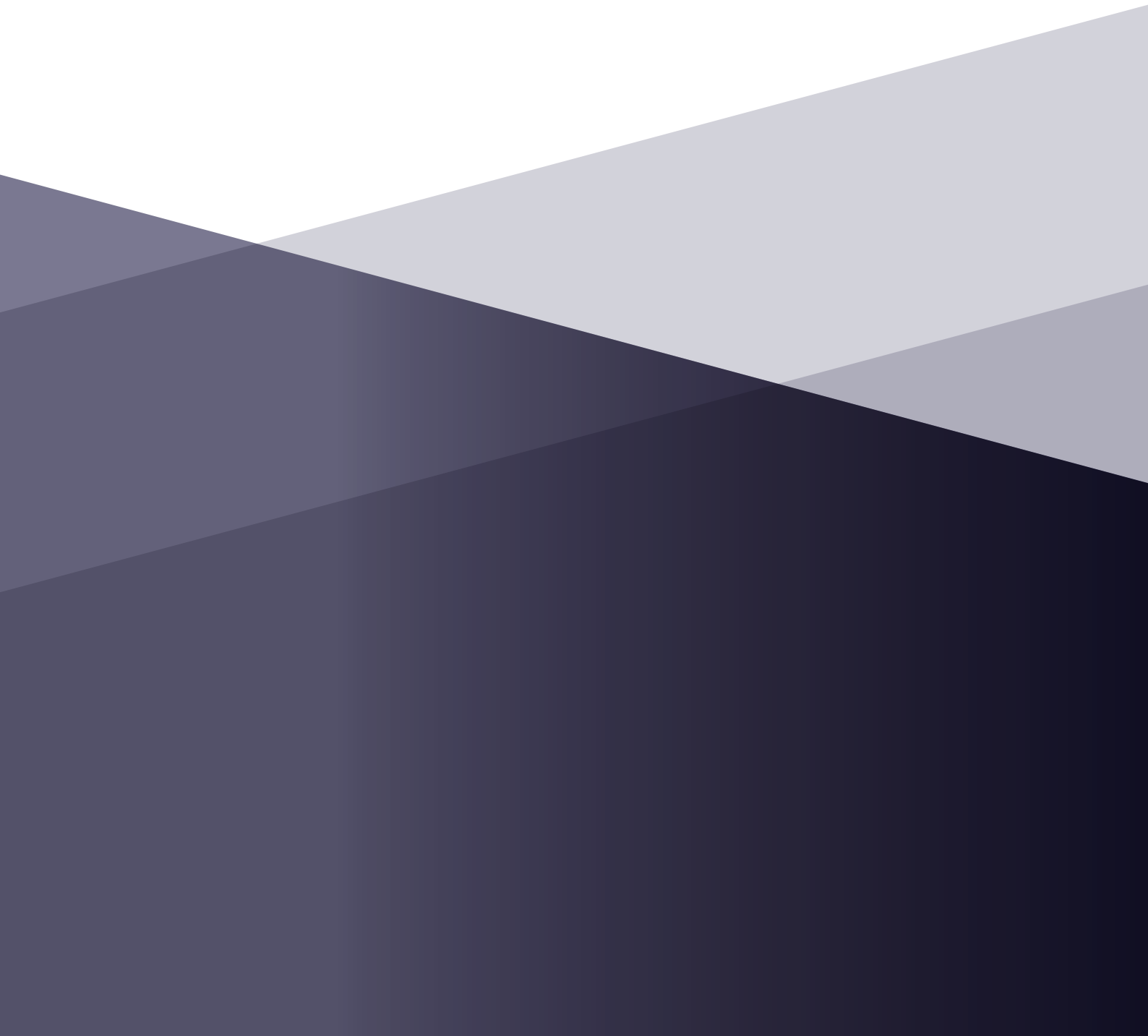
An Coimisiún Pinsean
The Pensions Commission

Report of the Commission on Pensions

Executive Summary



Chairperson's Foreword

Irish people are living longer and staying well and healthy for longer which is really good news. It presents great opportunities but also a big challenge for all of us - how to make sure that the State Pension will still be enough to at least prevent poverty when there are many more people drawing it for many more years. This, in a nutshell, is the task given to the Pensions Commission in November 2020. It is by no means the totality of pension issues facing Ireland but is an essential foundation.

The Commission's remit is a narrow, focussed one which is considered in detail in this Report. However, it would be short-sighted not to note that this pensions challenge arises in the context of significant economic and financial challenges for the State, not confined to the health emergency, which will put pressures on Government spending and on Exchequer revenues. It would also be remiss not to note that some of those pressures will come from the broader needs of those people who are living longer, in relation to care and housing for example.

The Pension Age

The immediate driver for the establishment of the Commission was public disquiet at the prospect of a pension age increase in the context of the 2020 general election. It is notable that the disquiet was not confined to soon-to-be-pensioners. This suggests that the community attaches a very strong value to the State Pension, and a deep-seated community expectation for certainty that an adequate pension will be provided for them. It is notable too that housing and the health service scored much higher in voters' concerns at that time.

The Sustainability Question

While there are ranges in the projections, the trend is clear. The Commission is satisfied that the cost of the State Pension Contributory will increase very significantly - of the order of 65% by 2030, which is no longer in the distant future. By about 2040, expenditure on State Pensions could consume the entire social insurance fund if nothing changes.

Whether this is fiscally sustainable or not will be a matter of policy choices made from time to time by Governments about spending priorities, taxation policies and

sustainable levels of Government debt. But allocating the entire social insurance fund to the State Pension is unlikely to be socially sustainable when choices come to be made in relation to funding for housing, unemployment, the health service, and climate change for example, or between support for different generations.

The Commission's overall conclusion

Given these pressures, and to meet the community expectation of certainty, the Commission considers that it would be a strategic risk not to take steps to shore up the fiscal sustainability of the State Pension in its own right. The Commission has made several recommendations in this regard but in summary they are based on the values of social solidarity. On the principle that people hope to draw a State Pension for quite a long time and that everyone wants it to be enough to keep the older members of our community free from risk of poverty, the Commission considers that everybody ought to contribute to help ensure that outcome, on the following basis:

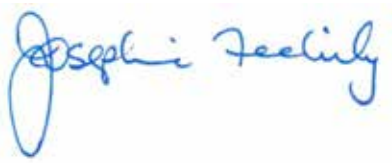
- The entire community by way of a dedicated annual Exchequer contribution to the Social Insurance Fund from general taxation
- Future pensioners, by gradually paying more PRSI
- Future pensioners by accepting a very gradual increase in the pension age – much more gradual than previously planned
- Existing pensioners by paying more PRSI on other income which they might have.

