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**OIREACHTAS REPORT FOR APTI**

**June 19 - 21, 2018**

**PENSION ISSUES**

**Dail**

Tuesday, June 19

**Priority Oral Questions**

**DB Schemes**

***Deputy John Brady*** *asked the****Minister for Employment Affairs and Social Protection****the protections in place for the 1,200 DB scheme members in a company (details supplied) whose scheme is to close on 30 June 2018; and if she will make a statement on the matter.*

#### [Deputy John Brady](https://www.oireachtas.ie/en/members/member/John-Brady.D.2016-10-03/)

On 30 June, the DB pension scheme of 1,200 Irish Life employees will close.

#### [Min](https://www.oireachtas.ie/en/members/member/Regina-Doherty.D.2011-03-09/)ister for Social Protection

All Irish DB schemes have a rule that allows the employer to cease contributions, usually after a notice period. There is no legislative obligation on an employer to make contributions or any further liability on that employer where contributions cease, nor is there an obligation on an employer to give notice to members or to consult in advance of ceasing contributions. Accordingly, neither the Pensions Authority nor I have the power under legislation to intervene to compel an employer to continue to make contributions into a scheme. Even when a scheme is closed to new members or to the future accrual of benefits, the sponsoring employer role continues in respect of that scheme. Where a DB scheme is closed to future accrual of benefits, which is not the same as being wound up, the scheme remains subject under EU and Irish law to the Funding Standard requirements and to the Pensions Act in general. It must continue to satisfy minimum unding standards into the future. It is important to note that the closure of a DB scheme to future accrual does not mean its members will not receive a pension in line with the benefits that they accrued before the date of closure.

While it is not appropriate for me to comment on individual pension schemes, I am aware of the announcement of the closure of the Irish Life scheme to future accrual. I understand that the scheme is financially secure and its assets adequately cover all liabilities that would arise in the event of the trustees taking the decision to wind up the scheme. I am finalising work to introduce extra protections for members of DB schemes. I hope to be in a position to table those necessary legislative amendments on Committee Stage at the earliest possible opportunity.

#### [Deputy John Brady](https://www.oireachtas.ie/en/members/member/John-Brady.D.2016-10-03/)

Unfortunately, this is another case of an employer reneging on its employees' pension scheme. It has been happening consistently in recent years. It is also a case of the Government reneging on its responsibilities, given that this issue has been widely debated, including in the Chamber and by Oireachtas Committees. There is considerable frustration. Irish Life workers have been left high and dry by the Government. The Minister is aware that the company's scheme is €240 million in surplus. The lack of action by the Government has not only given a green light to Irish Life to close down its DB scheme, but to many other businesses as well.

The Minister alluded to the Social Welfare, Pensions and Civil Registration Bill 2017, which we are still awaiting. She stated that the Government was aware of the concerns and issues but did not have the power to intervene, so where are the necessary protections?

#### [Min](https://www.oireachtas.ie/en/members/member/Regina-Doherty.D.2011-03-09/)ister for Social Protection

I am loath to discuss a specific company or scheme, but the Deputy is aware that the scheme in question is not being wound down. Rather, it is being closed to future entrants. The surplus within the scheme is sufficient should the trustees decide to make changes. As such, there is no immediate threat or risk to the scheme's current members. While an obligation preventing employers from closing DB schemes in circumstances may appear to provide stability and certainty for members, it might also achieve a less desirable outcome, for example, prompting well-funded schemes to wind up in order to avoid legislation, which is not something that we want to see. It could give a competitive advantage to employers that never provided a risk-free DB scheme. It could impact on a company's creditors, including debts owed to other businesses and individuals. It could impact on the value of a company's shares, many of which might be held by other pension funds, credit unions or small-scale investors. As such, we need to be careful in the first instance about what we say about a particular company and, second, about our views on previous legislation, which was passed by a Fianna Fáil Government, and current Government legislation that is before the Houses.

#### [Deputy John Brady](https://www.oireachtas.ie/en/members/member/John-Brady.D.2016-10-03/)

The key issue is the shifting of pension risk from the employer to the employee. The Government seems to be deliberately dragging its heels in putting protections in place. The Bill passed Second Stage eight months ago and the Committee has been screaming for it, but we are yet to see it. In my view, and that of the people who are being impacted by this issue, there is a deliberate delaying of the necessary legislation by the Government. Things will be very grim come 30 June for the 1,200 employees of Irish Life. The Government is standing idly by and doing nothing. It has completely ignored the OECD review of Ireland's pension system and recommendations on DB schemes. I ask the Minister to comment on that. Does she believe protections should be in place for employees in DB schemes whose employers have taken from the Government's dragging of its heels that they have a green light to close down these schemes?

#### [Min](https://www.oireachtas.ie/en/members/member/Regina-Doherty.D.2011-03-09/)ister for Social Protection

The previous Government introduced increased protections for deferred members of DB schemes that were wound up. The wind-up priority order was amended in the Social Welfare and Pensions (No. 2) Act 2013. Prior to those changes, pensioner benefits were given priority over the benefits of active and deferred member schemes. The changes to the wind-up priority order deprioritised a portion of pensioner benefits in the manner in which the resources of a scheme are distributed on the wind-up of a pension scheme. Those changes made more resources available to current workers in DB schemes. The Social Welfare and Pensions Act 2012 required that a DB scheme hold additional funding in the form of a risk reserve by 2023. We have already made significant changes to how DB schemes are managed and we have current legislation that has passed Second Stage.

#### [Deputy John Brady](https://www.oireachtas.ie/en/members/member/John-Brady.D.2016-10-03/)

Where is it? It has been eight months since Second Stage.

#### [Min](https://www.oireachtas.ie/en/members/member/Regina-Doherty.D.2011-03-09/)ister for Social Protection

It is being amended. Some legislation takes eight years to go through this House. The Bill is a priority for me. A few amendments to the Bill need to be finalised with the AG to enable me to introduce them on Committee Stage. We hoped to take Committee Stage before the end of May but I am not ready to do so, for which I apologise. I hope to be ready before the House rises in July. We all want this Bill. There is not a competition of merit here. Deputy Brady and I want the same thing. We want to introduce legislation that protects both workers and the companies that pay into these DB schemes to ensure everybody wins.

#### [Deputy John Brady](https://www.oireachtas.ie/en/members/member/John-Brady.D.2016-10-03/)

In what way is priority being given to protecting the employees concerned?

**TCA**

***Deputy Willie O'Dea****asked the****Minister for Employment Affairs and Social Protection****the reason the TCA is due to replace the current averaging approach for State Pensions; why the baseline for qualification is forty years despite previous indications that it would be 30 years; and if she will make a statement on the matter.*

#### [Deputy Willie O'Dea](https://www.oireachtas.ie/en/members/member/Willie-O'Dea.D.1982-03-09/)

I tabled this question to elicit some clarification on the Government's proposed TCA for contributory State Pensions. A baseline of 30 years was discussed initially but the recently published Government paper refers to a baseline of 40 years. I understand from some comments made by the Minister at a Committee meeting that the matter has not yet been finalised. I seek clarification on the issue.

#### [Min](https://www.oireachtas.ie/en/members/member/Regina-Doherty.D.2011-03-09/)ister for Social Protection

We intend to introduce a TCA to establishing a level of entitlement for all new contributory State Pensions from 2020 onwards. The *Roadmap for Pensions Reform 2018-2023* sets out how it is intended to implement the TCA to calculating entitlement to the contributory State Pension. The criteria required for a full pension under that new approach have not yet been determined and are currently subject to a public consultation, which I launched on 28 May, and which will remain open until 3 September. Issues the Deputy raises, such as the number of years required for a full pension, are addressed in the consultative questions and the accompanying documentation. The final details will not be decided until I have considered all the submissions received in this process. For this reason, it will be important to have industry commentators and representative bodies in the public consultation. We also need to receive submissions from many other bodies and I hope to arrange some form of roadshow by September. I do not mean to be disrespectful to the people who attended the launch, to whom I am grateful, but I want to speak to real people and the workers of today who will be pensioners after 2020. I want to speak to people aged over 55 years and those who will be genuinely affected by the TCA. I want to have a proper conversation to ensure that when we all sit down after September, we can collectively decide, with the Oireachtas Committee, what the new model will look like. We will then be happy to stand over the new system because it will be in the interests of the people. The public consultation is available on my Department's website and I genuinely encourage all interested stakeholders to participate in the survey and make a submission before 3 September.

