisioned that there would only be a small group in this particular category. Table 5.4 indicates the estimated percentage of current pre-1995 public service pensioners who would not be affected by the full claw-back of the Universal Pension. The service record of serving pre-1995 public servants could not be accessed. It is assumed that all serving pre-1995 public servants would receive an occupational pension in excess of the proposed Universal Pension rate.

Table 5.4 - Estimated percentage of current pre-1995 public service pensioners who would receive the claw-back

Civil Service Occupation Pension (€)	% of Public service pensioners	Average claw-back as a% of Universal Pension
0 - 1,000	0.22	0
1,001 - 2,000	0.51	6.25
2,001 - 3,000	0.85	12.5
3,001 - 4,000	1.32	18.75
4,001 - 5,000	1.53	25
5,001 - 6,000	1.29	31.25
6,001 - 7,000	1.74	37.5
7,001 - 8,000	1.63	43.75
8,001 - 9,000	1.65	50
9,001 - 10,000	2.07	56.25
10,001 - 11,000	1.97	62.5
11,001 - 12,000	1.79	68.75
12,001 - 13,000	1.81	75
13,001 - 14,000	1.72	81.25
14,001 - 15,000	1.97	87.5
15,001 - 16,000	2.16	93.75
16,000+	75.5	100

5.4 Eligibility Assumptions

In projecting the future cost of the pension system it is assumed that some of those who claim the pension would not receive the full 100% pension upon retirement. The Dutch example is instructive in this regard; the SVB – the Dutch state pension authority – estimate that by 2015 nearly 13% of AOW beneficiaries would be receiving a reduced pension (SVB, 2008: 32). Those 13% are partly accounted for by Dutch citizens who have resided or worked elsewhere, and partly by resident immigrants who have not built up full entitlement to the Dutch pension. As noted above, a citizen or resident would receive 2.5% of the universal pension at the pensionable age for every year resident in Ireland between the ages of 16 and the state pension age.

Ireland has displayed somewhat different patterns of migration than the Netherlands: Ireland did not control an overseas empire with the associated patterns of in and out migration, nor has there been the extensive history of cross-border working that the Netherlands shares with Germany, Luxembourg and Belgium. However, it is estimated that some of those qualifying for an Irish state pension would qualify with a lower than full-rate pension, and that this number would increase over time, particularly given recent migration patterns.

It is highly likely that there would also be a certain percentage of state pensioners who choose to receive their state pension while living abroad. Additionally, it is likely there would also be those European Union workers who worked in Ireland for a time who choose to combine their reduced-rate pension from Ireland with their own domestic state pension. There are currently 50,941 recipients of the State Pension (Contributory), Widow's Widower's or Surviving Civil Partner's Pension (Contributory), State Pension (Non-contributory) and Death Benefits receiving these payments while residing outside Ireland. It is probable that this number would increase over time - particularly as European Union workers working in Ireland would have accumulated some pension rights here during their residency - even if it remains a static percentage of total recipients of the state pension. Table 4.5 estimates the total number of recipients of the Universal Pension who would be receiving their payment whilst residing abroad.

Table 5.5 - Estimated number of Universal Pension recipients living abroad, 2012-2046

Year	66+	67+	68+	80+
2012	50,941	47,375	43,809	12,735
2013	52,527	48,850	45,173	13,132
2014	54,345	50,540	46,736	13,586
2015	56,210	52,276	48,341	14,053
2016	58,105	54,038	49,970	14,526
2017	60,025	55,823	51,621	15,006
2018	61,989	57,650	53,311	15,497
2019	64,139	59,649	55,159	16,035
2020	66,218	61,583	56,948	16,555
2021	68,439	63,648	58,857	17,110
2022	70,629	65,685	60,741	17,657
2023	72,914	67,810	62,706	18,229
2024	75,246	69,978	64,711	18,811
2025	77,570	72,140	66,710	19,392
2026	80,028	74,426	68,824	20,007
2027	82,642	76,857	71,072	20,660
2028	85,160	79,198	73,237	21,290
2029	87,763	81,620	75,476	21,941
2030	90,443	84,112	77,781	22,611
2031	93,217	86,692	80,167	23,304
2032	95,879	89,167	82,456	23,970
2033	98,504	91,609	84,714	24,626
2034	101,129	94,050	86,971	25,282
2035	103,714	96,454	89,194	25,929
2036	106,549	99,091	91,632	26,637
2037	109,451	101,789	94,128	27,363
2038	112,296	104,435	96,575	28,074
2039	115,194	107,131	99,067	28,799
2040	117,980	109,722	101,463	29,495
2041	120,783	112,328	103,874	30,196
2042	123,493	114,849	106,204	30,873
2043	126,139	117,309	108,479	31,535
2044	128,769	119,755	110,742	32,192
2045	131,533	122,326	113,118	32,883
2046	134,465	125,053	115,640	33,616

As noted, many of those living abroad would accumulate pension rights here and may seek to claim them upon their pension age. It is assumed that many of those receiving the pension abroad would not receive the full pension. Assumptions as to the distribution of full pensions amongst the total population of expected recipients are contained in Chapter 9.

