

*Response to the
Pensions Commission Consultation
from the*

Irish Association of Pension Funds



What do you expect from State Pensions?

The Commission is interested in your expectations of what the State should do to support you when you retire. For example, if you are a future pensioner, what expectations do you have in terms of your living standards as a pensioner? Do you expect to rely on State Pensions to provide that living standard? If you are an upcoming pensioner, are you aware of eligibility requirements? Have you thought about and made plans for your income in retirement?

The current purpose of the State Pension, to keep people out of basic poverty, should be clearly stated so that is better understood by future pensioners. They need to understand that the State Pension works well in achieving that aim but will not provide many people with the lifestyle they will want in retirement and, hence, providing for their desired lifestyle may require additional retirement savings. There should be a means of allowing people to check their entitlement on-line or helping people to identify any gaps in contributions they might be able to rectify.

In order to reduce reliance on the State Pension, Auto-enrolment should be introduced as soon as possible to ensure more people save for retirement. That will allow more people to have a more financially secure retirement. It has proven to be successful in other countries as a means of increasing pensions coverage.

What's working with current State Pension arrangements?

This question seeks your views on current State Pension arrangements and how those aspects that are working well could and should be maintained into the future. For example, do you feel that current arrangements are working well to prevent poverty; and/or working well in terms of the level of payments; and/or working well in terms of information and guidance on how to apply for State Pension schemes; and/or are working well for most groups of current pensioners.

Most measurements show that the current arrangements work well to prevent basic poverty. However, the process for applying for the State Pension or understanding at any point in time how much will be payable could be improved. Other countries have, or are developing, pension dashboards that would allow people to view all of their accumulated and prospective retirement benefits, including their State Pension.

Consideration also needs to be given to immigrants who may work in Ireland but retire to their home country and ensure that there will be appropriate arrangements to allow them to apply for and be paid their pension.

What concerns you with respect to current State Pension arrangements?

This question seeks your views on aspects of State Pension arrangements that you think are not working well, and/or areas where you think there are emerging issues, particularly in respect of fiscal and social sustainability challenges. Please be specific about the concerns you have. For example, these concerns might relate to pension age, to eligibility requirements, to contributions, to calculation of pension methods, to income supports available before reaching State Pension Age, to sustainability and equity concerns that impact upon future pensioners, to efforts to achieve fuller and later working lives.

If you are responding as an organisation that works with upcoming, future and current pensioners, it is useful to give a sense of how many people are affected by the concerns you have; if these concerns affect particular groups more than other groups, and if so, what are these groups; the implications of these concerns for those affected in terms of e.g. eligibility criteria, rates of payment, contribution rates, or any other aspect of current State Pension arrangements. Where possible, please give your information and/or data sources.

The fiscal sustainability is a concern, and this has been highlighted by numerous reports. Clearly the demographic trends cause concern in a pay as you go system as there are fewer projected workers relative to the number of future pensioners. It is important, however, not to examine this as a completely stand-alone issue but also to consider the overall impact of this trend. The projected increase in expenditure on the State pension needs to be considered alongside any potential decrease, for example, in spending on education, while also looking at the impact on health and long-term care spending.

The eligibility requirements, contributions and calculation of payments could be simplified and much of this was considered in the consultation on the Total Contributions Approach. Equity issues are difficult as there are many aspects to this. Some people will pay contributions for much longer as they may start work earlier. Others will pay for a shorter length of time but may pay more if they are higher paid. There will also be cohorts with lower life expectancy who will receive less value in payments. The system should be built around redistribution, because of its main purpose of alleviating basic poverty, but this should be in as equitable a way as possible.

How best to accommodate those who provided long-term care for most of their working lives?

In addition to existing supports, recent changes have helped many carers/those providing care to dependants to get the best possible State Pension Contributory payment. This includes the consideration of 20 years of Home Caring periods in calculating the rate of SPC payment, raising awareness that you can make voluntary contributions and that Carers credits are available to those eligible. In this context, the Commission is interested in hearing your views on how best to accommodate those who provided long-term care for most of their working lives:

- *Which individuals providing long-term care need to be further accommodated?*
- *How can these individuals providing long-term care be specifically identified and targeted for additional measures?*
- *What measures are needed for this group? For example:*
 - *Do current State pension arrangements need to be adjusted?*
 - *Could the full adoption of the Total Contributions Approach address concerns?*
 - *Or should there be separate arrangements solely for this group?*
- *What might be the implications and/or unintended consequences of introducing these measures, for example on fiscal and social sustainability, on equity within and between generations, on other upcoming pensioners?*

Again, please provide information, data and international examples where possible.

It seems logical that the work undertaken by carers/those providing care to dependants should be recognised towards State Pension Contributory eligibility.

What specific policy, provision or other changes are needed to make State Pension arrangements sustainable into the future?