This approach is supported by recommendations to improve the structure and transparency of pension funding, for better communication and for independent benchmarking of pension rates. There are recommendations to address the specific needs of long-term carers and the retirement age in employment contracts. The Government asked the Commission for options, and these are set out in this Report, noting that changes to one element will require balancing amendments to others.

Acknowledgements

The Commission worked remotely for almost all its term. This presented a challenge which was only overcome by immense co-operation among members, who mostly did not know each other, and by very significant and unstinting support from the Secretariat, led by Roshin Sen. Our Technical sub-committee led by Roma Burke brought essential expertise and reassurance to the broader Commission, and Vice-Chair Ita Mangan gave invaluable support when it was needed.

Presenters, experts, and advocates gave generously of their time and perspectives and over 200 submissions and 1,100 online survey responses were made to the Commission. Go raibh míle maith agaibh go léir.



Josephine Feehily
Chairperson

Introduction and Context

The 2020 *Programme for Government*, *Our Shared Future* ('the Programme') provided for the establishment of a Commission on Pensions: "to examine sustainability and eligibility issues with State Pensions and the Social Insurance Fund. The Commission will outline options for Government to address issues including qualifying age, contribution rates, total contributions and eligibility requirements."

This followed the 2020 General Election, during which the planned increase in the State Pension age to 67 with effect from 1st January 2021 featured to a notable extent. This public concern endures and was borne out in subsequent surveys and in many submissions to the Commission. The Programme also committed that, pending the Commission's report and any subsequent Government decisions, the State Pension age would remain at 66 years and the increase to 67 years would be deferred. This was implemented in the Social Welfare Act 2020, which repealed the legislative provisions increasing the State Pension age.

The Commission was also asked in its Terms of Reference to consider the issue of retirement ages in private employment contracts that are set below the State Pension age, and how the State Pension system can further accommodate long-term carers. The full Terms of Reference are listed in Box 1 below.

The Commission noted that the scope of its work was positioned within a set of parameters and decisions already made by Government (see Chapter 1). These parameters include the continued existence of the Social Insurance Fund and of a State Pension based on contributions. The Commission concluded that its task, and the most appropriate and useful contribution it could make to the development and sustainability of the State Pension system was to consider and make proposals for amendments within the existing overall structure.

Box 1: Commission's Terms of Reference

The Terms of Reference for the Commission, taking account of issues of cross-generational equity, are to:

1. Review the current State Pension arrangements in terms of scheme types (the State contributory and the State non-contributory pensions), eligibility criteria, and trends in numbers qualifying, levels of expenditure, and levels of social insurance contributions, taking account, where relevant, of socio-demographic characteristics (for example, gender).

2. Review the projected changes in demographics, earnings and the labour market, and associated costs – examining information, data and analysis from various sources including the CSO, IFAC, Department of Finance studies, the Department of Public Expenditure and Reform, the Department of Social Protection, the Actuarial Review of the Social Insurance Fund, the EU and the OECD.

3. Review previous analyses of the State Pension arrangements and recommendations for changes including those set out in the National Pensions Framework 2010, the OECD Review of Pensions in Ireland 2013 and the Roadmap for Pensions Reform 2018.

4. Review the situation in other countries, the changes they have planned or legislated for and the approaches taken.

5. Seek views of recognised experts and representative/advocacy groups by inviting submissions and/or presentations.

6. Examine how private sector employment contracts specifying retirement ages below the State Pension age may be impacting on the State's finances and pension system.

7. Consider how people who have provided long-term care for incapacitated dependants can be accommodated within the State Pension system.

8. Develop a range of options for the government to consider in order to address the sustainability of the State Pension and the Social Insurance Fund in terms of pension age, eligibility criteria, contribution rates, pension calculation methods and pension payment rates.

9. Submit a report on its work, findings, options and recommendations to the Minister by 30th June 2021.

Sustainability Challenges

The Commission considered the scale of the fiscal sustainability challenge facing the State Pension system[1] and the Social Insurance Fund, based on analysis from a range of sources, including the Department of Finance and the Irish Fiscal Advisory Council, demographic projections from the Central Statistics Office, and material from the Commission's public consultation process. An update of the most recent *Actuarial Review of the Social Insurance Fund (2017)* was commissioned in order to have up-to-date projections of shortfalls in the Social Insurance Fund.

Some key statistics underpinned the Commission's deliberations.

Demographics: the ratio of the working age population to the older population is changing. In 1991, there were 5 working age people to every pensioner. At the moment, this ratio is about 4.5 working age people to every pensioner. By 2031, this is projected to fall to 3.5 working age people to every pensioner and by 2051, to 2.3 working age people to every pensioner.

Figure 1: Old-age dependency ratios, 1991 - 2051

Source: CSO Presentation to the Pensions Commission on Ireland's Demography.

[1] The 'State Pension', 'State Pensions' or the 'State Pension system' is used as appropriate to refer to the various State Pensions payments made by the Department of Social Protection – namely, the State Pension Contributory, the State Pension Non-Contributory, Widow/er's or Surviving Civil Partner's Contributory Pension and the Occupational Injuries Benefit - Death Benefit Scheme.