6. Costing the Universal Pension

6.1 Previous Costing of the Universal Pension

The Green Paper on Pensions provided a costing for the Universal Basic Pension (Department of Social and Family Affairs, 2007: 78). The Green Paper assumed that the estimated 47,000 individuals outside the state pension system would receive the Universal Pension. It also assumed that those qualified adults and those on reduced pensions over the age of 66 would receive the necessary increase to bring them to the level of the Universal Pension. The Green Paper estimated a cost of €518m – based on the then rate of the State Pension (Contributory) of €209.50 – to integrate the 47,000 people excluded from the state pension system and a cost of €657m to upgrade the qualified adult increase, non-contributory and reduced rate payments (Department of Social and Family Affairs, 2007: 78). As such, the Green Paper estimated the cost of introducing a universal pension in 2007 to be €1,175m.

6.2 Identifying the costs of the Current System

To provide a full costing for a Universal Basic Pension in 2013 the full costs of the current system must first be identified. The Department of Social Protection's *2012 Statistical Information on Social Welfare Services* provides data on the state pension system (Department of Social Protection, 2013). As shown in Table 2.1, the total expenditure on the state pension in 2012 was €6,306m. To ascertain the number of those aged 66 and over the number of recipients of the State Pension (Contributory) and the State Pension (Non-Contributory) must be identified. Additionally, the number of recipients receiving the Qualified Adult increase for adults who are 66 or over must be identified, as must those aged over 66 receiving the Widow's, Widower's, or Surviving Civil Partner's Pension (Contributory) (see Table 6.1). Utilising those figures the total number of individuals over 66 receiving some sort of payment through the state pension system, whether through the Qualified Adult increase or the State Pension itself, can be quantified. As Table 6.1 shows 541,971 individuals aged 66 and over received some kind of income through the state pension system, whether in their own right or as qualified adults.

Table 6.1 - Total number of Beneficiaries of the State Pension aged 66 and over, 2012

	Recipients	Qualified Adult	Total
State Pension (Non-Contributory)	96,126	0	96,126
State Pension (Contributory)	312,332	49,936	362,268
State Pension (Transition)	0	353	353
Widow's, Widower's, or Surviving Civil Partner's Pension (Contributory)	82,578	0	82,578 ²⁰
Death Benefit	645	0	645
Pre-Retirement Allowance	0	1	1
Total	491,681	50,290	541,971

Source: *Statistical Information on Social Welfare Services 2012* (Department of Social Protection, 2013: 29).

There are currently a number of recipients of the State Pension living abroad. It is estimated that there are 50,941 recipients in this category (see Table 6.2).

²⁰ The figures for Widow's Widower's or Surviving Civil Partner's Pension (Contributory) are estimated as the *Statistical Information on Social Welfare Services 2012* only provides quantity for the age ranges of recipients (i.e 65-69).

Table 6.2 - Total number of Recipients of the State Pension aged 66 and over living abroad, 2012

Payment Type	Recipients
State Pension (Non-contributory)	27
State Pension (Contributory)	44,278
Widow's Widower's or Surviving Civil Partner's Pension (Contributory)	6,622
Death Benefit Pension	14
Total	50,941

Source: *Statistical Information on Social Welfare Services 2012* (Department of Social Protection, 2013: 32).²¹

As the Universal Pension would replace the current regime of payments to those aged 66 and over it is useful to isolate current state pension expenditure on those aged 66 and over. It is not possible to breakdown payments in the state pension system between those aged over 66 and those less than 66. However, using data from the *Statistical Information on Social Welfare Services 2012* it can be estimated that expenditure on providing the PRETA personal rate, the Widow's, Widower's, or Surviving Civil Partner's Pension (Contributory) for those aged under 66, the State Pension (Transition), and the Qualified Adult under-66 and Qualified child increases came to nearly €762m in 2012 (Table 6.3).

Table 6.3 - Estimated Expenditure on the State Pension on those aged 66 and over, 2012

	Under-66	66+	Total
	€m	€m	€m
Expenditure	762	5,544	6,306

Source: Extracted from *Statistical Information on Social Welfare Services 2012* (Department of Social Protection, 2013).²²

Expenditure on those aged 66 and over through recipients State Pension (Contributory), State Pension (Non-contributory), the Widow's, Widower's or Surviving Civil Partner's Pension (Contributory) and the Death Benefit Pension and on recipients of the qualified increase for adults aged 66 and over in the State Pension (Contributory), PRETA, and the State Pension (Transition) was estimated to be €5,544m for the year 2012.