This question seeks your views on the specific changes to State Pension arrangements that the Commission might consider according to its Terms of Reference. This might relate to changes in calculation methods, eligibility criteria (including pension age), etc. Specifically, the Commission asks:

- *How might we best finance sustainable State Pension arrangements into the future? Would you pay more to achieve sustainable State Pension arrangements? Or would you be willing to forego some Government services?*

The National Pensions Reserve Fund was a prudent measure put in place to pre-fund some of the increased costs that were going to arise in all of the State's pension liabilities, as a result of the changing demographics. This type of pre-funding should be reconsidered. Without pre-funding or reducing the amount of pension payable, the only real choices will be to either increase PRSI contributions and/or divert funds from other parts of Government spending.

- *Should the Commission recommend legislative changes to address gaps between retirement age (the age at which a person retires or is required to retire from their work) and State Pension Age (the age at which the SPC and SPNC become available), e.g. to prevent a contractual age-specific retirement, and/or establish a statutory right to remain until pension age?*

Under European law, contractual age-specific retirements can only be legally applied where there is objective justification and it may carry more impact to raise awareness of that point. Legislative change might help bring more clarity as this aspect appears to be misunderstood at present. However, legislative changes will not address the issue that many people will not want to or, more importantly, will not be able to continue working until State Pension Age. This can be especially true of those who might have started in the workforce earlier and worked in manual labour. Many of these people are also likely to have shorter life expectancy. The Commission should consider measures which would allow earlier payment of the State Pension at an actuarially adjusted rate.

- *What is the appropriate State Pension Age? In what way might it be adjusted – incrementally or at all once – e.g. to take account of rising life expectancy, to increase the proportion of working lives to retirement lives, to sustainably cover the longer duration of pensions payments?*

It does seem logical that the State Pension Age should increase with improving life expectancy. However, that does not address the issue that those improvements will apply equally to everyone. There are many factors that influence life expectancy, and it can vary widely between different cohorts. If looking to increase the proportion of working lives to retirement lives is important, the ages at which individuals start their working lives would also need to be factored in. The approach suggested in the Pensions Roadmap of regular actuarial assessments to monitor changes is a logical one. These could also look at impacts on different cohorts and consider appropriate lower ages for taking a reduced pension or upper ages for deferring an uplifted pension. Any adjustments made should be phased in and avoid cliff-edge scenarios.

- *Should people working later (after State Pension Age) be able to continue to pay PRSI contributions? What might be the implications of this?*

Yes, particularly if they needed additional contributions to make up for gaps or achieve higher benefits. Alternatively, if there were no additional benefits for these people, their contributions could be paid to an auto-enrolment pension arrangement.

- *How might we best ensure sustainable flexible retirement pathways, allowing for both early and later exits from the labour market? How might this be combined with modified State Pension arrangements to reduce poverty risks?*

A more holistic approach to access to retirement benefits should be taken. The current rules are mostly based around a point in time retirement where work stops. New options should be introduced that would allow for more flexible approaches that would facilitate earlier, later and phased retirement. This could involve partially accessing retirement benefits even while

continuing to work for the same employer. This could be particularly useful if someone wished to reduce their working hours as a first step to full retirement. The ability to take an early reduced or a later enhanced State Pension could also offer additional flexibility to people that would encourage early and late exits from the labour market.

- *What are the best ways to fill any income gaps between retirement age and State Pension Age? Will the recent introduction of the Benefit Payment for 65 year olds be sufficient to bridge the gap between retirement age and State Pension Age?*

Payment of a reduced State Pension should be considered, particularly for those who have to retire due to the nature of their work. That can be calculated on a basis that would give the same value over an assumed payment period. Allowing more flexibility on access to occupational or personal pensions could also help. For example, allowing someone to access part or all of their tax-free lump sum but defer the start of their pension payments might help them to bridge that gap. Access to Additional Voluntary Contributions is independent of the timing of accessing main benefits would also help many retirees.

Sustainable Reform Proposals

This section seeks your reform proposals for achieving sustainable State Pension arrangements into the future, taking into consideration what you've identified in terms of what's working, concerns, groups affected, etc. Please give your information and data sources where possible.

In particular, the Commission is interested in international examples where proposed reforms have been introduced,

whether these worked well and what has been learned from them.

In these proposals, you might consider the following:


- Reform proposals that adjust State Pension arrangements in addition to or as an alternative to potential changes referenced above;
- The best way to fairly and equitably finance these reforms, if there are cost implications
- The target groups for these reform efforts, and how to identify and specifically define them at an individual/household level
- What impacts such reform proposals may have, e.g. for other age groups, for different genders, for workers, for employers, for carers, for people with disabilities, for the State, for society
- How these impacts might be mitigated, e.g. through consideration of trade-offs between and within reform proposals, through implementation principles and mechanisms
- The approach for introducing proposed reforms, including how best to support a successful transition from current to adjusted State Pension arrangements: whether reforms should be introduced incrementally, all at once or in some other way over time
- Proposals for monitoring implementation e.g. to identify unintended consequences of reforms, including on fiscal and social sustainability.

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