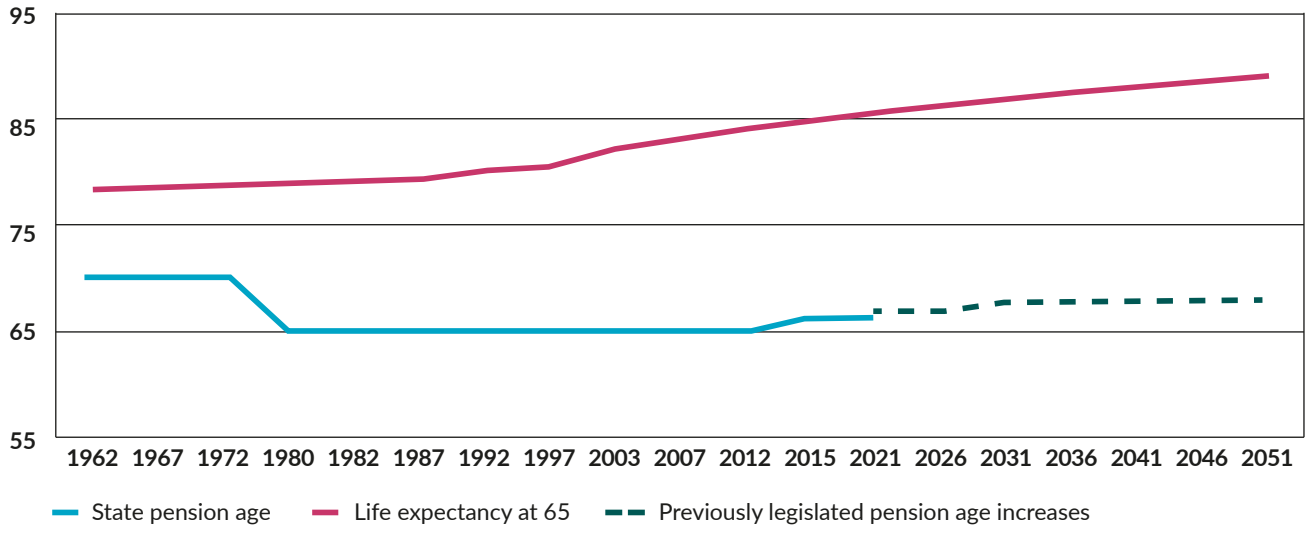
Ireland, in common with most developed economies, funds its State Pension system on a Pay-As-You-Go basis. This means that current workers fund the State Pension payments of current pensioners. In an ageing population, this means that a smaller proportion of working age people will have to fund the pension payments of an increasing pensioner population.

Longevity: Thankfully, people are living for longer and are healthier than previous generations. A man aged 65 has a life expectancy of 18.3 years, while a woman aged 65 has a life expectancy of 21 years (CSO figures for 2016). This has increased by approximately 5 years in the last two decades and is expected to increase by a further 3 years in the next two decades (to 21.9 years for a man aged 65 and 24 years for a woman aged 65 by 2041).

Figure 2 below shows the life expectancy for people aged 65 from 1962, just after the State Pension Contributory came into existence and the State Pension qualifying age. The difference between the two lines represents the average duration of State Pension payment. This shows that the duration of State Pension payments has been increasing steadily over time and will continue to increase further. This is good news, and it would be a strategic risk not to plan and provide for this change, not least in terms of income adequacy for older people.

State Pension expenditure: As a result of the ageing of the population and increasing life expectancy, the number of pensioners has been increasing steadily over the past decade, and projected to increase significantly into the future. Correspondingly, expenditure on State Pensions has been increasing steadily and significantly over the past decade. This is evident through the increasing amount of expenditure both in absolute terms – Social Insurance Fund (SIF) expenditure on State Pensions was

Figure 2: Life expectancy from age 65, and State Pension qualifying age, 1962 - 2051



Source: IFAC Long-Term Sustainability Report, and CSO Projections

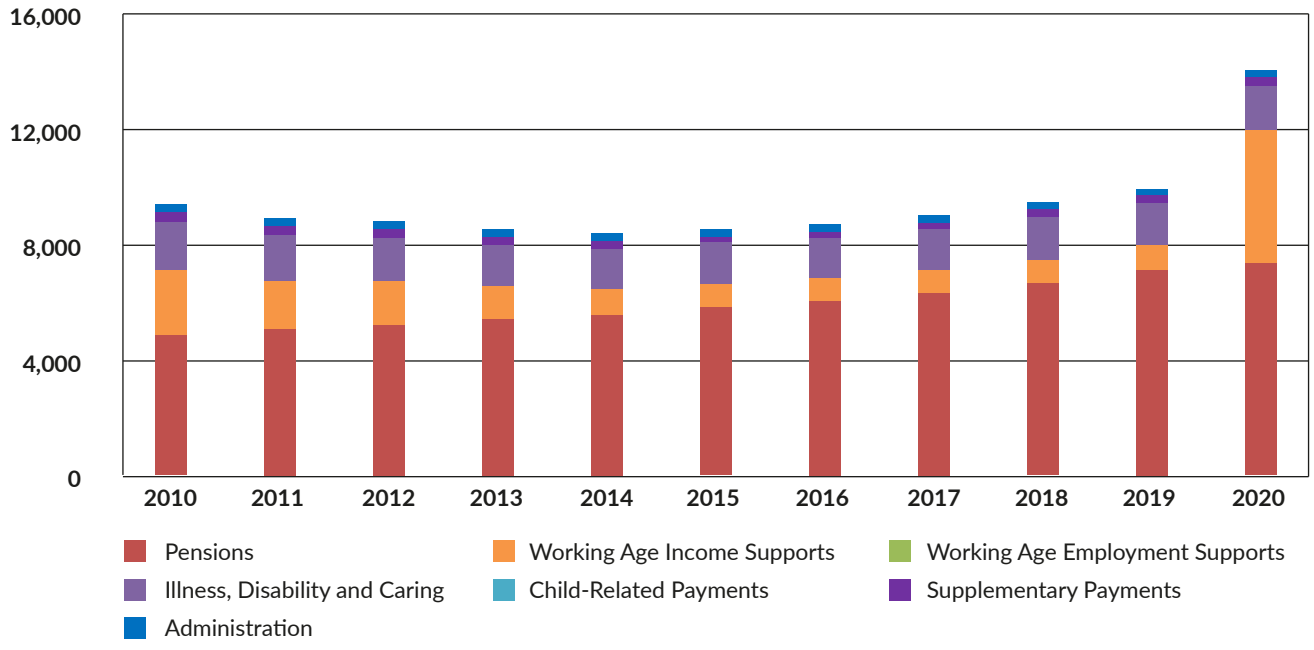
less than €5 billion in 2010 and over €7.4 billion in 2020 – and in relative terms, where the proportion of the SIF spent on State Pensions steadily increased from 2010 to 2019. While there was a relative decrease in 2020, this was a consequence of the introduction of the Pandemic Unemployment Payment and is unlikely to affect the trend. Figure 3 below shows the increasing levels of expenditure in the context of the overall expenditure by the SIF.