6.3 Introducing a Universal Pension in 2012

It is proposed to initially introduce a Universal Pension replacing the State Pension (Contributory), State Pension (Non-contributory), and all those 66 and over receiving the qualified increase and the Widow's, Widower's, or Surviving Civil Partner's Pension (Contributory). As discussed in Section 4.3, those pensioners currently in receipt of less than the full contributory or non-contributory pension can apply to receive the full amount of the Universal Pension, based on residency, as an alternative to continuing with their current pension amounts. It is not known how successful these applications would be. In costing the Universal Pension proposal, it is assumed that all of these pensioners would qualify for the full amount of the Universal Pension. This means that our estimate of the cost of introducing the Universal Pension would be higher than the true figure.

In 2012, 508,425 individuals living in Ireland would have been eligible for the Universal Pension (see Table 4.2). Additionally, 50,941 individuals outside Ireland would be eligible for the Universal Pension (Table 6.2) giving a figure of 559,366 eligible individuals in total. However, the claw-back from pre-1995 public sector pensioners would operate to reduce the total cost of the Universal Pension.

For the year 2012, the total cost of providing a Universal Pension for all those aged 66 and over at the full rate of €230.30 would have been €6,699m. In addition, the cost of providing the allowance for those aged 80 and over, the Island allowance, and the Living Alone allowance at the rates proposed in Chapter 3 would have been €129m. Additionally, maintaining the PRETA, Widow's, Widower's, or Surviving Civil Partner's Pension (Contributory) for those aged under 66 and the qualified child and adult increases would cost an additional €692m bringing total pensions expenditure under a Universal Pension to €6,881m.

²¹ These numbers assume that there is a uniform distribution of % of recipients with an Increase for a Qualified Adult across geographical areas.

²² This assumes that the total spend on those under-66 is at the higher rate.

Table 6.4 – Comparison of Cost of introducing a universal pension in 2012

	Social Justice Ireland Estimate (€m)	Comparable Payments in State Pension System (€m)
Universal Pension (Basic Rate)	6,699	n/a
Additional Payments for over-66	129	n/a
Operation of Claw-back	-570	n/a
Additional Payments for under-66	762	n/a
Total	7,020	6,306

As Table 6.4 shows, if introduced in 2012 to replace the current state pension system the total additional cost of a Universal Pension to those aged 66 and over would have been €714m. The *Green Paper on Pensions* argued that the cost of introducing a Universal Pension would be €1,175m. The difference of €461m in costing is due to increasing numbers of individuals receiving the State Pension (Contributory), and to the proposed inclusion of a claw-back mechanism to apply to those pre-1995 public servants receiving a civil service occupational pension above a certain amount.

Table 6.5 - Introducing a Universal Basic Pension in 2012

Year	Eligible Population	Weekly Universal Basic Pension	Total Cost (€m)	Nominal GNP (€m)	Nominal GDP (€m)	Cost as % of GNP	Cost as % of GDP
2012	559,366	230.30	7,020	131,081	162,968	5.36	4.31

Source: CSO (2012).



If introduced in 2012 to replace the current state pension system the total additional cost of a Universal Pension to those aged 66 and over would have been €714m. Social Justice Ireland estimates that €960m can be raised in adjusting tax expenditures while ensuring those on lower to medium incomes are unaffected.

7. Financing the Universal Pension

7.1 A tax-funded pension system

At present the State Pension (Contributory) is financed through the Social Insurance Fund, while the State Pension (Non-contributory) is funded through the Exchequer. A Universal Pension would be funded through general taxation. It is envisioned that there would be no changes in the rates of PRSI, with the surplus in the Social Insurance Fund arising from the transfer of the State Pension (Contributory) to Exchequer financing to be used to fund the Exchequer deficit. The Green Paper on Pensions (2008: 72) expressed the concern that the use of PRSI, a social insurance contribution, being used to fund a universal benefit could lead to PRSI contributions being seen as a tax. However, given the withdrawal of many benefits associated with the Social Insurance Fund, together with the movement of funds between the Social Insurance Fund and the Exchequer, the reality is that the Social Insurance Fund is simply a component of the public purse. *Social Justice Ireland* proposes that reductions in tax expenditures on private pensions are utilised to fund the introduction of the Universal Pension.