#### [Deputy Willie O'Dea](https://www.oireachtas.ie/en/members/member/Willie-O'Dea.D.1982-03-09/)

It is reassuring that the final determination has not yet been made on whether the baseline will be 30 or 40 years. In view of the fact that the self-employed only started making pension contributions in 1988, no self-employed person will qualify for the full pension in the year in which the new system kicks in. Does the Minister accept that such a scenario would be unfair? The Minister acknowledged that some people may lose out under the new scheme. Let us assume a baseline of 40 years is adopted. Under the current system, a person with 20 years contributions could receive up to 85% of a contributory pension, whereas under a TCA with a baseline of 40 years, that person would only receive 50% of a contributory pension. The Minister stated such a person would have an option to remain in the current system if he or she was adversely affected and worse off under the new system. Would such an arrangement be transitional and, if so, for how long would it last?

#### [Min](https://www.oireachtas.ie/en/members/member/Regina-Doherty.D.2011-03-09/)ister for Social Protection

Self-employed people came into our current social insurance system in 1988 and, accordingly, such a person would have a maximum of 32 years of contributions when the total contributions approach becomes operational in 2020. Depending on the final determination of the number of contributions required in our new full State Pension, this may pose a challenge for some of the people who will retire around that time. I set out this scenario in the consultation paper and it is possible that a transition period will be needed. I have also included a number of specific questions on this matter, including how we believe we should deal with it, how long the transition period should be and who should be included in the transition period. I genuinely hope that self-employed people log on and subscribe to give us their views.

When we make changes to systems, there are normally winners and losers. I would like the system to be designed in such a way that there are no losers. I know that is exceptionally ambitious and will cost us, but we do not want to change to a new system which leaves people behind with a bad taste in their mouths. I want everybody to appreciate that the new system we are moving towards is fairer than the current system. The proof will be in the pudding, however, and we must ensure the new system is fair and no one is left behind. Nothing is prescribed. We need to consider everyone's views on how best we can deliver a new model in January 2020 that will see us through the next generations.

#### [Deputy Willie O'Dea](https://www.oireachtas.ie/en/members/member/Willie-O'Dea.D.1982-03-09/)

I simply made the point that a 40-year baseline would discriminate against the self-employed who only joined the contributory pension system in 1988, as the Minister correctly noted. I have another question on an issue about which I and other Deputies are receiving queries. The first hurdle to overcome before qualifying for a contributory pension is to have 520 paid contributions. The figure previously was 260. Is the figure of 520 contributions set in stone or is it up for discussion? If it is intended that it will remain in place, will it be possible, when calculating contributions, to count the new credits that will be provided for people who are looking after children, sick people and so forth?

#### [Min](https://www.oireachtas.ie/en/members/member/Regina-Doherty.D.2011-03-09/)ister for Social Protection

Under the current system, a person must have a minimum of 520 contributions before he or she can qualify for a payment. I do not see that changing unless we get an overwhelming response in the consultation that it should change. Any extra credits, such as illness and homemaking credits, must be added after the 520 contributions apply. Once a person has made the minimum 520 paid contributions, the caring, illness and working abroad credits, and any other credits that may be available, are added to the 520 contributions. Nothing is prescribed in the public consultation. We want to hear what people have to say and, after 3 September, we want to arrive at a solution that we can all stand over, and we are all happy with, in order that it will last for generations.

**DB Legislation**

***Deputy Bríd Smith****asked the****Minister for Employment Affairs and Social Protection*** *the progress of the Social Welfare, Pensions and Civil Registration Bill 2017; the reason for its delay; her plans to provide protection for workers in DB schemes in the future; and if she will make a statement on the matter.*

***Deputy Joan Collins****asked the****Minister for Employment Affairs and Social Protection****when she plans to initiate the Social Welfare, Pensions and Civil Registration Bill 2017.*

#### [Deputy Joan Collins](https://www.oireachtas.ie/en/members/member/Joan-Collins.D.2011-03-09/)

This is to ask the Minister when she plans to progress the Social Welfare, Pensions and Civil Registration Bill 2017. The heads of the Bill included DB protection to particular areas. There have been numerous stops and starts and we are still waiting. It was an affront not to have that legislation before the Committee after all indications had been given that it would be there.

#### [Min](https://www.oireachtas.ie/en/members/member/Regina-Doherty.D.2011-03-09/)ister for Social Protection

Second Stage of the Bill concluded on 4 October 2017 and Government approval to

draft provisions for a number of additional items to be included was obtained from Cabinet. These provisions are currently being finalised by the Office of the Parliamentary Counsel. They include, among other matters, provisions related to DB pensions and measures related to the GDPR. A key priority is to provide additional protections for scheme members’ pension benefits. However, it is essential that any new measures recognise the current pension landscape in Ireland so that a balanced, proportionate approach is developed and that unintended negative consequences do not arise. Under existing pension law, there is no legislative obligation on the employer to make contributions to a scheme. However, the provisions of this Bill will introduce a new regime into the Pensions Act 1990 which will, among other things, enable the Pensions Authority to make a funding obligation direction specifying payments to be made by a sponsoring employer to the pension scheme where no agreement was reached, within a specified time period, to resolve a funding deficit.

In order to achieve a balanced approach, it has been necessary to consult with and obtain numerous legal advices from the Office of the AG in respect of the DB provisions. The Bill was provisionally scheduled for Committee Stage on 31 May. This has been postponed to allow for the finalisation of the necessary Government amendments. These provisions are quite technical and complex. However, work is at an advanced stage and when complete, an early date for Committee Stage will be requested from the Committee.

Finally, many of the provisions contained within IORP II will also support positive reform of the Irish occupational pensions sector. Implementation of the Directive will require legislative changes and my officials, together with the Pensions Authority, are working on the transposition process to ensure that the necessary amendments to existing laws, regulations or administrative provisions will be made to give full effect to the Directive.

#### [Deputy Joan Collins](https://www.oireachtas.ie/en/members/member/Joan-Collins.D.2011-03-09/)

Over a year is rather a long time to check that all the *t'*s have been crossed and the *i'*s have been dotted. I know it is important legislation. Thousands of workers are waiting for it to come through for some protection. Irish Life workers in a scheme that is healthy are potentially affected by their DB scheme being wound down. There is also Ryanair and INM. This was flagged last May in the heads of the Bill in respect of the two areas, the 12 months' notice to trustees from the bosses to cease contributions, and provision that if trustees and employer cannot agree a funding proposal, the Pensions Authority would intervene and set a contribution schedule. Many workers saw that as a protection and they are hugely disappointed. It is disgraceful that over a year later we are still waiting for the legislation to come through.

#### [Deputy Bríd Smith](https://www.oireachtas.ie/en/members/member/Br%C3%ADd-Smith.D.2016-10-03/)

My question is very similar. The real tragedy here is that we are missing an opportunity to do what they do in Britain and elsewhere in Europe and that is to put manners on companies that are in very good health when it comes to their pension schemes, yet decide to move workers off DB and onto DC schemes. That is exactly what is happening in Irish Life, and it has happened in INM and AIB. It is a money grab by these companies. They are not struggling. They are not underfunded, or in trouble. What they are trying to do is offload what would be very good futures and healthy pensions for workers so that they maximise their profits. That is what is missing from this tiny little amendment to which we have been reduced. Has the Minister been lobbied by Irish Life, IBEC, or any of their representatives, to reduce what was substantial to something very minimal? The provision has been watered down very substantively and I do not believe it will return to the original proposals that the Minister made.

#### [Min](https://www.oireachtas.ie/en/members/member/Regina-Doherty.D.2011-03-09/)ister for Social Protection

I can categorically say "no", but I am not sure to what the Deputy is referring. Nothing has been watered down. The amendments have not been drafted. I do not know what the Deputy is referring to, or what she is holding in her hand. What we released in the heads of the Bill are currently being drafted in amendments. There are no changes, no lessening, no meetings with anybody.

I have to put on the record that my husband works in Irish Life, but he works in IT. I have not been lobbied by anybody in Irish Life. To my recollection, I meet IBEC regularly but it is usually with regard to the Employment Bill and not this particular Bill. I will have to check my records but I do not recall having been lobbied on this particular Bill. Let me be very clear; it would not make a blind bit of difference to me because the intentions are set. They are clear. They were set a year ago, as Deputy Collins has said.