Analysis by the Department of Finance finds that, as a result of the ageing population, expenditure on State Pensions is projected to significantly increase over time – more than doubling from 3.8 per cent of GNI* in 2019 to 7.9 per cent in 2050, and increasing further to 9.3 per cent of GNI* by 2070. The update of the *Actuarial Review of the Social Insurance Fund* projects annual shortfalls in the SIF of €2.36 billion in 2030, rising to €8.56 billion in 2040, €13.35 billion in 2050 and €21.1 billion in 2070. These shortfalls predominantly arise due to projected increases in State Pension expenditure.

Adequacy

The fiscal sustainability of the State Pension system cannot be considered separately from the adequacy of the system. At the first meeting of the Commission, the Minister for Social Protection, Heather Humphreys TD, made it clear that the Government would not reduce current State Pension rates of payment. The Commission agreed from the outset that the Programme commitment in relation to the "maintenance of the State Pension as the bedrock of the Irish pension system" required that the State

Figure 3: Social Insurance Fund expenditure, 2010 to 2020



Source: Department of Social Protection, Annual Statistical Report Table A1

Pension continue to have an overarching objective of ensuring that the pension paid to recipients is adequate, as a minimum, to protect pensioners from poverty. In this regard, the Commission recommends the immediate implementation of benchmarking and indexation for future State Pension rate increases, as set out in the *Roadmap for Social Inclusion 2020 - 2025*, and furthermore recommends periodic reviews of this benchmark to ensure that it remains effective at preventing pensioner poverty (see Chapter 7).

In addressing fiscal sustainability challenges, the Commission considered social sustainability challenges to be equally as important. The Commission defined social sustainability as seeking to ensure that increasing financial costs can be shared fairly and equitably within and between generations. In this regard, the potential gender, equality and poverty impacts of possible policy reforms were considered together with the impact of policy reforms on fiscal sustainability. Where possible, these impacts were quantified, and in all cases, safety nets and mitigating factors were outlined. Where the safety nets were deemed to be inadequate, the Commission did not recommend the policy reform. A summary table of these considerations is set out in Appendix 5B of the Report.

Reforms to Address Fiscal Sustainability

In accordance with its Terms of Reference, the Commission considered a range of options for the sustainable financing of the State Pension system and the Social Insurance Fund in the coming decades, in the context of known increasing State Pension costs arising from an ageing population.

Within the State Pension system and the Social Insurance Fund, there are two broad approaches that can be taken to address fiscal sustainability challenges. Expenditure can be moderated through changes to payment rates or to eligibility conditions. SIF income can be increased by amending elements of its current tripartite funding arrangements.

- **Moderate expenditure:**
  - Reductions in weekly payment rates;
  - Design of the rate of payment calculation method (Total Contributions Approach);
  - Changes to eligibility conditions, such as increasing the State Pension age;
- **Increase SIF revenue:**
  - Increases in employer, employee and self-employed PRSI contribution rates;
  - Introduce PRSI base broadening measures;
  - Extend the role of Exchequer contributions beyond its current function of financing residual deficits.

Among the options that the Commission had been asked to consider, payment rates and the design of the Total Contributions Approach were not seen as policy levers appropriate to generate savings, given the State Pension's primary policy objective of preventing pensioner poverty.[2]

The specific policy levers considered by the Commission to meet the projected shortfalls in the Social Insurance Fund include:

- Increases to PRSI contribution rates for the self-employed, employees and employers;
- PRSI base broadening measures;
- Increasing the State Pension age; and
- Commencing annual Exchequer contributions to the State Pension Fund.

Using any one of these policy levers by itself to meet the projected shortfalls in the SIF would require such an extreme change that it would be impractical or even impossible to implement. Accordingly, the Commission considered a range of combinations of these policy levers and examined four packages in particular, set out in Table 1 below (see Chapter 5). In each case, the policy levers are adjusted in order to meet fully the projected annual shortfalls in 2030, 2040, and 2050. A specific focus on increasing PRSI for the self-employed is integral to each of the packages on grounds of fairness and equity. Currently self-employed PRSI is notably lower at 4 per cent than that applying in the case of other workers.

Table 1 below outlines the Commission's consideration of policy levers to address fiscal sustainability. The Commission's full set of recommendations are set out further below, including additional funding recommendations for broadening the PRSI base.

[2] While there are projected savings with the full implementation of the Total Contributions Approach and abolition of the Yearly Average Approach to calculating State Pension Contributory rate entitlement, this is primarily as a result of no longer being able to choose between the two calculation methods which has been driving increases in the average payment rates awarded in State Pension Contributory since it was introduced in 2019 (this is explained more fully in Chapter 8).

Table 1: Reform packages to address fiscal sustainability

Policy levers in each package	Adjustment
Package 1: PRSI rate increases	
Self-employed (Class S)	Increase from 4% to 10% initially by 2030, then to higher Class A Employer rate: 3.25 percentage point increase by 2040 1.1 percentage point increase by 2050
Employers and employees each (Class A)	0.6 percentage point increase by 2030 1.6 percentage point by 2040 1.1 percentage point increase by 2050
Package 2: PRSI rates and State Pension age increase	
Self-employed (Class S)	Increase from 4% to 10% initially by 2030, then to higher Class A Employer rate: 2.95 percentage point increase by 2040 0.15 percentage point increase by 2050
Employers and employees (Class A)	0.3 percentage point increase by 2030 1.6 percentage point increase by 2040 0.15 percentage point increase by 2050
Pension age increase	Pension age to increase from 2028 by 3 months each year, reaching 67 in 2031 Further increases of 3 months every 2 years from 2033, reaching 68 in 2039.
Package 3: PRSI rates and Exchequer contributions	
Self-employed (Class S)	Increase from 4% to 10% initially by 2030, then to higher Class A Employer rate: 2.8 percentage point increase by 2040 0.9 percentage point increase by 2050
Employers and employees (Class A)	0.2 percentage point increase by 2030 1.55 percentage point increase by 2040 0.9 percentage point increase by 2050
Exchequer contributions	10% of SPC expenditure

Package 4: PRSI rates, State Pension age increase and Exchequer contributions	
Self-employed (Class S)	Increase from 4% to 10% initially by 2030, then to higher Class A Employer rate: 2.4 percentage point increase by 2040 0.1 percentage point increase by 2050
Employers and employees (Class A)	No increase required by 2030 1.35 percentage point increase by 2040 0.1 percentage point increase by 2050
Pension age increase	Pension age to increase from 2028 by three months each year, reaching 67 in 2031 Further increases of 3 months every 2 years from 2033, reaching 68 in 2039.
Exchequer contributions	10% of SPC expenditure

Figure 4 below sets out the savings in each Package associated with each measure and how they contribute to meeting projected shortfalls out to 2070. The impact of sharing the costs across all four policy levers is evident.