7.2 Social Justice Ireland's Proposal for Pension Tax Expenditures

To ensure the introduction of the Universal Basic Pension is revenue-neutral or a net gain to the Exchequer - an important consideration in the present economic climate - *Social Justice Ireland* recommends the standard-rating of private pension relief and adjustment of tax expenditures associated with private pension provision. This section relies on the proposals of the TCD Pensions Policy Group (Hughes, 2011; Stewart and Hughes, 2011). *Social Justice Ireland* estimates that €960m can be raised in adjusting tax expenditures while ensuring those on lower to medium incomes are unaffected. This is substantially higher than the cost of the Universal Pension (€714m: see Table 6.4).

i) Standard Rating Tax Reliefs including the Public Service Pension-Related Deduction

In line with the National Recovery Plan 2010, *Social Justice Ireland* argues that the tax relief on pension contributions should be standard rated so that the marginal rate of tax relief is 20%. However, this should be implemented in the next feasible budget. This measure would, in a full year, save €500m according to the *National Recovery Plan* (Department of Finance, 2010b: 93). However, possible behaviour changes arising from standard rating are not taken into account in this figure. In the National Recovery Plan, the Department estimated that if tax reliefs on pension contributions were standard rated, the consequential reduction in tax relief on the Public Service Pension Related Deduction (or 'Pension Levy') would yield an additional €240m (Department of Finance, 2010b: 94). This would affect higher-earning

public servants, while those paying the standard rate of tax would be unaffected. As such, the total yield would be €740m. However, in answer to a recent Dáil question the Department of Finance said the total yield of both measures would be closer to €560m.²³

The ESRI analysed the potential distributional effects of standardising tax reliefs for the year 2005, and they estimated potential savings of €1,100m (Callan, Keane & Walsh, 2009). While the revenue yield for 2012 would be somewhat lower given changes in tax policy in the proceeding seven years, it is likely the distributional effects would either be the same or fall even heavier on those higher up the income distribution given the loss in income during the recession has fallen heavier on those lower down the income distribution, and has likely led to changes in savings behaviour amongst middle-income households (CSO, 2011: 11).

ii) Integrating the Universal Pension and Tax Reliefs

The current Programme for Government has proposed 'to cap taxpayers subsidies for all future pension schemes for politicians (and indeed for everybody) that deliver income in retirement of more than €60,000' indicating a desire to reduce the tax subsidy to private pensions (Fine Gael/Labour Party, 2011: 20). Budget 2013 indicated unspecified measures would be introduced to do so in 2013 (Department of Finance, 2012).

Social Justice Ireland recommends a new tax subsidy framework that integrates the Universal Pension. Following the recommendations of the TCD Pensions Policy Group *Social Justice Ireland* proposes that the earnings contribution ceiling should be reduced to €75,000, or nearly twice average earnings, so as to target pension tax reliefs at those on low to medium incomes. The National Pensions Policy Initiative target of a gross retirement income of 50% of gross pre-retirement income implies a maximum tax-subsidised pension of €37,500. However, this should be integrated with the Universal Pension, which in 2012 would be €11,975.60 - the current State Pension (Contributory) rate - or 33.3% of average earnings.

Indeed, as noted before, most DB schemes integrate the State Pension (Contributory) into their payments. As such, additional post-retirement income of €25,500 is required to meet the figure of €37,000. The tax reliefs required to subsidise such a pension imply a standard fund threshold of €622,500 with a maximum tax-free lump sum of €112,500. These figures are implied using a valuation factor of 20:1 to convert a defined benefit pension to a cash equivalent and facilitating a lump-sum payment of 1.5 times salary (to a maximum of the earnings contribution cap) out of the fund (€622,500 = €25,500*20 + 75,000*1.5).

23 <http://oireachtasdebates.oireachtas.ie/debates%20authoring/DebatesWebPack.nsf/takes/dail2012100200054>

Table 7.1 – Estimated Distributive Impact of Standardisation of Tax Relief on All Pension Contributions, 2005 (Tax Unit Level)

Decile	% Change in income	Aggregate Gain/Loss €m p.a	Share of Total Income Change %
Bottom	0.0	0.3	
2	0.0	0.0	0
3	0.0	0.0	0
4	0.0	0.0	0
5	-0.1	-3.0	0
6	-0.5	-25.2	2
7	-0.7	-51.6	5
8	-1.5	-125.5	11
9	-2.7	-281.0	26
Top	-3.5	-616.0	56
All	-1.8	-1,101.90	100

Source: Callan, Keane & Walsh (2009).

Table 7.2 – Current and Proposed Pension Tax Arrangements

Pension Component	Current Government Policy	Programme for Government ²⁴	TCD Pension Policy Research Group/SJL Proposals
Maximum subsidised pension	€57,500*	€60,000	€25,050
Maximum tax free lump sum	€200,000	€180,000*	€112,500
Earnings Contribution Cap	€115,000	€120,000*	€75,000
Standard Fund Threshold	€2.3m**	€1.38m*	€622,500
Tax Relief Rate	41%	41%	20%
Estimated Reduction in Tax reliefs	€250m ²⁵	N/A	€960m

Source: Hughes and Stewart (2011); Programme for Government; Budget 2013. *Implied. **This may be reduced under current government policy though specific proposals have yet to emerge.

