An Roinn
Gnóthaí Fostaíochta agus Coimirce Sóisialaí
Department of
Employment Affairs and Social Protection

30th November 2017

Ms. Carmel Greene,
Senior Executive Officer,
Corporate Services Department,
Finance and Support Services Directorate,
Clare County Council,
New Road Ennis,
Co. Clare.

Our Ref REPS: 2017-10323
Your Ref November 17-29/CG/MMcI

Dear Ms Greene,

I am writing on behalf of Regina Doherty T.D. and Minister for Employment Affairs and Social Protection in relation to the State pension provision.

To qualify for a State pension (contributory) a person must have at least 520 paid contributions and satisfy a yearly average condition (a yearly average of 48 contributions paid or credited is required for a full rate State pension (contributory), and reduced rates of payment may be payable for pensioners with lower averages). Once over 16 years of age, the date a person enters into insurable employment is the date used for averaging purposes.

At present, entitlement to the contributory pension is determined by means of a 'yearly average' calculation, where the total contributions paid or credited are divided by the number of years of the working life. The yearly average test has been in existence since 1961 when contributory pensions were first introduced. Payment rates are banded. For example, someone with a yearly average of 48 or more contributions will qualify for a full pension, whereas someone with a yearly average of 20-29 will qualify for a pension at the 85% rate.

As provided for in Budget 2012, from September 2012, new rate bands for State pension (contributory) were introduced. These bands replaced the previous structure, introduced in 2000. These bands more accurately reflect the social insurance history of a person, and ensure that those who contribute more during a working life benefit more in retirement than those with fewer contributions, subject to the safety nets in place for those with no other means.

Prior to the change in rate bands a person reaching retirement age with a yearly average of 47 contributions qualified for the same rate of payment (98% of the maximum rate) as someone with a yearly average of 20 contributions, despite generally their much more significant PRSI record, and regardless of their means. A person with an average of 48-52 PRSI contributions per year over their working life received a weekly State pension of only €4.50 more than someone with a yearly average of 20 PRSI contributions.

It is estimated that to reverse the current rate bands (relative to the ones in place from 2000-2012) would carry a cost of at least €73 million in 2018, and this annual cost would increase by an estimated €10 to12 million annually, (€85 million in 2019).

There are a number of reasons why someone might not have sufficient contributions paid to qualify for a State pension (contributory). Some would have been employed in the public service for a significant period, others would have worked abroad during their working life and qualified for a foreign pension based on foreign contributions, and some would have spent significant periods out of the labour force altogether for a number of reasons, e.g., caring for children or elderly relatives, prolonged periods of unemployment or incapacity and other circumstances.

This can be mitigated by the homemaker's scheme, which makes qualification for State pension (contributory) easier for some people who take time out of the workforce for caring duties. The scheme, which was introduced in 1994 and took effect for such homemaking periods from that date, allows up to 20 years spent caring for children under 12 years of age (or caring for incapacitated people over that age) to be disregarded when a person's social insurance record is being averaged for pension purposes, (the scheme does not award credits). It should be noted however that the scheme will not, of itself, qualify a person for a pension. The standard qualifying conditions must also be satisfied. `

It is estimated that the cost of extending the homemaker's scheme to allow people to avail of the full 20 years currently allowed under the scheme, encompassing periods prior to 1994, could cost €290m in 2017, and this figure would rise at a faster rate than the overall cost of State pensions.

Where those with insufficient contributions to meet the requirements for the State pension (contributory) , they will generally qualify for the State pension (non-contributory), which can be up to (€227) over 95% of the maximum contributory pension rate. While means-tested, it has significant capital and income disregards, which result in over 70% such pensioners being paid at the maximum rate. Where this is not to their benefit and their spouse is a contributory pensioner, they may qualify for an Increase for a Qualified Adult (a direct payment), which can be paid at 90% of the rate of the full pension.

It is expected that the "Total Contribution Approach" (TCA) will replace the yearly average approach, for new pensioners from 2020. The aim of this approach is to make the rate of contributory pension more closely match contributions made by a person. The recent Actuarial Review of the Social Insurance Fund has been used to explore the costs of various options and to inform the design of the Total Contributions Approach. This Review was recently completed and published, and the costings produced are being considered, with a view to progressing to the next stage.

This is a very significant reform with considerable legal, administrative, and technical elements in its implementation. An important element in the final design of the scheme will be the position of people who have gaps in their contribution records for various reasons, and this factor is being considered very carefully in developing this reform.

It should be noted that the matters in relation to the reform measures of the State pension are governed by legislation passed by the Oireachtas, and may only be amended by further legislation.

I do hope this answer goes some way in clarifying the position.

Yours sincerely

Elizabeth Hendrick
Pension Policy Unit

29. Curtha faoi bhráid na Comhairle ag Cllr. G. Flynn:-

"That Clare County Council call on the Minister for Social Protection to reverse the unfair and discriminatory policy of penalising home makers that took some time out to care for their family prior to 1994 and to address the Austerity measure that penalised approximately 35,000 people, mainly women, that was brought in by the Government on 6th April 2012 concerning Contributory Pension Entitlements and if the motion is agreed that the request be sent to the Minister and also circulated to all other Councils". **(M)**