On the basis of the analysis, by a significant majority (10 out of 11 members[3]), the Commission recommends Package 4 which applies all the levers, starting on the funding side, and including a very gradual increase in the State Pension age from 66 to 68 beginning in 2028. This recommendation addresses a public call for flexibility by including a provision that the State Pension may be deferred for a period up to age 70 during which time entitlement would continue to accrue (see Chapter 12).

While recognising the concerns that arose previously with the planned increase in the pension age, the Commission notes that:

- Certainty regarding the availability of a State Pension following the payment of social insurance contributions requires a sustainable SIF. In this regard, the combination of adjustments recommended by the Commission meet the projected shortfalls in the SIF focussing on the coming decades and out to 2070;

- Reliability regarding a basic pension amount which will increase in a predictable way and will be sufficient to protect against poverty is an overarching requirement which is strengthened if Commission's recommendations in relation to benchmarking and indexation are implemented (see Chapter 7);

- One of the greatest concerns related to the gap between the traditional retirement age in employment contracts

[3] The member nominated by ICTU did not support any increase in the State Pension age.

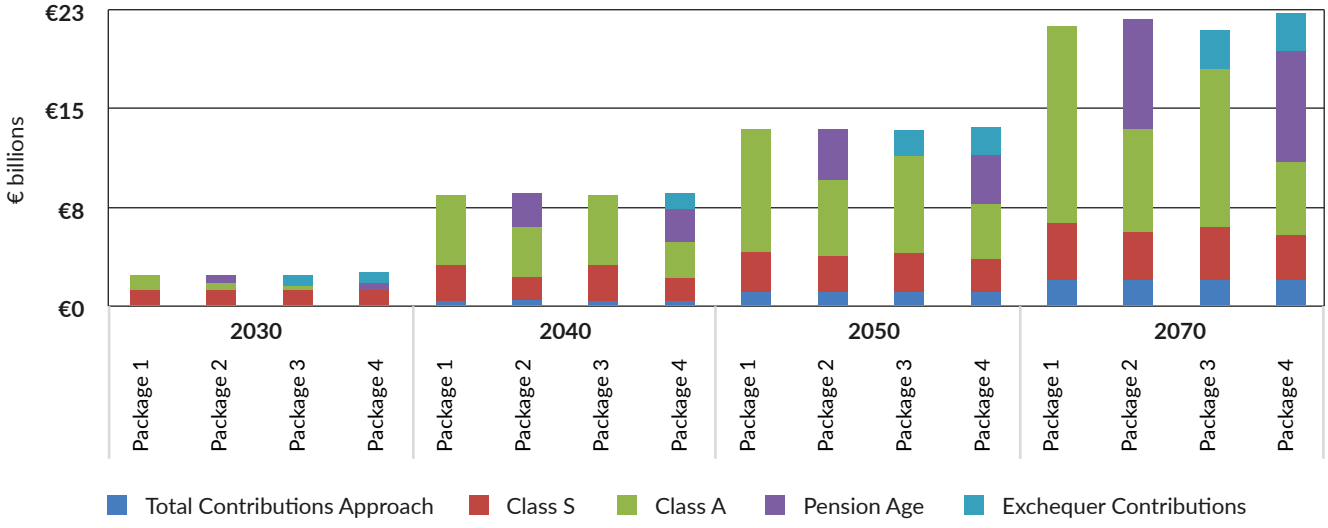
(65) and the State Pension age (66) has been partially addressed by the introduction of the Benefit Payment for 65 Year Olds scheme. This will be further addressed if the Commission's recommendation that the retirement age in employment contracts be aligned by law with the State Pension age (see Chapter 10) is implemented. This legislation should be enacted in advance of any increase in the State Pension age;

- A very gradual incremental increase in the State Pension age from 2028 by 3 months every year until reaching 67 in 2031 (10 years from now), and further increases of 3 months every second year reaching 68 in 2039 will spread the impact of the pension age increase on upcoming pensioners (see Chapter 11). Figure 5 below sets out the State Pension qualifying ages that would apply from 2027 until 2039, based on the Commission's recommendation.

- This recommendation addresses intergenerational and broader social solidarity by providing for very broad burden sharing across society in the form of:
  - A permanent annual Exchequer contribution from general taxation of 10 per cent of State Pension Contributory expenditure each year (see Chapter 6),
  - Gradual increases in PRSI for employers, employees and the self-employed (see Chapter 13), and
  - Base broadening measures which would see PRSI being paid on all income except the State Pension and other social protection benefits (see Chapter 13).

- As part of this recommendation, the Commission also sees merit in including further flexibility by recognising long contribution histories as an option (see Chapter 12). This option would

Figure 4: Contributions of policy reforms to projected shortfalls, Packages 1 – 4 (€billions)



Source: Pensions Commission analysis

include a provision whereby those who choose to retire at 65, and have a long Total Contributions (TCA) record of 45 years, may receive a full pension. This option would form part of a package of reforms that use all the policy levers set out above, including increasing pension age, and is made sustainable by the combined implementation of all elements. Additional costs associated with this option would be met in the proposed PRSI contribution rates under Package 4.