The Department of Finance has said that reducing the annual earnings cap to €75,000 would yield €133m.²⁶ However, no figure has been given for a reduction in the Standard Fund Threshold (SFT). The government are seeking savings of €250m in 2013 through a reduction of the SFT, and it is fair to assume that a reduction to €622,500 – which is larger than anything envisioned by Government - would yield at least €250m. As such, *Social Justice Ireland* assumes that the proposed changes here would yield an additional €400m. Combining these proposals with the standard rating of tax relief (see Section 7.1), it is estimated that a total of €960m in savings in tax expenditures can be achieved.

7.3 Estimating the financing needs of the Universal Pension

Given the need to both increase the state pension for those on the State Pension (Non-Contributory) and integrate those who do not have access to a state pension in their own right there is an additional cost of €714m to finance the Universal Pension vis-à-vis the current system (see Table 7.3). This is considerably less than the estimated €960m in potential savings in tax expenditures. As has been pointed out in the Green Paper on Pensions (2008: 74) in their review of the feasibility of a Universal Basic Pension: ‘the long-term cost would be considerably less because over time more people will, in any event, qualify for full-rate pensions as a result of improved social insurance cover and work-force participation and qualified adult payments and non-contributory will have a much reduced role in the system in the future’.

24 The Programme for Government only set out a target of €60,000 as a maximum subsidised pension. It is assumed here the government would adopt the NPPI target of 50% of pre-retirement salary as a maximum tax subsidised salary without integrating the state pension. Additionally, the table assumes that the maximum tax free lump sum would be 1.5 times salary (to a maximum of the earnings contribution cap) leading to a standard fund threshold of €1.38m (=120,000/2*20+€120,000*1.5).

25 Estimated from Budget 2013.

26 <http://oireachtasdebates.oireachtas.ie/debates%20authoring/DebatesWebPack.nsf/takes/dail201210020054>

8. Transitioning to the Universal Pension

Social Justice Ireland proposes that Government sets a specific date to switch all those currently aged over 66 receiving a payment from the state to the Universal Pension. The earliest possible date for such a transfer would be 1 January 2014. As such Budget 2014 could give effect to the desired tax and spending changes required, while the necessary administrative changes could take place before Budget 2014. All beneficiaries of the State Pension (Contributory), State Pension (Non-contributory), Widow's, Widower's, or Surviving Civil Partner's Pension (Contributory), and Death Benefit aged 66 or over at that date should be transferred to the new Universal Pension.

The Universal Pension should be set at €230.30, the current maximum rate of the State Pension (Contributory). Currently, recipients of the Death Benefit receive €234.70 a week, €4.30 more than the Universal Pension, and this addition should be maintained as an additional payment. *Social Justice Ireland* believes the total eligible population would be 597,791, with 152,959 of those aged 80 and over. As part of the Universal Pension system increases for qualified children and adults under the age 66 would continue to be paid to those who qualify, at the rates enumerated in Table 4.2. Additionally, payments for those aged 80 and over, those living on designated Islands, and those who live alone would continue to be paid at the rates listed in Table 4.1.²⁷

Table 8.2 - Total Cost of introducing the Universal Pension, 2014

Year	Eligible Population	Weekly Universal Basic Pension	Total Cost (€m)	Nominal GNP (€m)	Nominal GDP (€m)	Cost as % of GNP	Cost as % of GDP
2014	597,791	230.30	6,897	138,793	172,882	4.97	3.99

Source: *Economic and Fiscal Outlook* (Department of Finance, 2012: D9).²⁸

The total cost of the Universal Pension system in 2014 would be €6,922m. This figure does not include payments to those aged under 66 including recipients of the Widow's, Widower's, or Surviving Civil Partner's Pension (Contributory) aged under 66 which could amount to be up to €450m in additional expenditure. In 2014 the State Pension (Transition) would be phased out, saving some €150m a year. However, as this has already been budgeted this is not included as an additional saving in this proposal.

As noted in Chapter 5, the additional expenditure required in 2012 would be €714m. It can be expected that this would be smaller in 2014 as the *Green Paper on Pensions* (2008: 74) noted. Moreover, the phasing out of the State Pension (Transition) would reduce expenditure on the state pension system. However, without projections of line-by-line expenditure estimates of the trajectory of the current state pension system for 2014 direct comparison is not possible. Therefore, it is assumed, conservatively, that the maximum additional cost of the proposal in 2014 would be €710m.