Yes, we are all waiting for the amendments. I am awaiting them as eagerly as the Deputies are. I am told they are very close to being finalised. I am also told they are very complex. When we talk about pensions, people put on that kind of pinchy face as if it is complex and most people do not understand it. What I understand is that the obligations and objectives of this legislation are to ensure there is a set of rules that is fair to both the employers and employees in DB pensions going forward. The sooner we get the amendments and get to Committee Stage, the better for all of us.

#### [Deputy Joan Collins](https://www.oireachtas.ie/en/members/member/Joan-Collins.D.2011-03-09/)

With all due respect, there are no persons more eager for these amendments to come through than the workers themselves whose pensions are being attacked in healthy funds by companies that can well afford to keep DB pensions going. It is a money grab by many of these companies. The Minister is awaiting the amendments. When it was published, the Bill did not include any amendments relating to DB schemes. This is why people are concerned that it is not on the agenda and has been pulled by the Department or the Minister. This needs to be brought in quickly. The workers in Irish Life are eagerly awaiting the introduction of this measure so there would be some sort of protection for them. It was very remiss of the Department and the Minister not to have brought this in even more quickly than has been the case.

#### [Deputy Bríd Smith](https://www.oireachtas.ie/en/members/member/Br%C3%ADd-Smith.D.2016-10-03/)

I do not think I argued that the heads of Bill were cast iron, but I do think they were more elaborate than what we have. I know the Minister said it is complex and we all pinch our faces when we talk about pensions. I probably do more than pinch my face because I do not have a great understanding of them, not having been involved in a pension scheme to date. It cannot be as complex to do something in Ireland that has already been done in Britain and across Europe, which is to protect workers in DB schemes from being pushed into DC schemes by companies that are completely solvent and that are in fact very healthy. Other Deputies have named these companies, as have I, and other Bills have been submitted by Fianna Fáil, Sinn Féin and Labour that would do the same job, but have been held back because the Government Bill goes forward. It is being delayed to the point of utter frustration and probably huge disappointment on the part of workers. Since the Minister's husband works there, the Minister will know that this is the biggest pension organiser in the country. If it gets away with this, it is leading by example and so will the 110 other schemes that control DB.

#### [Min](https://www.oireachtas.ie/en/members/member/Regina-Doherty.D.2011-03-09/)ister for Social Protection

Could I be very careful with language? No one is getting away with anything. What is happening in Irish Life is entirely legal so no one is getting away with anything. Second, we do not have the proposed amendments. What we have are the draft heads of a Bill. We do not have the amendments yet. This is what we are all anxiously awaiting, with me being first in the queue. If and when the new legislation is enacted, it will not stop what is happening in Irish Life because it is currently legal. All that will happen is that a scheme will have to give a minimum notice period of 12 months before the contributions can be stopped. That is the only thing that will happen. Irish Life gave well in excess of 12 months' notice so even if the legislation were passed, it would still not be breaking the law.

#### [Deputy John Brady](https://www.oireachtas.ie/en/members/member/John-Brady.D.2016-10-03/)

However, it gives other parties the opportunity to put forward amendments.

#### [Min](https://www.oireachtas.ie/en/members/member/Regina-Doherty.D.2011-03-09/)ister for Social Protection

I am not sure what the people who are contacting Deputy Bríd Smith are expecting. We will have that when the amendments are dealt with on Committee Stage and we can have a look at them, but the proposals in the heads of Bill seen by Deputy Smith beforehand will not stop what is happening in Irish Life because Irish Life is not doing anything illegal. If the new legislation were passed, the only change is that it would be obliged by legislation to give a 12 month notice period, but it gave in excess of that anyway.

**Written Questions**

**DB Schemes**

***Deputy Paul Murphy****asked the****Minister for Employment Affairs and Social Protection****if legislation to prevent employers from unilaterally downgrading their employees' pension schemes from DB to DC is planned; and if she will make a statement on the matter.*

***Deputy Willie O'Dea****asked the****Minister for Employment Affairs and Social Protection****her plans to address issues in relation to DB pensions; if her plans will deal with the situation being currently experienced by workers in a company (details supplied); and if she will make a statement on the matter.*

***Deputy John Brassil****asked the****Minister for Employment Affairs and Social Protection****the steps she is taking to protect the DB scheme of persons in an organisation (details supplied); and if she will make a statement on the matter.*

***Deputy Willie Penrose****asked the****Minister for Employment Affairs and Social Protection****the status of her plans to protect DB schemes; and if she will make a statement on the matter.*

#### [Min](https://www.oireachtas.ie/en/members/member/Regina-Doherty.D.2011-03-09/)ister for Social Protection

Almost all Irish DB schemes have a rule that allows the employer to cease contributions, usually after a notice period. Currently, there is no legislative obligation on the employer to make contributions and no further liability on the employer where contributions cease. Neither is there an obligation on the employer to give notice to members or to consult in advance of ceasing contributions. In the case of DB schemes, neither I, nor the Pensions Authority, have power under legislation to intervene to compel an employer to continue to make contributions to a scheme. Even where a scheme is closed to new members or to future accrual of benefits, the sponsoring employer role continues in relation to that scheme.

The *Roadmap for Pensions Reform*, published in February, details specific measures that will modernise our pension system. It sets out under Strand 4, ‘*Measures to Support the Operation of Defined Benefit Schemes*’, that the Government is committed to advancing the Social Welfare, Pensions and Civil Registration Bill 2017. The purpose of this Bill is to respond to the ongoing difficulties in DB schemes and to increase protections for members as well as encouraging employers to ensure that schemes are well funded and managed. The General Scheme of the Bill was published in May 2017, and contained a number of key measures relating to DB pension schemes. These proposed provisions will ensure that an employer cannot “walk away” at short notice from the pension scheme it is supporting by providing a 12 month notification period where an employer is seeking to cease making contributions to a scheme. The amendments seek a middle road between the current position where employers can abandon DB schemes and full and immediate debt on employer provisions. The measures will act to support existing provisions in the Pensions Act and will provide for further protection for scheme members’ benefits and enhance employer responsibilities for their schemes. The amendments also provide for more frequent monitoring of the financial position of schemes and will further provide that, where a scheme is in deficit and a funding proposal has not been put in place in a timely manner, the Pensions Authority may direct steps to be taken to ensure that the scheme meets the Funding Standard.

It is important to note that if this new legislation is enacted, a sponsoring employer will have to give a minimum notice period of twelve months before contributions to a scheme can cease. However, it will not prevent a company from ceasing contributions once the minimum notice period is served provided the scheme meets the Minimum Funding Standard. These provisions are quite technical and complex. Work to finalise them is at an advanced stage and I hope to be in position to bring forward the amendments at Committee Stage in the near future.

**Pension Levy**

***Deputy Peter Burke****asked the****Minister for Finance****when it is envisaged to terminate the Pension Levy in view of the fact that four years was its original timeframe; the areas to which revenue raised from the Pension Levy is allocated; and if he will make a statement on the matter.*

#### [Minister for Finance](https://www.oireachtas.ie/en/members/member/Paschal-Donohoe.S.2007-07-23/)

The Pension Levy has ceased since 2015. Revenues raised were not hypothecated and formed part of the Exchequer. When introduced by the previous Government, it was announced that the equivalent of the funds raised would be used to fund the tax reductions and expenditure measures introduced in the Jobs Initiative.

**Public Service Pensions**

***Deputy Declan Breathnach****asked the****Minister for Public Expenditure and Reform*** *the status of the Single Public Service Pension Scheme and proposed regulations to provide for a facility for the purchase and transfer of additional pension benefits by Single Scheme members; the timeframe for the changes to come into effect; and if he will make a statement on the matter.*

#### [Minister for Public Expenditure and Reform](https://www.oireachtas.ie/en/members/member/Paschal-Donohoe.S.2007-07-23/)

There is no specific provision in the Public Service Pensions (Single Scheme and Other Provisions) Act 2012 to provide for the augmentation of pension benefits by individual members of the Single Scheme. Notwithstanding this, a commitment has been given that a facility for the purchase and transfer of additional pension benefits by Single Scheme members would be provided by way of Regulations under the Single Scheme Act. Appropriate Regulations are being drafted and these will set out the rules of the new scheme.  Consistent with the structure of the Single Scheme, it is intended that the Regulations will allow Single Scheme members to purchase additional pension and lump sum referable amounts to augment pension benefits accrued under the Scheme. The Regulations are also expected to provide for the transfer of pension entitlements accrued in certain other Revenue approved pension schemes to the Single Scheme. The pricing of purchased benefits will be based on the actuarially calculated cost of paying out those benefits at retirement and will operate on a cost neutral basis to the Exchequer.