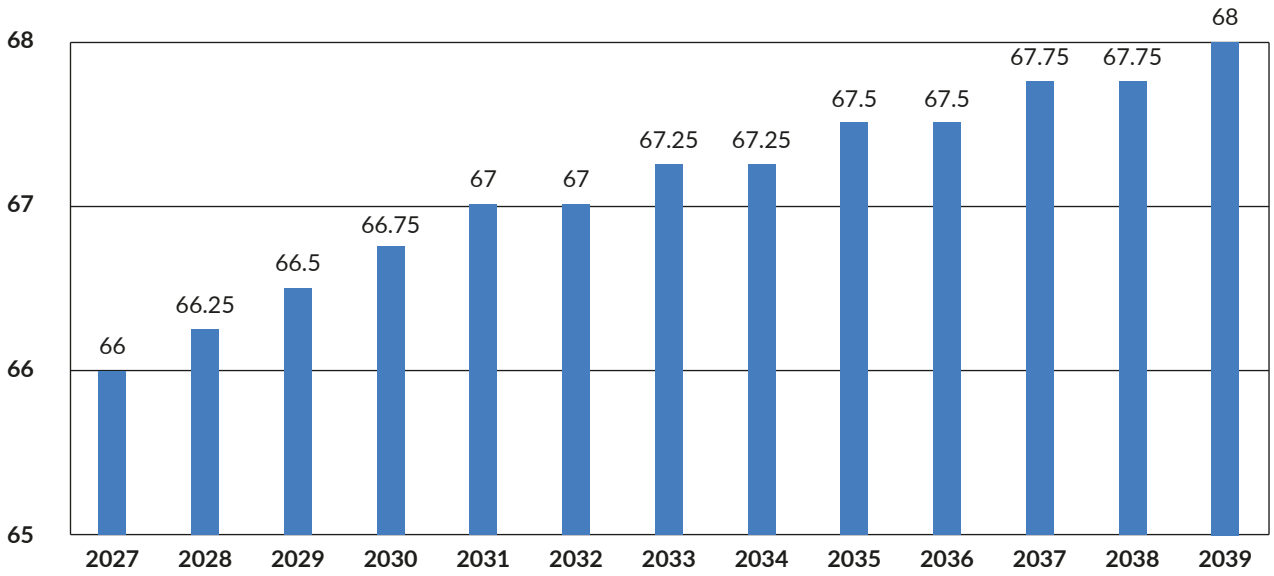
Based on its analyses, the Commission submits to Government that the implementation of this package of policy reforms would result in meeting the shortfalls identified in the KPMG's 2021 update of the *Actuarial Review*. Detailed tables as to how these shortfalls are met are provided in the Report (Appendix 5C).

The Commission emphasises the need for enhanced transparency, and ongoing communication relating to State Pension reform to secure public understanding of the importance of sustainability, certainty and poverty prevention. Changes as important as pension age should not come as a surprise (see Chapter 5).

Flexible access to State Pensions

A clear view that emerged from the public consultation process and was shared by the Commission is that a one-size-fits-all approach to accessing the State Pension Contributory is no longer appropriate given the changing nature of people's labour market experiences and the welcome increases in life expectancy. The Commission recommends a range of policy reforms that would introduce flexibility in accessing the State Pension Contributory, including:

Figure 5: Proposed State Pension qualifying ages, from 2027 to 2039.



Source: Pensions Commission analysis

- Deferred access to the State Pension Contributory with an actuarial increase in the weekly rate of payment;

- Deferred access with continued payment of full PRSI contributions past State Pension age, which would improve a person's social insurance record for State Pension Contributory purposes;

- As set out above, as an option, done in conjunction with a State Pension age increase, the Commission sees merit in having access to a full State Pension Contributory from age 65 for those with a long contribution history (45 years of contributions or more, calculated on a Total Contributions basis.) By itself, this option is a cost measure and, in this context, the relevant age of 65 may need to move in line with movement in the State Pension age.

Long-term carers

The Commission recognises the extremely valuable contribution to society made by carers. Through its consultation process, the Commission identified a number of barriers experienced by long-term carers in accessing State Pensions. Long-term carers, defined as those caring for more than 20 years, can find it difficult to acquire the 520 paid contributions required to access the State Pension Contributory. In addition, those who qualify for the State Pension Contributory may not have all their years caring recognised in the calculation of their rate of entitlement because of the 20 year cap on HomeCaring periods.

The Commission recommends that if necessary to meet the "paid" contribution requirements, long-term carers should be given access to the State Pension Contributory by having retrospective contributions paid by the Exchequer in respect of gaps in their contribution history arising from periods of caring. The contributions would be exclusively for State Pension Contributory purposes, and would be recognised as paid contributions both for the purposes of qualifying for the State Pension Contributory and for the calculation of their rate entitlement under the Total Contributions Approach (see Chapter 9).

The full list of Commission's recommendations is outlined below.

The Commission's conclusions and recommendations

General (Chapters 1 – 5)

- The Commission supports measures that encourage economic growth and competitiveness and increase labour market participation, including for older workers.

- The Commission recommends that any of the proposals that are progressed by Government are subject to further gender, equality and poverty proofing.

- The Commission emphasises the need for enhanced transparency, and recommends ongoing communication relating to State Pension reform to secure public understanding of the importance of sustainability, certainty and poverty prevention.

Funding State Pensions (Chapter 6)

- The Social Insurance Fund (including the State Pension system) should continue to be financed on a Pay-As-You-Go basis.

- The Commission recommends the creation of a separate account in the Social Insurance Fund (SIF) for State Pensions. The separate identification, accounting, and reporting of State Pension contributions will provide transparency in relation to how State Pensions are financed, and the Fund's ability to meet its commitments on an ongoing basis.
  - The volatility of working age payments makes it difficult to calculate the level of contributions needed to keep the SIF in balance. Due to the largely predictable nature of State Pension spending, a separate State Pension SIF account would enable a calculation of the level of contributions required to balance State Pension expenditure.
  - A separate SIF account for State Pensions would enable any funds in the account to be ring-fenced for State Pension expenditure and not used for other payments. For instance, the financial impact of introducing enhanced working age benefits would not affect State Pension funding (or vice versa).
  - A separate State Pension SIF would increase transparency as there would be a clear visibility of State Pension income and expenditure, and funding adequacy.
  - This would enable consideration to be given for a creation of separate State Pension contribution rate, by sub-dividing PRSI.

- The Commission supports the principle of annual Exchequer contributions to the 'State Pension' account of the SIF. Rather than rely on Exchequer subventions only when the SIF is in deficit, the State should identify and allocate a separate Exchequer contribution to the SIF State Pension account.
  - This could be based on a minimum percentage of the previous year's expenditure on the State Pension

Contributory being paid into the SIF State Pension account on an annual basis by the Exchequer. For the purposes of its work and in order to carry out costings, the Commission used an indicative Exchequer contribution of 10 per cent of State Pension Contributory expenditure per annum.