It is estimated that the additional revenue that would be raised by the tax changes examined in Chapter 7 would be around €960m. However, Chapter 6 also noted that Government may introduce changes to the Standard Fund Threshold, in an effort to raise €250m. Assuming that this reform takes place and that it raises €250m for the exchequer in a full year, additional taxation measures in 2014 would raise €710m, rather than the €960m estimated in Section 7.4. The expected impacts on the public finances in 2014 are listed below. While the contribution to the Exchequer of the combined changes in tax and spending are negligible, they would slightly decrease the deficit in terms of the GGB. More importantly, they would not affect the GGB as % of GDP and so would meet the IMF/EU targets on the GGB (see table 8.3).

²⁷ It is assumed that the number of those living alone would continue to grow at a certain percentage of the total eligible population.

²⁸ For the underlying economic assumptions see Section 8.

Table 8.3 – Impact of Universal Pension on the public finances, 2014

	2014 (Current) €m	2014 (SJI Proposal) €m
Total Revenue	60,340	61,050
Total Expenditure	69,350	70,060
General Government Balance (GGB)	-9,010	-9,010
Financial Sector Measures	100	100
Underlying GGB	-8,910	-8,910
Underlying GGB as % of GDP	-5.1	-5.1
Revenue as % of GDP	34.9	35.3
Expenditure as % of GDP	40.1	40.4

Source: *Economic and Fiscal Outlook* (Department of Finance, 2012: C9).

There are currently no plans to increase the state pension under the IMF/EU agreement. If the agreement comes to an end in 2015, Ireland will have additional autonomy in relation to public expenditure and taxation. *Social Justice Ireland* believes that the universal pension should be increased to 40% of average earnings starting from 2016. *Social Justice Ireland* proposes that this increase is extended over an eight year period to allow the public finances to be repaired and to facilitate additional expenditure on other vital areas in terms of Ireland's health, education, and social protection services.

Table 8.4 shows the path towards a Universal Pension at 40% of average earnings. Movement towards the objective could begin in 2016 with the Universal Pension falling to its lowest value in relation to average earnings. From then, *Social Justice Ireland* believes the Universal Pension should rise towards 40% of average earnings (see table 8.4).

Table 8.4 – Path towards a Universal Pension, 2014-2024

Year	Average Weekly Earnings*	State Pension as % of Weekly Earnings	Weekly Universal Pension (€)
2014	707.20	32.63	230.30
2015	719.01	32.11	230.30
2016	734.11	32	234.92
2017	749.53	32.5	243.60
2018	765.27	33	252.54
2019	781.34	34	265.66
2020	797.75	35	279.21
2021	826.47	36	297.53
2022	856.22	37	316.80
2023	887.05	38	337.08
2024	918.98	39	358.40
2025	952.06	40	380.82

Source: *Ireland, Tenth Review under the Extended Arrangement* (International Monetary Fund, 2013: 34).²⁹

²⁹ Assumptions listed in Chapter 9.

9. Long-run sustainability of the Universal Pension

9.1 Universal Pension projections, 2011-2046

The National Pensions Framework (Department of Social and Family Affairs, 2010: 13) estimates that the combined cost of providing public sector occupational pensions and the social welfare pension (set at 35% of average earnings) would rise from 5.5% of GDP in 2008 to 15% of GDP by 2050. This section projects the cost of providing the Universal Basic Pension over the next thirty years. The National Pensions Framework preceded recent changes in public sector pension policy, and the assumptions behind its projections were opaque. Indeed, the *2010 Actuarial Review* presented a more benign trajectory for Ireland's social insurance pension expenditure.

Any long-term estimates cannot be considered forecasts given the uncertainty of Ireland's future macro-economic outcomes and demography, and changing European Union regulations on social security. This section attempts to provide a long-term estimate of the cost of the universal pension out to 2046.

9.2 Economic Assumptions

The following growth and average earnings assumptions utilise the International Monetary Fund's projections for the Irish economy up to 2018, and thereafter make use of the assumptions made in the *2010 Actuarial Review of the Social Insurance Fund*. The Fund's assumptions for the economy in the short-run are more pessimistic than those used in the *2010 Actuarial Review*, due to the persistence of the Eurozone crisis and are perhaps overly optimistic on the capacity of the Irish economy to expand during a prolonged fiscal consolidation. After 2021 it is assumed that:

- productivity growth maintains a 1:1 link to real earnings growth;
- GDP and GNP growth rates converge.

Over the long-term the rate of economic expansion is dependent on productivity growth and population growth.

It should be noted that Fitzgerald (2013) has shown that Irish GNP figures are lower than recorded in official national accounts because of the effect of multinational firms domiciling their headquarters in Ireland. The national accounts have not been adjusted to take account of this finding; the assumptions used here do not take account of this research.

The future projections are based on the following additional assumptions:

- All current pensioners will receive the full Universal Pension in 2014 (see Section 6.3)
- The Universal Basic Pension will rise to 40% of average earnings by 2025.
- The pension will remain frozen at €230.30 until 2016 as set out in the EU/IMF Programme and rise at the rate stated in section 7.
- The state pension age will increase to 66 in 2014, 67 in 2021 and 68 in 2028.
- The proportion of recipients eligible for the full rate universal pension will fall to 75% in 2046.