In recent months, there has been an opportunity to devote considerable additional attention to the drafting of the Regulations. The draft scheme is currently subject to detailed legal and other considerations and the intention is to bring forward Regulations on the new scheme as soon as these considerations are complete. I am optimistic that the momentum achieved recently can be maintained to ensure that the Regulations will be finalised in the coming months.

**Public Sector Pension Increases**

***Deputy Robert Troy****asked the****Minister for Public Expenditure and Reform****when it is envisaged that public sector pensioners that retired from the public sector will receive pension increases.*

#### [Minister for Public Expenditure and Reform](https://www.oireachtas.ie/en/members/member/Paschal-Donohoe.S.2007-07-23/)

My Department issued circulars in December 2017 and January 2018 authorising the application to qualifying public service pensions of certain public service pay increases, and giving guidance on the implementation of those pension increases.

DPER Circular 20/2017, which issued in December 2017, authorised public service pension increases with effect from 1 September 2017, by reference to certain public service pay increases in 2016 and 2017. These pension increases are mostly confined to the pensions of persons who retired on basic salaries of up to €65,000 in the period between 1 March 2012 and either 1 April 2017 or 1 September 2017.

DPER Circular 02/2018, which issued in January 2018, authorised public service pension increases by reference to specified public service pay increases over the 2018 to 2020 period provided for in the Public Service Pay and Pensions Act 2017. The first and only such pay increase to date is the 1% salary increase of 1 January 2018. The pension increases arising by reference to that salary increase are also due with effect from 1 January 2018, and are mostly confined to the pensions of persons who retired in the period from 1 March 2012 to 31 December 2017.

Separate from the pension increases based on salary increases which are covered in the circulars, public service pensions which at end-2017 stood reduced by the PSPR were entitled to an effective increase by way of lower PSPR with effect from 1 January 2018. It is a matter for the large number of public service pension payroll managers in the diverse sectors of the public service to apply these pension increases. I understand that many pensioner groups have already been paid all such increases, while in cases where this is not so, work is underway to ensure that the relevant increases are implemented as soon as possible, with calculation and payment of any arrears also being prioritised.

Wednesday, June 20

No relevant business

Thursday, June 21

**Written Questions**

**Pension Reform**

***Deputy Noel Grealish****asked the****Minister for Finance****if the promised review of the*

*Interdepartmental Pensions Reform and Taxation Group on the cost of funded supplementary pensions will include public sector pension schemes, benefits and contributions; if the promised review is solely for the private sector; the timeline for completion and publication of the review; and if he will make a statement on the matter.*

#### [Minister for Finance](https://www.oireachtas.ie/en/members/member/Paschal-Donohoe.S.2007-07-23/)

Under the *Roadmap for Pensions Reform 2018-2023*, a number of specific actions have been allocated to the InterDepartmental Pensions Reform and Taxation Group (IDPRTG) chaired by the Department of Finance with representatives from the Department as well as from the Department of Public Expenditure & Reform, the Department of Employment Affairs & Social Protection, Revenue and the Pensions Authority.

Action 3.13 of the Roadmap provides for a review of the cost of funded supplementary pensions to the Exchequer in the context of the development of a new auto-enrolment scheme. The State encourages individuals to save for retirement by offering tax incentives when saving for a pension, and marginal tax relief is considered to be a material incentive to encourage such savings. The income draw-down phase is taxed and, to a degree, tax relief on pensions represents a deferral of taxation. Though public sector schemes generally operate on a pay-as-you-go basis, contributions made by public sector employees and pension benefits received by public sector employees are subject to applicable tax laws.

The IDPRTG is currently considering a number of action points that were identified in the Roadmap.  As part consideration, it will be important to canvass the views of interested parties and with this in mind, my Department is planning to shortly launch a public consultation process.  Taking account of the need to give time to elicit the various external views and to then consider the submissions made, my Department is currently planning to report on these matters by the end of the year.

**Seanad**

Tuesday, June 19

No relevant business

Wednesday, June 20

No relevant business

Thursday, June 21

No relevant business

**Oireachtas Committee**

Social Protection Committee

## State Pension Reform: Discussion

#### [Acting Chairman (Deputy Joe Carey)](https://www.oireachtas.ie/index.php/en/members/member/Joe-Carey.D.2007-06-14/)

I welcome from the Department of Employment Affairs and Social Protection, Mr. Tim Duggan, Assistant Secretary, and Ms Helen McDonald and Robert Nicholson, Principal Officers in the Pensions Policy area; and from Age Action Ireland, Ms Corona Joyce, Senior Policy Officer, and Mr. Gerry Scully, Senior Information Officer. I invite Mr. Duggan to make his opening statement.

#### Mr. Tim Duggan

I will try to set out and address the changes that have occurred in the area of pensions and related payments since last July. In short, there have been three main areas of material change: first, measures introduced in Budget 2018; second, measures announced by the Minister towards the end of January this year to deal with people impacted adversely by the 2012 rate band changes; and third, publication of the *Roadmap for Pensions Reform 2018-2023* in February.

I refer first to the Budget 2018 changes. The rate of the State Pension increased by €5 per week and proportionate increases were provided for those on reduced and qualified dependent payments. This brings the full-rate State Pension Contributory to €243.30 per week and the full-rate State Pension Non-Contributory to €232 per week. These became effective in the last week of March. In addition, a Christmas bonus of 85% was applied to all core long-term social welfare payments, including pension payments.

Moving on to the second set of measures, on 23 January this year, the Government agreed to a proposal that will allow pensioners affected by the 2012 changes in rate bands to have their pension entitlement calculated by a new interim TCA, which will include up to 20 years of a new home caring credit. This is expected to significantly benefit many people, particularly women, whose work history includes an extended period of time outside the paid workplace while raising families or in a caring role. It will make it easier for pensioners assessed under the yearly average model to qualify for a higher rate of the Contributory State Pension. The interim TCA, which we refer to as T12, will ensure that the totality of a person’s social insurance contributions, as opposed to the timing of them, determines the final pension outcome for recipients.

Under the new arrangements, a person who reached pension age after 1 September 2012 and has a 40 year record of paid and credited social insurance contributions, subject to a maximum of 20 years of the new home caring credits, will qualify for a maximum contributory pension where he or she satisfies the other qualifying conditions for the scheme. Crucially, unlike the existing homemakers disregard system, periods of home caring before that scheme was introduced in 1994 may be recognised under the new scheme. Up to ten years of other credits, for example, when unemployed or ill, may also be used, subject to the total number of credits not exceeding 20 years. For example, a person might receive a maximum pension based on 20 years of paid [PRSI](https://www.kildarestreet.com/glossary/?gl=2) contributions, five years jobseeker credits and 15 years home caring credits over a 50 year working period.

The interim came into effect from 30 March 2018. Pensioners do not need to contact the Department at this juncture. Instead, the Department will invite approximately 51,000 pensioners who were assessed under the current rate bands in place since 2012 to have their pensions recalculated under T12 to determine if they qualify for a higher rate of entitlement. The Department has established a dedicated unit to progress this initiative and that unit is currently working to design and develop the required processes, procedures, legislation, IT solutions and staffing needed to implement it. Once that work is completed, the Department expects to send out the invitations near the end of the year and to begin payments, including arrears for any period from 30 March 2018, from Q1 2019.

On 28 February, the *Roadmap for Pensions Reform 2018-2023* was published. It details 43 specific actions presented under 6 strands, which taken together, will modernise our pension system while continuing to target resources at those most in need. The first strand is reform of the State Pension; the second concerns a new auto enrolment system; and the third and fourth relate to occupational and private pension schemes and improving measures around those; the fifth relates to further reform of public service pensions provision; and the sixth is about supporting fuller working lives. However, for the purposes of this morning's meeting, I will concentrate briefly on the measures relating to the State Pensions area and auto-enrolment.

The Roadmap confirms the TCA for all new claimants of the Contributory State Pension from 2020 onwards. To this end, the Minister recently launched a public consultation process on TCA. It is important to note that, contrary to some erroneous reporting in the media, no decisions have been made on the key elements of the TCA, such as the number of years of contributions or credits that will be required for a full pension; how self-employed persons who were not in the social insurance system prior to 1988 will be dealt with; or what transitional arrangements may be necessary or suitable on the introduction of the system.