- This approach would formalise the tripartite basis of SIF funding by employees/self-employed, employers, and the State, envisaged at its foundation by providing an annual Exchequer contribution to the State Pension element of the SIF.
- In so doing, it would be in line with the tripartite approach being considered for the automatic enrolment retirement savings system which would have a legislative basis for the provision of a dedicated direct Exchequer contribution and/or tax expenditure.
- The formalised basis for this funding would enable the State to plan for non-labour revenue sources to help fund the State Pension system. Relying solely on PRSI increases to fund the State Pension system in the context of an ageing population would likely have negative labour market impacts.
- This Exchequer funding would also help fund some of the solidarity aspects of the State Pension system.
- Sufficient Exchequer contributions, while demographics are relatively favourable, could enable a buffer to be built-up in the State Pension SIF. A buffer would operate to address unexpected falls in income, and could be used to maintain the value of pension payments required under benchmarking.
- The Commission notes that, should a deficit arise, an Exchequer subvention would also be required to meet any shortfall.

- The Commission endorses the early introduction of an automatic enrolment retirement savings system, which will introduce a funded component to the pension system and improve retirement income adequacy for future pensioners.

Payment rates (Chapter 7)

- The Commission recognises and supports the State Pension system as the bedrock of the pensions system, and its first pillar function of preventing pensioner poverty.

- The Commission endorses the general principle of benchmarking and indexation of State Pension payments.
  - The Commission supports the use of benchmarking and indexation as a means of providing certainty to pensioners, maintaining the relative value of State Pension payments compared to earnings growth and price inflation, and ensuring that the poverty prevention role of the State Pension system is maintained.

  - Benchmarking and indexation can help with fiscal sustainability by framing the potential level of increases in State Pension payment rates; however, it can adversely affect fiscal sustainability if the design does not prevent 'ratchet' effects.

- To ensure that the State Pension system continues to provide a level of income that effectively prevents pensioner poverty, and to address public calls for certainty in the value of State Pension payments for current, upcoming and future pensioners, the Government should immediately implement the smoothed earnings approach to benchmarking and indexation as outlined in the *Roadmap for Social Inclusion 2020 – 2025*.
  - The Commission is mindful that benchmarking State Pension rates against earnings will not necessarily protect against poverty. While recognising that a State Pension rate benchmarked at 34 per cent of average earnings would have been effective at preventing pensioner poverty in the past (see Technical Sub-Committee Working Paper No. 4 on *Benchmarking and Indexation* for details), the Commission cautions that this does not mean that it will continue to do so in the future.

- The Commission supports the establishment of an independent standing body that would advise Government on pension rates of payment as calculated initially by the smoothed earnings benchmarking and indexation mechanism recommended above, in a manner analogous to the Low Pay Commission as proposed in the *Roadmap for Social Inclusion 2020 - 2025*.

  - The Commission recommends that this independent standing body should periodically review the effectiveness of the benchmarking and indexation approach in preventing pensioner poverty, including a consideration of poverty by household type (single and couple pensioners households and pensioners living with others).
  - The body could propose amendments to the benchmark if the review found that the benchmark was not effective at preventing pensioner poverty, or the body could take its findings and wider social and economic factors into consideration when making its recommendation on rates to Government.
  - Recommended increases in the weekly rates of payment should apply to all State Pension schemes.

- The Commission recommends that this body and its functions be established on a legislative basis.

- The Commission commends the recent policy approach to Budget increases in the Living Alone Allowance and recommends that this pattern of enhanced increases in the weekly rate of the Living Alone Allowance continue to provide targeted support to single

pensioner households who are at greater risk of poverty.

Total Contributions Approach (Chapter 8)

- The Commission recommends that the full transition to a Total Contributions Approach and the abolition of the Yearly Average approach to calculating entitlement to the State Pension Contributory rate of payment should be implemented as soon as possible, pending the passage of necessary legislation and IT system changes.
  - Since 2019, both calculation methods are in operation, with the better rate from the two calculation methods awarded. This has created further anomalies and unfairness in the system, whereby people with fewer contributions are still able to qualify for higher levels of payment. This also works to increase the cost of the State Pension Contributory at a structural level.

- The Commission recommends that for those who are better off having their pension entitlement calculated under the Yearly Average approach, a phased transition to the Total Contributions Approach should apply gradually over a 10 year period.

  - The Commission recommends that for the transition period, where a person does not qualify for the maximum weekly rate of payment under the Total Contributions Approach and would have been better off under the Yearly Average Approach, a proportion of the rate will be calculated under the Yearly Average Approach and the remainder under the Total Contributions Approach.

  - These proportions will gradually change over time – pensioners who would be better off under the Yearly Average approach who qualify for the State Pension Contributory in the first year of the transition will receive 90% of the rate calculated under Yearly Average approach, and 10% under the Total Contributions Approach for the duration of their pension payment. Pensioners qualifying in the second year of the transition, will have receive 80% of the rate calculated under Yearly Average, and 20% under the Total Contributions Approach for the duration of their pension payment, and so on, with the full transition completing over 10 years. This is similar to the approach taken in Norway when they introduced a change in the calculation method.

- In terms of the specific design of the Total Contributions Approach (TCA), the Commission recommends that the current 'Interim' TCA should become the definitive TCA i.e. 40 years – or 2,080 contributions – required at State Pension age to qualify for a maximum rate pension. This includes 10 years of credited contributions and 20 years of HomeCaring periods, but with a cap of 20 years combined credited and HomeCaring periods.

The Commission recommends the issuing of regular PRSI contribution statements in an easy to understand format so that PRSI contributors are aware of their level of contributions and how this relates to the level of State Pension Contributory that they can expect to receive. These could be made available in real-time on MyGovID or could be issued to a person's digital post-box.

Long-Term Carers (Chapter 9)

- The Commission recommends that long-term carers (defined as caring for more than 20 years) should be given access to the State Pension Contributory by having retrospective contributions paid for them by the Exchequer when approaching pension age for any gaps in their contribution history arising from caring.