With regard to the increase in the state pension age and freeze on the rate of the state pension, these assumptions are consistent with the National Pensions Framework and the EU/IMF Programme.

Table 9.1 – Economic Assumptions for Cost Projections

Year	Real GNP Growth	Real GDP Growth	Price Inflation	Real Earnings Growth	GDP Deflator
2012	3.4	0.9	1.6	-1.3	1.9
2013	0	1.1	1.3	-0.4	1.3
2014	1.5	2.2	1.4	-0.3	1.2
2015	2.2	2.7	1.8	-0.1	1.5
2016-2020	2.2	2.7	1.8	0.3	1.7
2021-2025	3.3	3.3	2	1.6	2
2026-2030	3.1	3.1	2	1.5	2
2031-2035	2.4	2.4	2	1.5	2
2036-2040	1.9	1.9	2	1.5	2
2041-2045	1.7	1.7	2	1.5	2
2046	1.8	1.8	2	1.5	2

Source: International Monetary Fund, (2013: 34); Department of Social Protection (2013: 34).

9.3 Long-Run Costing of the Universal Pension

Table 9.2 indicates the projected long run cost of the Universal Pension System over the next 40 years. It assumes that the total number receiving the increase for living alone allowance, the increase for adults under the Universal Pension qualifying age and increase for children stays static as a percentage of the total pensioner population as that population rises. As noted before, these projections use the M2F1 scenario provided by the CSO.

The projections indicate that expenditure on the universal pension would rise to just over 7% of GDP and 9% of GNP by 2046.

Table 9.2 – Long-run Projections for the cost of a Universal Basic Pension System, 2014-2046

Year	Eligible Population	Weekly Universal Basic Pension	Total Cost (€m)	Nominal GNP (€m)	Nominal GDP (€m)	Cost as % of GNP	Cost as % of GDP
2014	597,791	230.30	6,897	138,002	173,580	5.00	3.97
2015	618,314	230.30	7,115	143,108	180,871	4.97	3.93
2016	639,155	234.92	7,482	148,689	188,829	5.01	3.94
2017	660,274	243.60	7,995	154,488	197,137	5.15	4.03
2018	681,881	252.54	8,540	160,513	205,811	5.29	4.13
2019	705,528	265.66	9,277	166,773	214,867	5.55	4.31
2020	728,402	279.21	10,049	173,277	224,321	5.86	4.52
2021	701,120	297.53	10,284	182,460	236,210	5.69	4.39
2022	724,889	316.80	11,302	192,131	248,729	5.93	4.58
2023	748,411	337.08	12,393	202,314	261,912	6.17	4.77
2024	772,893	358.40	13,586	213,036	275,793	6.42	4.96
2025	797,796	380.82	14,878	224,327	290,410	6.67	5.15
2026	822,718	394.15	15,859	235,768	305,221	6.76	5.22
2027	849,090	407.95	16,920	247,792	320,788	6.86	5.30
2028	817,171	422.23	16,838	260,430	337,148	6.50	5.02
2029	844,136	437.01	17,986	273,712	354,342	6.61	5.10
2030	870,164	452.30	19,171	287,671	372,414	6.70	5.17
2031	897,061	468.13	20,433	300,328	388,800	6.84	5.28
2032	924,564	484.52	21,772	313,543	405,907	6.98	5.39
2033	952,914	501.47	23,198	327,339	423,767	7.12	5.50
2034	980,096	519.02	24,660	341,742	442,413	7.25	5.60
2035	1,006,829	537.19	26,181	356,778	461,879	7.38	5.70
2036	1,033,735	555.99	27,776	370,693	479,892	7.53	5.82
2037	1,060,275	575.45	29,434	385,150	498,608	7.68	5.93
2038	1,089,207	595.59	31,238	400,170	518,054	7.85	6.06
2039	1,118,813	616.44	33,143	415,777	538,258	8.01	6.19
2040	1,147,758	638.01	35,117	431,992	559,250	8.17	6.31
2041	1,177,235	660.34	37,198	447,976	579,942	8.35	6.45
2042	1,205,523	683.46	39,330	464,551	601,400	8.51	6.57
2043	1,233,927	707.38	41,560	481,740	623,652	8.67	6.70
2044	1,261,430	732.14	43,963	499,564	646,727	8.85	6.83
2045	1,288,438	757.76	46,454	518,048	670,656	9.01	6.96
2046	1,315,480	784.28	49,049	537,734	696,141	9.17	7.08

It is worth noting the uncertainty of projections of future costs, given economic and demographic assumptions, can lead to large divergences. For example, it is instructive to compare the projections of the cost of the Universal Pension with the projections contained in the Actuarial Reviews of the Social Insurance Fund carried out on behalf of the Department of Social Protection in 2007 and 2012. Those projections analysed Social Insurance Fund expenditure, and as such do not include social assistance expenditure financed by the Exchequer, such as the State Pension (Non-contributory), though it was assumed that the vast majority of pensioners would receive their state pensions via the Social Insurance Fund, as insurance coverage increased.