The Minister has made it very clear she is keen to hear people's views on these things before determining recommendations, hence the public consultation process. The Roadmap also sets out to explore how future increases in State Pension payments will be formally linked to the CPI and average wages. This requires study to determine what elements need to be included in calculations and over what periods. We will commence that later in the year. Furthermore, the Roadmap sets out the commitment to no further increases in State Pension age before 2035, beyond the increases to 67 in 2021 and 68 in 2028 that are already legislated for. Any future changes in the State Pension age after 2035 will be linked to increases in life expectancy. Contrary to some media reporting, Ireland will not have the highest pension age in OECD countries by 2028. While Ireland has legislated for a specific age, quite a number of other OECD and EU countries have complicated formulas linked to life expectancy which will result in some of them having the same pension age or higher pension ages than Ireland.

There are also proposals in the Roadmap to provide individuals with the capacity to defer receipt of the State Pension Contributory on an annual basis up to 70. In return, an actuarial adjustment would be applied to increase the rate the person receives when the pension entitlement is drawn down. The objective is to expand cultural norms and perceptions around retirement age and support a positive ageing environment where older people are to the greatest extent possible encouraged and provided with greater flexibility to work to, and beyond, the normal retirement age if they so choose. In addition, the Roadmap sets out how consideration will be given to flexibility with respect to the age at which people who do not have the requisite number of contributions for a full-rate State Pension may continue to make social insurance contributions beyond the State Pension age, again if the person so chooses.

I will address Ireland's supplementary retirement savings gap. The Government has confirmed that by 2022, it will begin implementation of auto enrolment retirement savings. While employees will maintain freedom of choice to opt out should they so choose, the objective is to encourage personal long-term saving for retirement purposes and to help individuals survive what would otherwise be unwanted and significant reductions in living standards at retirement. An InterDepartmental Programme Board has already been established to strategically steer this work and it is intended to launch an auto enrolment straw-man proposal in the near future which will act as the basis for a full national consultation process. The Government has already made it clear it is determined the State Pension is, and will remain, the bedrock of the pension system in Ireland. Accordingly, any auto-enrolment system will not replace, but will simply supplement, the State Pension. It will result in members making DCs into personal accounts which in turn will be supplemented by contributions by employers and the State. However, many of the details of the design are yet to be determined. These will include matters such as the preferred operational structure and governance, the target membership, the contribution rates that may be required, the financial incentives that could be provided by the State, the rate of savings or investment options that may be available, the terms for opt-out and re-enrolment, and the options available for subsequent draw down of pensions. I have listed them to give the Committee a flavour of the types of issues that need to be teased out in the public consultation and the final design of the system. We expect that public consultation to begin in the very near future and to run until Q4. It is intended it will include a number of fora to bring people together for that discussion and debate.

#### Ms Corona Joyce

An increasing number of older people are experiencing fear about retirement due to worries about income adequacy. Less than half of those aged between 20 and 65 have a private pension. Three out of four private sector workers have no pension apart from the Contributory State Pension. A fair State Pension enables older people to age with dignity and independence, keeping them out of poverty. A substantial percentage of older people are reliant on the State Pension for the majority of their income. For those over 65, more than three-quarters of their income is made up of public transfers. Latest CSO SILC figures show a largely unchanged at risk of poverty and consistent poverty rates for the over-65s and that one in five people aged over 65 who lives alone experience deprivation. The at risk of poverty rate stands at €12,358. A full State Pension is slightly above this figure and stands at €12,651. A State Pension for those with an average of 39 or fewer contributions is below the at risk of poverty rate.

A key issue we are seeking to have addressed this year is the change introduced in September 2012 to the eligibility criteria for the Contributory State Pension. An extension of band rates and minimum qualifying contributions saw the top rate for left alone, but it became harder to qualify for it and easier to qualify for the lower payment rates. While those with a full PRSI contribution record and entitled to a full pension were unaffected, many of those with a reduced record lost out. Research commissioned by Age Action on this issue and discussed here previously shows that this change, combined with the averaging rule used to calculate contributions, is punishing women who took time out to care for their children or for other reasons.

Of the 36,000 - now estimated to be more than 50,000 - initially affected by these changes between September 2012 and June 2016, more than 62% were women. They will continue to be affected in the years to come, receiving smaller pro rata increases in the pension. In the October Budget, Age Action is asking the Committee to support two specific proposals. First, an increase in the top rate of the State Contributory Pension of €5 per week and, second, reverse the 2012 cut to the State Pension.

We welcomed the announcement in January 2018 that those affected by the 2012 changes would be offered the option of reassessment under the TCA, including a home-caring credit of up to 20 years. At the time of announcement, it was noted that the TCA 2012 system will address anomalies from the yearly averaging scheme. In particular, the new home-caring credit will have a real impact on people’s lives and enable many more people to avail of a Contributory State Pension while also recognising the valuable contribution they have made to Irish society.

The announcement saw a commitment to target the benefit at those who had periods caring without undermining the contributory nature of the pension scheme. However, thousands of people, both men and women, lost out because of the 2012 changes and will not benefit from the announced initiatives. Among this group are people who worked in countries without bilateral agreements, and the self-employed who were not required to pay PRSI contributions before 1998. Changes in 2012 saw an increase in the minimum level of contributions required for a State Pension from 260 to 520. This change meant that many people are now excluded from the contributory pension and in some cases, this happened overnight.

We would not like to see a new set of anomalies created under the TCA. A requirement for 40 years of contributions to get a full State Pension would mean people with fewer contributions could be worse off than they are today. For example, today somebody with 50% of the required number of average contributions gets 85% of the State Pension. Under the new system, this will fall to 50%. We urge particular consideration of the situation of those due to retire in the coming years who entered the system under one set of rules and may be disproportionately disadvantaged by changes introduced just before they retire. How the self-employed will be dealt with under the system remains unclear, as does any possibility of purchasing additional credits.

To date, Ireland has been unusual in setting the pension rate in the Budget every year without using any particular formula. We welcome the commitment in the Roadmap to benchmark the State Pension to 34% of average earnings, with future increases to depend on the CPI or average wages. To ensure those reliant on the State Pension would not fall into poverty, the NPF committed to sustaining the value of the State Pension at 35% of average weekly earnings. We recommend a Roadmap to get to 35% to reach this commitment. CSO figures for the first quarter of 2018 indicate that average weekly earnings are €742.19. This would indicate a State Pension of €259.77, which is substantially higher than the current rate. Taking current figures, this would provide older people with an additional €846 per year.

Departmental figures show the State Pension system cost approximately €7.3 billion in 2017 and payments to more than 600,000 people over the age of 66 were made every week. Demographic changes alone will lead to an increase of approximately €200 million per year in the State Pension. Even with the retirement age due to rise to 68 by 2028, there is a legitimate question on the sustainability of the State Pension system. People are living longer, healthier and more active lives. We need to develop solutions to fund the State Pension that enable people to age in dignity and to support older people who wish to continue working but who fall victim to ageism and discriminatory mandatory retirement clauses.

We welcome recent guidance on longer working lives from the WRC and the Irish Human Rights and Equality Commission. A more flexible approach to retirement age is needed in the context of living longer and increasing pension ages. If they could, many older workers would choose to continue to work. We would like to see progress on the 2017 Bill to abolish mandatory retirement clauses and for it to move to Committee Stage. The delay in the progress of the Bill is leaving people in limbo and, in some cases, is forcing them to retire against their will. A fair State Pension would enable older people to age with dignity and independence, keeping them out of poverty.

#### [Deputy Willie O'Dea](https://www.oireachtas.ie/index.php/en/members/member/Willie-O'Dea.D.1982-03-09/)

I have one or two points on Mr. Duggan's presentation. The intention, as he has reiterated, is to have this in place for payments by Q1 2019. He has told us the letters will go out towards the end of the year, and approximately 51,000 letters are to go out, and payments, including arrears, will start from March 2019. Is Mr. Duggan confident of achieving the objective of this being in place by Q1? A total of 51,000 individual cases must be looked at and processed. I got the initial impression from the Minister that the letters would be going out much sooner, but it looks like they will not be going out until towards the end of the year.

Mr. Duggan said the homemakers credit will be paid up to a potential maximum of 20 years and that those on social welfare could claim other credits of ten years. Let us assume somebody has more than 20 years between both. Is the maximum for both 20 years, or is the 20 years confined to homemakers credit?

Ms Joyce referred to the great deal of angst about the change from 260 contributions to 520 contributions for a basic qualification. Are there any plans to look at this? The statements emanating from the Department and from interviews the Minister has given indicate it is not up for discussion. Could we find out what exactly the position is on this?