- The contributions would be exclusively for State Pension Contributory purposes, and would be recognised as paid contributions both for the purposes of the qualifying for the State Pension Contributory and for the purposes of calculating pension rate entitlement under the Total Contributions Approach.
  - This would deal with the barrier for long-term carers who, because of the length of their caring lives, are unable to acquire 520 paid PRSI contributions or who qualify for a reduced rate of pension.

- The relevant Government Department(s) should examine, in conjunction with relevant stakeholders, options for the creation of a statutory 'Family Carer Register' which could, in time, facilitate the identification of long-term family carers for State Pension Contributory purposes as well as assisting in the planning and delivery of services for family carers. This could be considered as part of the Programme for Government commitment to update the National Carers' Strategy.

Retirement Age (Chapter 10)

- The Commission recommends aligning retirement ages in employment contracts with the State Pension age, by introducing legislation that allows but does not compel an employee to stay in employment until State Pension age. Any such legislation must meet the standard required by the Equality Directive (objectively justified by a legitimate aim as set out in Article 6)

- The proposed policy objectives of this legislation would be that:
  - In general, an employer cannot set a compulsory retirement age below the State Pension age;
  - It would be important to ensure that a worker's property rights in terms of their ability to retire at a time of their choosing (regardless of the gap in relation to accessing the State

Pension) and receive a pension under their existing occupational or personal pension scheme is not adversely affected;
- Where possible, the same terms and conditions regarding the provision of insurance, financial services and related benefits should apply to all employees, subject to the availability of these benefits from providers and the cost not being disproportionate for employers;
- This legislation would apply to existing and new employment contracts;
- In strictly limited cases where a retirement age below the State Pension age continues to apply (as a result of legislation, collective agreement or at individual employment level), employers would be required to give notice to workers in order to ensure that the worker is aware that a retirement age below the State Pension age applies, and to evidence compliance with the law in terms of objective justification by a legitimate aim and appropriate and necessary means;
- This legislation would not affect employment contracts where the retirement age is set above State Pension age and would only apply to contracts with a compulsory retirement age;
- While the State may introduce such legislation, it would need to be independently reviewed on a periodic basic to ensure that it still meets the grounds of objective justification with a legitimate aim.
- Social partners are encouraged to take this recommendation on board through agreement, collectively or locally, in advance of the legislation being enacted.

- The Commission supports measures that facilitate and encourage fuller working lives. Social partners, relevant Government bodies, and the Workplace Relations Commission should consider and issue guidance on measures to facilitate those who wish to continue working past retirement age, with proposals to be considered at appropriate fora, including the Labour Employer Economic Forum.

- The Commission recommends a review by the relevant Government Department or statutory body to:
  - Provide clarity on the use of successive post-retirement fixed term contracts and to establish whether there is coherence in the application of the Protection of Employees (Fixed-Term Work) Act 2003 and the Employment Equality Acts 1998 – 2015.
  - Review the application of the Employment Equality Acts 1998 - 2015 to the provision and non-provision of insurance or related financial services benefits to employees on age discrimination grounds.

State Pension Age (Chapter 11)

- By a significant majority (10 out of 11 members[4]), the Commission recommends a gradual incremental increase in the State Pension age by three months each year commencing in 2028, reaching 67 in 2031 (10 years from now), with further increases of three months every second year reaching 68 in 2039.
  - One of the main concerns with an increase in the State Pension age – the gap between the traditional retirement age in employment contracts (65) and the State Pension age (66) has been partially addressed with the introduction of the Benefit Payment for 65 Year Olds and will be further addressed if the Commission's recommendation to align retirement ages in employment contracts with the State Pension age is implemented. This legislation should be enacted in advance of any increase in the State Pension age.
  - The gradual implementation will reduce the impact of the pension age increase on upcoming pensioners.
  - The increase in the State Pension age will apply to all State Pension schemes.

Flexible access to State Pensions (Chapter 12)

- The Commission recommends that access to the State Pension should be on a flexible basis.

- The Commission recommends that a person may choose to defer access to the State Pension up to age 70, and receive a cost neutral actuarial increase in their State Pension payment.

- The Commission recommends that a person can continue to pay social insurance contributions past State Pension age at their existing PRSI contribution rate (employees, employers and the self-employed) to improve their social insurance record for State Pension Contributory purposes.

- These PRSI contributions will enable individuals without a full contribution record (and who have deferred access to the State Pension) to become entitled to the State Pension Contributory, or increase the pension rate of payment, as a consequence of the additional paid contributions.

[4] The member nominated by ICTU did not support any increase in the State Pension age.

- As an option for Government to consider, done in conjunction with a State Pension age increase, the Commission sees merit in recognising long PRSI contribution histories by including a provision whereby those who choose to retire at 65, and have a long Total Contributions (TCA) record of 45 years, may receive a full pension.
  - Done on its own, this is a cost increasing measure. By limiting access to those with a long contribution history, and retaining a retirement condition, the costs of this option are curbed. In light of experience with take-up, it may need to be reviewed as the pension age increases.

Increasing Social Insurance Fund (SIF) Income (Chapter 13)

- The Commission recommends increasing the self-employed PRSI contribution rate. In the first instance, the Commission recommends that Class S PRSI for all self-employed income is gradually increased from 4 per cent to 10 per cent. In the medium term, the Class S PRSI rate should be set at the higher rate of Class A employer PRSI (currently 11.05 per cent).

- Increase the Class A rate of PRSI for both employers and employees.
  - The level of increases required depend on the package that the Government chooses to implement (if any). The Commission recommends Package 4 set out above, which will not require PRSI rate increases for employers and employees until after 2030. It will require a 1.35 percentage point increase in Class A each for both employers and employees by 2040.

- The Commission considered a range of PRSI base broadening measures.
  - Broadening the base will reduce the burden on current PRSI contributors, will reduce the required effective tax on labour income (with its attendant negative labour market efficiency effects) and will enhance intergenerational equity.

- The Commission recommends maintaining the exemption from PRSI on all social welfare payments.

- Other than social welfare payments, the Commission recommends removing the exemption from PRSI for those aged 66 or over.
  - The Commission recommends that all those over State Pension age should pay PRSI on a solidarity basis (Class K) on all income currently subject to PRSI.

- The Commission further recommends removing the exemption to pay PRSI on supplementary pension income (occupational and personal pensions, and public sector pensions).

An Coimisiún Pinsean
The Pensions Commission