The *2005 Actuarial Review of the Social Insurance Fund* projected expenditure on the State Pension (Contributory) to amount to €48,458m in 2041 if pensions were indexed at 40% of Gross Average Industrial Earnings and expenditure of €41,993m if linked to earnings growth (see Table 2.11) (Department of Social and Family Affairs, 2007b). This compares to a projection of €37,198m for the total cost of the Universal Pension system in 2041 in this study. The *2010 Actuarial Review of the Social Insurance Fund* projected expenditure of €20.9bn on the State Pension (Contributory) in 2040, which compares to an estimated expenditure of €35.1bn in 2040 on the Universal Pension system in this study. Unfortunately, the Actuarial Reviews and the Universal Pension projections are not directly comparable, as the Universal Pension includes what would be non-Social Insurance Fund payments.



The proposal set out in this paper would constitute a radical departure from the current system of pension provision in Ireland. The current contributions-based state pension would be replaced by a rights-based pension, which would be increased over time to 40% of average earnings.

10. Conclusion

10.1 Responding to the Green Paper on Pensions (2007)

As noted in Section 3.2, the Green paper on pensions rejected the idea of a Universal Pension on the following grounds:

- i) It would threaten the long-term financial stability of the pensions system
- ii) It could undermine the contributory principle and the Social Insurance Fund by breaking the link between contributions and eligibility
- iii) It would complicate the operation of current bi-lateral and EU pension agreements
- iv) It would pose administrative challenges in the form of implementation of the residency test.

Each of these is now examined in turn in light of the findings of this study.

- i) *It would threaten the long-term financial stability of the pensions system*

This Report has shown that the Universal Pension can be implemented immediately by reducing the currently high levels of tax expenditures on private pensions – see Tables 2.19 and 7.2. The long-term funding of the state pension will in any event require further attention; however, funding the Universal Pension would be no more difficult than funding existing arrangements – see Tables 2.10, 2.11 and 9.2.

- ii) *It could undermine the contributory principle and the Social Insurance Fund by breaking the link between contributions and eligibility*

The current system enshrines a narrow view of ‘contribution’, which values paid employment and little else. While PRSI credits are granted in certain circumstances in respect of certain activities outside of paid employment, this has many restrictions. The current system attaches little or no value to many other contributions, including caring, volunteering and community activities. However the current system places a very high value on subsidising the private pension contributions of those on high incomes and the pensions industry.

- iii) *It would complicate the operation of current bi-lateral and EU pension agreements*

As has been indicated in Section 4.3, Iceland, Norway and New Zealand have residency-based pension schemes. In the EU, the Netherlands, Finland, Sweden and Denmark already operate residency-based pension schemes. Therefore, Ireland is not in the position whereby innovative and complex negotiations with EU partners are required.

- iv) *It would pose administrative challenges in the form of implementation of the residency test.*

It has been shown in Section 4.3 that Ireland is well placed to operate a residency-based system. The operation of a residency test would be no more complex than the existing myriad of tests, which rely on rules and conditions relating to eligibility for a state pension.

10.2 Building a pension system for all

The proposal set out in this paper would constitute a radical departure from the current system of pension provision in Ireland. The current contributions-based state pension would be replaced by a rights-based pension, which would be increased over time to 40% of average earnings.

The current system of pension provision – comprising the state pension and tax subsidies to private pensions - relies on private pension funds investing into global capital markets to supplement post-retirement income provided through the state pension. The universal pension proposal would redress this balance, reducing the subsidy to private pensions to fund a higher and more comprehensive state pension.

This would redistribute income over time from those who earn and have more, to those who earn and have less. It is an acknowledgment that all are deserving of adequate support in their old age, irrespective of their personal wealth in life. Tax subsidies to private pensions reward those who are already relatively wealthy. They do not reward many of those who contribute greatly to this country during their life; those who care for their neighbours and relatives, those who volunteer in their local community and beyond, and those who work tirelessly in often back-breaking, low-paid work.

The authors of the 1919 Democratic Programme believed that those in old age were ‘entitled to the Nation’s gratitude and consideration’. The universal pension envisioned in this document is a practical expression of this idea. It would be an assertion of solidarity between the generations, and between those with have more, and those who have less. It would be a recognition that we all contribute to this country, and that we are all entitled to a just share in our old age.

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