What has been said on auto-enrolment indicates the Department is up for discussion on consideration as to how exactly it will be implemented, by which I mean whether it will be done separately by the State or farmed out to some of the private pension providers. I am not opting for one or the other; but note that according to friends in the UK, when auto-enrolment there was set up, the initial cost of establishing and developing the technology was pretty horrendous and a multiple of what was anticipated. I suspect if that is the case here - as a smaller country, proportionally the costs could be even higher - ultimately, the pensioners will be those who will pay for it.

#### Mr. Tim Duggan

I am as confident as I can be that we will progress the initiative sufficiently this year to start making the payments in Q1 next year, as promised. We have always said we would start issuing the invitations in Q4. The reason is that we knew we had to build processes and procedures. We had to get legislation drafted and enacted, and we had to get a complicated IT system developed. We always knew it would take more than six months to get all the preparatory work done and, therefore, Q4 was when we could start issuing letters to people. We want the systems to be ready and we do not want any delays once people are invited to seek a review. Many of them will be simple and easy to process. There will be no big issue trying to work out whether they are entitled. It will be a simple calculation, particularly with the system I mentioned. Consequently, once we are able to issue invitations, I am confident we will get payments going for all those cases quickly. Hence, Q1 is realistic.

There will be some cases where we will have to do exploratory work. While we are keen to ensure we do not put a heavy burden or onus of proof on anybody, we are obliged to protect the SIF and taxpayers' money and, therefore, we will have to do certain checks to comply with C&AG requirements and obligations. Aside from that, we will make this as simple as we can for people. I am confident we will get payments going in Q1 next year.

The home caring credit of 20 years is new. There has not been anything similar to it previously. A disregard was introduced in 1994, but that is not a credit. It is a disregard and it only works in a yearly averaging system. It would not work in a system that is reliant on counting the number of contributions rather than an averaging approach. There has always been a limit on the number of credits people could claim for pension calculation purposes. In this case, we have set the home caring credit at the maximum limit. A person can claim 20 years of credits in whatever way the person wishes that pertains to the person's life and the circumstances in which he or she found himself or herself, but there is a limit of 20 years. We did not put the same limit on home caring as is on all the other credit systems. We allowed it to be at the maximum, and the maximum has been maintained.

The move from 260 to 520 contributions is not new. While it was introduced near the beginning of the decade, the reality is that it was introduced in legislation in the 1990s, not in 2012. It has been flagged for 20 years and came from a significant volume of analyses and reports carried out over the years. The legislation has been on the Statute Book for a long time.

With regard to auto enrolment in the UK, the Deputy is correct that initial costs were high. A number of aspects in the UK are different. First, the scale is significantly vast compared with here. That does not mean we do not have high costs, but that there is a proportionality element to it. Second, the UK felt it had to introduce a backstop arrangement, if I can use that phrase. My UK colleagues do not appear to like it much. It had to introduce a contingency in the event that the market did not provide a service to low income individuals, in particular. That has resulted in much of the significant cost the Deputy mentioned. It will go out for consultation so we are not being definitive about any aspect of the design, but we will be particularly interested to hear people's views on that matter and whether there is a necessity for a State default. However, there are also alternatives that would not require that and thereby would not incur the type of costs the Deputy mentioned. I am hopeful that we could steer it in that direction.

#### [Deputy John Brady](https://www.oireachtas.ie/index.php/en/members/member/John-Brady.D.2016-10-03/)

With regard to the overall TCA, Mr. Duggan said no figure has been put on it. However, it has been widely circulated that it will be up to 40 years. It would be alarming if that was the case, but we have to hear officially what it is. It is thought that it will be between 30 and 40 years. The self-employed have been identified as a cause of concern and returning emigrants will be another concern. Many people have been forced to leave these shores against their will to find employment elsewhere. What provision will be made for them?

The pension age will increase to 67 in 2021 and it will go up again in 2028. There is a serious anomaly currently where people are forced to resign at 65 due to the nature of their contracts and then must sign on for Jobseeker'sPpayment for a year until they get the State Pension at 66. What thought has been given to this by the Department? Is it expected that people will be forced to sign on for Jobseeker's Payment for two years when the pension age increases to 67? The Department will be aware that I have introduced legislation on this but, like many other legislative measures tabled by the Opposition, it is caught in the red tape the Government has brought forward and is waiting on a money message.

The other concern is that the pension age will then go up to 68 in 2028. Contrary to what Mr. Duggan said with regard to other OECD countries, Ireland far exceeds any of its EU counterparts in terms of how fast we are moving to increase the pension age and the timeframe for progressing it. The UK, for example, is only increasing its pension age to 67 in 2028. At the same time, we will increase ours to 68. Germany will not increase the age to 67 until 2031. It is also frightening that, in 2035, we will review this again with the possibility of increasing it further. I have serious concerns about this.

I have a few questions for Age Action. Are they satisfied with the TCA being put forward and the continued reliance on contributions? Should it be a basic or a universal pension? What are its views on auto-enrolment? Is the increase of €5 the main issue for the people it represents?

#### Mr. Tim Duggan

We are more than happy to take suggestions from anybody, including the Committee. We will discuss what the audit expectation is from the C&AG. We have not made any firm decisions. That is part of the design work we are doing.

I can be definitive that no decision has been made on the number of years of contributions required for the TCA and we have said this on every occasion we have spoken publicly. It is very much an issue to be decided and we genuinely want to hear people's views.

#### [Chairman](https://www.oireachtas.ie/index.php/en/members/member/John-Curran.D.2002-06-06/) (Deputy John Curran)

I have a technical point to make. There is concern because the 2020 solution provides for a 40-year pension life and Mr. Duggan is correct that this is not necessarily the same as the post-2020 total contribution scheme. He then suggested people make recommendations, but the problem with that is that we are blind when we make them. We do not know the cost of any of the moves. If we decided that total contributions should be a 30-year scheme, we have no means of determining whether that will increase the total budget by 10%, 20% or 50%. We can objectively look at the issues as they arise but it is difficult to know what the cost of implementation might be.

#### Mr. Tim Duggan

The actuarial review of the SIF has a number of models, to which we refer in the consultation paper. That sets out the costings for each of them. I will not be able to be definitive because it does not just depend on the number of years of contributions. We want to hear from people what they think the shape of the scheme should be and how many years of credits for various things should be facilitated. We would like to achieve a balance. The Deputy is suggesting that a requirement for 40 years of contributions for a full pension is too long. I do not buy into the sense of alarm because that must be balanced by the fact that people are living much longer than in the past and the likelihood that an extensive and reasonable system of credits will be provided that will also be available for a range of contingencies. When these factors are combined, the 40 years of total contributions is not as long as it may seem. It should not be viewed in stark terms, but in the round. Rather than taking the figure of 40 years and saying it is horrendous, we must look at what else is part of the package. The introduction of the new home caring credit, which is unlimited in the sense that it has no start date and is for a full 20 years, is a significant development. This option did not exist previously and makes a great difference to the calculation of the 40 years. A range of credits is also available to people, depending on their contingency, that will also significantly mitigate the 40 years' requirement. Notwithstanding that, no decision has been made on whether the period will be 40, 30, 32 or 35 years, for that matter.

Furthermore, no decisions have been made on how people in self-employment will be treated under the TCA model. We are acutely aware that self-employed people only came into the system in 1988 and, consequently, the maximum number of years of contributions they would have if they were to retire in 2020 under the new TCA approach would be 32. If the model was 40 years, they would end up with a 80% pension, but if it was a 30-year model, there would be no problem. It depends on the final model. In addition, if the final decision is that the years required will be in excess of what the self-employed could attain in the period available since 1988, we will have to introduce some transitionary measures to deal with the issue. The consultation paper asks respondents what these measures should be or what shape they should take. We genuinely want to hear what people have to say on this, not only public representatives but also self-employed persons and those who represent them.

It is not the case that we are on our own regarding the increase in the pension age. The difficulty with making comparisons across Europe is that it is almost impossible because Ireland is one of the only countries that sets a definitive retirement age at a definitive full year age. It is 66 now and will be 67 in 2021. A large number of countries have adopted crazy pension ages, for example, 66 and five months, and use complicated formulas for determining what the pension age will be in future. At least ten of the existing EU States use formulas based on life expectancy to determine what the pension age will be in future. As a consequence, it is impossible to do a direct comparison with Ireland. I will give a few examples. The age in the Netherlands is now 65 and nine months and is increasing by three or four months each year. Next year, it will be 66 and one month, and the following year it will be 66 and five months and so on. It is expected to reach 67 by the end of 2021 or beginning of 2022, and it will continue to increase based on life expectancy. There is no doubt that, under the Dutch model, the pension age in the Netherlands will exceed 68 by 2028. Numerous other countries have similar types of systems. In Greece, the age is now 67 and the country has introduced a life expectancy element that will increase by a number of months each year. It will have increased considerably by 2028. The age in Italy will reach 67 in the near future and it has also introduced a life expectancy calculation that will increase by several months each year. We believe the age in many countries will exceed 68 before Ireland reaches it.

#### [Deputy John Brady](https://www.oireachtas.ie/index.php/en/members/member/John-Brady.D.2016-10-03/)

Mr. Duggan has probably picked out the EU countries with the more complicated systems. In Austria, for instance, the age is 65 for men and 60 for women and will move to 65 for both by 2033. I have already given the example of Germany, where the age is moving to 67 for men and women in 2031. There is no complicated methodology or procedure in those cases and no link to life expectancy. We are moving further and faster than any of our EU counterparts.

#### Mr. Tim Duggan

The main point is we are not the only country increasing the State Pension age or increasing it to the level we have proposed. Many countries are doing exactly the same as we are, but they are doing it in a more complicated way. It is a pretence that Ireland will be alone in 68 years by 2028. That message is misleading.

On the mandatory retirement age, we have always said that there was no such thing in Ireland. If people retire from an occupation at 65, that is a matter of the contract between them and their employer. There is no statutory retirement age and there never has been. The reform plan sets out a number of measures to extract people from what has become a societal norm. EU law does not necessarily support this norm and objective justification is now needed for setting retirement ages in employment contracts. Employers must consider very carefully how they will deal with the law in this area, which changed in 2015.

#### [Deputy John Brady](https://www.oireachtas.ie/index.php/en/members/member/John-Brady.D.2016-10-03/)

We are now caught with red tape. All the evidence is available and people want to stay in work. They are being forced to sign on for a Jobseeker's Payment for a full year because they cannot get their State Pension at 65.

#### [Chairman](https://www.oireachtas.ie/index.php/en/members/member/John-Curran.D.2002-06-06/) (Deputy John Curran)

The Deputy has made his point. He addressed several questions to the witnesses from Age Action and I want to afford them the opportunity to respond.

#### Ms Corona Joyce

I will begin with the point made about mandatory retirement. We would welcome more efforts and work being done to have a greater discussion and quicker movement on the issue because it is creating significant uncertainty in people's lives.

The most recent OECD work on pensions recommends looking at flexible contracts and retirement dates. Flexible retirement dates have not worked, for example, in Germany. A combination of a flexible retirement date and allowing access to a proportion of a pension payment seemed to be a greater incentive and resulted in a higher take-up. Throughout the OECD area, 50% of people over 65 engage in part-time work. Some further work could be done on that issue.

On the specific question of whether we are satisfied with the TCA or the universal pension, my colleague will comment on that issue, but the options are worth exploring. Anything which would give greater certainty to older people coming up to and in retirement would be positive.

On auto enrolment, we welcome anything which will lead to greater security in retirement and older age. There are a few questions we and others have about the implementation of such a scheme, including fund administration and the privatisation of risk. We should be mindful of the lessons learned in other countries.

On whether the amount of €5 is our main concern, there is a €16 gap with the State Pension. Indexing it at 35% of average earnings was a commitment given in the NPF.

#### Mr. Gerard Scully

In principle, we accept and welcome the TCA. The move from averaging is long overdue. Averaging was iniquitous and penalised almost everybody. People were affected by the changes made in 2012. The total contributions approach is what should be used in the future. I accept that the 40-year period is up for discussion. The problem is a 40-year benchmark is being imposed on people who were affected by the changes made in 2012. People who will retire after 2020 may have a much lower benchmark to meet, which is very unfair. It disadvantages persons who retired after 2012 and will do so before 2020.

#### [Chairman](https://www.oireachtas.ie/index.php/en/members/member/John-Curran.D.2002-06-06/) (Deputy John Curran)

My understanding which Mr. Duggan can confirm is that when the new scheme is introduced, persons in receipt of existing pensions will be able to transition to it and not be disadvantaged by the implementation of the new scheme. Is that correct?

#### Mr. Tim Duggan

Yes. I will be absolutely clear. The Government considered our report which has been published on the website for anyone who wants to look at it. It states that if the final design of the TCA is more favourable than the 2012 interim model for those pensioners who opted in to it, they will be allowed to transfer to the final scheme in 2020. They will be not be disadvantaged at all.

#### [Senator Alice-Mary Higgins](https://www.oireachtas.ie/index.php/en/members/member/Alice-Mary-Higgins.S.2016-04-25/)

Are there plans to allow care credits to also serve as re-entry credits? Will those who

may, for example, have accumulated five years of care credits be able to use them to access back-to-education schemes which may have onerous requirements to be met? If one did not work in the two year period prior to becoming a carer, one will not have contributions towards a pension. Will the contributions count and will they be separate from the tenure periods mentioned such as the times in receipt of Jobseeker's Allowance rather than the time spent providing care?

#### Mr. Tim Duggan

We are looking at Carer's Allowance. There are also a number of other issues being considered. We have to consider the matter very carefully because wrinkles are caused in other areas. We have to be sure that when we address the issue, we wil not create yet another anomaly which will have to be dealt with by some other measure. The issue is being looked at favourably. We do not intend to use the payment in the case of re-entry credits.

#### [Senator Alice-Mary Higgins](https://www.oireachtas.ie/index.php/en/members/member/Alice-Mary-Higgins.S.2016-04-25/)

I wish to address the contributory thresholds. I credit Minister Doherty, for introducing the care credit. I believe she has embraced and recognised the contribution those provide care make. However, the other thing that happened in 2012 was that the bar moved. I will come to the issue of signalling the move. The number of contributions moved from 260 to 520 and a large number of people found themselves falling down the bands to reduced rate pensions, particularly, as it happened, women. The change had a huge impact and created a lot of the concern in 2012, yet the solution makes the same mistake. Where previously there was a move from 260 to 520 contributions, people are now required to have 1,040 credits and contributions alongside the 20-year requirement, presuming that they will the maximum of 20-year care credit, which will be difficult.

#### Mr. Tim Duggan

They do not need to account for those 20 years in order to qualify for a pension. The issue of a full-rate pension is totally different from qualifying for a pension.To receive a full-rate State Contributory Pension, a person must have worked or paid contributions for 20 years out of a possible 50. Bearing in mind that it is a contributory system and has been since 1961 when it was introduced, 20 years out of 50 does not seem to be that onerous to qualify for a full-rate pension.

#### [Senator Alice-Mary Higgins](https://www.oireachtas.ie/index.php/en/members/member/Alice-Mary-Higgins.S.2016-04-25/)

Mr. Duggan indicated that there had been a signalling for 20 years, from the 1990s until 2012, in advance of the change in the threshold from 260 to 520 contributions. My concern is that potentially we are talking about a two-year period of signalling if we bring forward the TCA in 2020, whereby the requirement will be doubled from 20 years to 40. I know that Mr. Duggan has said no decision has been made, but he is seeking an opinion. As such, I think doubling the requirement with a two-year lead-in period is completely unfeasible, unacceptable and dangerous.

#### Mr. Tim Duggan

That is not accurate. In 2010, the NPF proposed a total contributions approach in the calculation of the State Contributory Pension. It set out a 30-year model. However, it only set out a requirement to have ten years of credits. Also they were only allowed from 1994 onwards. As such, there have been at least ten years of notification during the 20 year period about which the Senator is talking.

#### [Senator Alice-Mary Higgins](https://www.oireachtas.ie/index.php/en/members/member/Alice-Mary-Higgins.S.2016-04-25/)

I am very concerned about the 40 years. Those who have insecure employment, returning emigrants and immigrants have gaps in contributions and the lead-in to the change of adding ten years will really affect anybody between the ages of 40 and 50 years. What are the changes in respect of voluntary contributions? The threshold for making voluntary contributions was raised from an income of €260 per week to €520 per week. If we were to see a change in the requirement, we would need to be absolutely assured that people could make voluntary contributions. I would be concerned if we saw a raising of the threshold. Can we be reassured that the threshold for making voluntary contributions will not be raised if people potentially are to be meeting new targets?

I welcome the indexing of the contributory pension. Is it planned to index the non-contributory pension, perhaps at a slightly lower rate, so that there would be some level of a similar guarantee and predictability in respect of the non-contributory pension?

#### Mr. Tim Duggan

State Pension Contributory (SPC) indexation is not particularly referenced and it is not intended to do that. It has always been the case that it has effectively marked the SPC. We do not see that changing. Any indexation of SPC is likely to result in the SPC continuing to mark it, unless a Government changes a policy in that respect.

The voluntary contributions will continue. There is no change in that respect, but I cannot give commitments in respect of thresholds. That is obviously a Government policy matter and will probably be dealt with in a budgetary context. I could not possibly give a commitment on that.

I will ask my colleague, Mr. Robert Nicholson to speak on auto enrolment because he has studied the UK system in particular and he is heading up our programme office dealing with it.

On the question of tax relief, there is a study under way spearheaded by the Department of Finance on tax relief generally and on tax relief on pensions in particular. Any decisions in that respect will be Government decisions arising from that interDepartmental study by the Department of Finance. They are hoping to conclude by the end of this year.

#### Mr. Robert Nicholson

I will now address the queries on auto enrolment, including those raised by the witnesses from Age Action. On the question of the target membership and who will be enrolled, that needs to be defined by the objective of the system itself. Usually, supplementary second pillar pensions are concerned with consumption smoothing, so avoiding reductions in living standards at retirement. That is generally an income-based measure to prevent those reductions. If that is the target membership, one is then in the space of the level of pre-retirement earnings of the individual. For example if the State Pension is €12,500 or €13,000 per annum, is it legitimate to enrol somebody in a pension who is earning less than that when they will get a higher replacement rate from the State Pension than they would from their earnings? It is then balancing the question of the cost of those contributions to the individual with a limited discretionary income in terms of short-term demands as against long-term gain. The question is where the balance is in that case.

I think in the reform plan, a figure of €20,000 was given as an indicator because we know definitively at that level of income that individuals will suffer a material reduction in living standards when they retire, even with the State Pension, so they should be enrolled. The space below that begins to be more challenging for the reasons I have mentioned but also because, typically speaking, it would proportionately affect certain groups more, for example, women, because they work part time - and as the ESRI has highlighted a greater number of women are on the minimum wage as are people from the ethnic minorities and people with disabilities. We need to look at those issues and again no decisions have been made, but it is a fundamental for auto enrolment.

On the questions of fund administration, privatising risk and so on, traditionally in pensions policy there is the multi-pillar system, where the State, through the SIF guarantees a minimum level of income and poverty avoidance in terms of the State Pension and then adequacy is around what the individual needs in order to maintain his or her living standard. Again that is an earnings-related indicator. The framework as to how that is to be managed in terms of auto enrolment is yet to be decided. There are major questions around a public service obligation on the State structure, as in the UK, or does one move towards a structure where there is State involvement but a regulation of the number of providers, or does one just roll out the existing retail structure. The key question Ireland has to answer relates to population because we have a far smaller population than the UK in terms of generating economies of scale. In the UK, there is the National Employment Savings Trust, which Deputy O'Dea referred to earlier, and it has 7 million members. We estimate the population in Ireland for such a scheme would be between 500,000 and 800,000, but we absolutely believe they need to go into a small number of large, efficient pension schemes. What that small number is has to be defined - is it one, two, five, ten? We do not believe that the existing infrastructure is fit for purpose. We believe it is very difficult to provide services to lower income earners at a cost that makes it economical to do so, unless one generates scale, and the impact then is on the member outcomes because they pay more for the service. We know scale creates the capacity to deliver services to these individuals. If it is to be an earnings related system where an individual in investing to work their income to generate retirement income, there will be an element of risk. That is about getting the default options right. We know that in the UK, 90% of people are defaulted into a choice quality assured investment package and that 90% of them stay in it. The design of that package and how it should be structured is crucial. However, again, that has not been looked at in detail yet.

Tax relief is a matter for the Minister for Finance in the Budget. We talked to over 50 sectorial interest groups representing all strands on auto enrolment. There have been two broad arguments. First, it is argued tax relief, as it stands, is more beneficial to higher earners, which is unfair. Second, it is claimed that the first argument does not consider the amount higher earners contribute to the SIF, which is then redistributed to provide State Pensions to lower earners. It also does not recognise the proportionately greater level of tax that higher earners pay and tax in drawdown. I am not taking a position on these but those are the two ends of the spectrum from our discussions.

From an auto enrolment point of view as a policymaker, the question that has to be answered is what the policy objective is. In this case, our policy objective is to enrol middle and lower income earners into a product which will generate a reasonable retirement income. Is the financial incentive, as it is structured, suitable to ensure those people stay in the system and save? That is a question for which I do not have an answer. One must look at the potential behavioural impact of change. We need to recognise that people of modest income levels, €32,800 and above, are receiving marginal rates of tax relief on those pension contributions. Effectively, a change to that system would be a pay reduction for those individuals and may result in the opposite behaviour we want. It may encourage them to opt out of pension saving rather than opt in. It is absolutely not an easy question to answer. It is fundamental to the success of auto-enrolment and a key one for our consultation process, as well as for the review the Department of Finance is undertaking.

#### Ms Corona Joyce

On the link between the Contributory State Pension and Non-Contributory State Pension, we did bring up in our submission the point about having protection for the Non-Contributory Pension. It is currently linked at the top rate of 95%. We would like to see a categorical and stated link between both pensions. It gives clarity to people and a little bit of security.

Another point which has come up in discussions is that the proposal is linked to the CPI and average wages. What will be the impact if that decreases? What will be the knock-on effect for the Non-Contributory State Pension as well? We are talking about a minimum protection for both, particularly for the Non-Contributory Pension.

Is there any room for discussion for the 520 contributions threshold? We get calls on that quite frequently. People are unsure if they will be included in the TCA 2012 and we would welcome clarity on that. Regardless of whether 30 years or 40 years is decided in the consultation process, we would like to flag that a clear transitional timeline needs to be put into effect to allow people to acquire voluntary contributions and to make appropriate plans for the future as well. We are looking within two years for that to come into effect.

On auto enrolment, €20,000 was mentioned as a base figure for opting into the system. For those who may be underneath that income threshold but may wish to avail of it, will it be possible for them or can they expect a State contribution for that? We would welcome more clarity on this.

We have talked about risk management and the State’s role in regulating this area. The more certainty and regulation that people can have the better.

#### [Senator Alice-Mary Higgins](https://www.oireachtas.ie/index.php/en/members/member/Alice-Mary-Higgins.S.2016-04-25/)

On the extension of the age, for example, France recognises the age people start work. It was stated some measure may need to be looked at around facilitating part-time workers. Should we be requiring full-time availability for work in those later years or have a measure such as Jobseeker’s Transitional where the requirement is waived to facilitate part-time working?

#### Mr. Tim Duggan

Age Action referred to Q1 average earnings figures for this year. We would never try to index link on the basis of a quarterly return. That would be dangerous because one could end up in a situation where earnings come down. Any index linking system we devise must have a period of time in it, as well as number of elements and smoothing effects. Accordingly, it is not as simple as taking one quarter of earnings and comparing it to the State Pension. It will be significantly more sophisticated than that. That is why it requires a degree of study and so forth.

Eligibility is set at 520 contributions. That has been the case since legislation was introduced in 1997. There is no change to that, even with this interim measure to deal with the 2012 changes. There is no proposal to do that either. It has to be remembered that there was a period of 20 years when those numbers of contributions changed upwards over time. That was to reflect the fact that more people were in the system for much longer and that the number availing of it was increasing apace. That is fairly typical across the spectrum of EU countries.

Auto enrolment for those earning under €20,000 is being actively looked at. We set out in the reform plan, by way of example, that €20,000 could be the floor. If something like that were to emerge, then those who earn less than that would be allowed to opt into the system. Accordingly, it would be the opposite of those over €20,000 who can only opt out. No decision has been made as Mr. Nicholson said. It is under active consideration. When the document is published, we will be seeking the definitive views of people on how we should deal with earnings of less than €20,000. We are conscious of how someone earning under €20,000 can afford to put some of their income towards a long-term savings package. At the same time, why should such people be denied an opportunity to get the employer contribution and the State incentives that will accrue from that as well? Accordingly, we want to make this as available to people on their own terms as we possibly can. There is no doubt that a system like auto enrolment where people will be compelled legislatively to enrol - they will be able to opt out - will require significant regulation, regardless of the model which ends up being chosen to provide for it. There will undoubtedly have to be a significant regulatory vehicle underpinning it. That is also one of the measures which will be part of the design of the system.

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