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Relate

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State pensions

The National Pensions Framework 2010 was published in March 2010 and set out the Government's plans for reform of the Irish pension system. Among the proposed reforms, it outlined plans to introduce (a) a Total Contributions Approach for the State Pension (Contributory) and (b) auto-enrolment for supplementary pensions. This policy was endorsed by a subsequent review of the Irish pensions system published by the OECD in 2013.

In February 2018, the Government published *A Roadmap for Pensions Reform 2018-2023*, which focuses on implementing policy reforms based on these earlier documents. This issue of *Relate* describes current State pension provision in Ireland and outlines the main changes to the pension system set out in the *Roadmap*. It is intended that these changes will be introduced between now and 2028.

State Pension (Contributory)

At present, the State Pension (Contributory) is payable at age 66 to people who have enough social insurance contributions. It is not means tested and you may still earn other income from full-time or part-time work while receiving it. You must have paid a certain average number of contributions over the years since you first started to pay social insurance contributions – this is called the yearly average rule. If you retire before reaching 66, you should ensure you continue to pay PRSI (pay-related social insurance) contributions to maintain your entitlement to a pension.

The current rules on social insurance contributions for the purpose of determining eligibility for a State Pension (Contributory) are complex. The basic rules are as follows.

To qualify for a State Pension (Contributory) you must:

- Be aged 66 or over
- Have paid enough Class A, E, F, G, H, N or S social insurance contributions
- Have paid social insurance contributions before the age of 56 (the age limit is higher for people born before 1922)
- Have paid a certain average number of contributions over the years since you first started to pay

In more detail, these are the rules on the number of contributions you must pay to qualify for a maximum-rate pension:

- If you reached pension age before 6 April 2002, you needed to have paid 156 qualifying full-rate contributions. This was equivalent to three years' contributions, not necessarily paid consecutively.
- If you reached pension age on or after 6 April 2002, you needed to have paid 260 full-rate contributions – equivalent to five years' contributions, not necessarily consecutive.
- If you reached pension age after 6 April 2012, you must have paid 520 full-rate contributions – equivalent to 10 years' contributions – and must also meet the 'yearly average' rule (see below).
- Of these 520 contributions, a certain number must be compulsory paid contributions but some may be voluntary contributions. (You can opt to pay voluntary contributions if you have stopped making compulsory PRSI payments because you are no longer an employee or are self-employed.) The number of each type required depends on when you started paying them, as follows:
  - If you started making voluntary contributions before 6 April 1997 and have made a yearly average of 20 such payments, then only 156 of your total 520 contributions must be compulsory paid contributions.
  - If you started making voluntary contributions on or after 6 April 1997, then 260 of the 520 must be compulsory paid contributions and the other 260 may be voluntary contributions.
- If you get a social welfare payment or sign for credits, you may get credited contributions. These will keep your social insurance record up to date and so will help you to qualify for a full State pension.

Yearly average

Your *yearly average* is calculated by adding together the number of social insurance contributions you pay (or are credited over your entire working life), and dividing that number by the number of years between when you first paid social insurance and when you reach pension age.

Yearly averages are grouped into bands to avoid having too many different rates of payment. Each band is directly linked to a specific weekly rate of pension entitlement.

Changes were made to the rate band structure in 2000 and 2012:

- In 2000, a single rate band was introduced for people who had paid a yearly average of between 20 and 47 contributions. They were all entitled to 98% of the maximum State Pension (Contributory) rate. This band amalgamated three previous bands (20-23 yearly average contributions, paying 92% of maximum pension; 24-35 contributions, paying 94%; and 36-47 contributions, paying 98%).
- In September 2012, the rate bands were revised so that if you paid a yearly average of under 40 contributions, you received a lower rate of pension. This represented a step towards a Total Contributions Approach (see page 3) to pension entitlement, as the changes introduced in 2000 had weakened the 'contributory' principle of State pension entitlement by providing higher rates of pension entitlement to people with lower levels of social insurance contribution. For example, after September 2012 a person in the 30-39 rate band would receive a payment of €214.20 – which was 90% of the maximum rate of pension, whereas in 2000 they would have got 98%.

However, the current yearly average approach where the average is calculated over your entire working life leads to an anomaly. The anomaly is that people who start working later can qualify for full pensions but people who stopped work, often to care for family, and therefore have a gap, qualify for a lower pension even though they may have the same number of contributions.

Reform of the pension system

A Roadmap for Pensions Reform 2018-2023 details specific measures to modernise the pension system. The *Roadmap* contains six strands of action that aim to target resources.

The six strands of action are:

1. Reform of the State pension, including a Total Contributions Approach
2. Building retirement readiness – a new automatic enrolment savings system
3. Improving governance and regulation – including the transposition into Irish law of the EU Pensions Directive, also known as IORP II
4. Measures to support the operation of defined benefit schemes
5. Public service pensions reform
6. Supporting fuller working lives

Total Contributions Approach

A Total Contributions Approach (TCA) will replace the current yearly average approach for all new State Pension (Contributory) applicants by 2020, though legislation will be required before any changes come into effect. The new TCA assesses your total contributions paid, rather than your yearly average, to calculate your entitlement to a pension. With TCA you qualify for a full pension if you have 40 years of contributions. The changes aim to ensure that all your social insurance contributions, irrespective of when you paid them, are taken into account when assessing your entitlement to a pension. This will particularly benefit people who spent time outside the workplace while raising families or in caring roles.

The Minister for Employment Affairs and Social Protection held a public consultation on the introduction of a Total Contributions Approach between May and September 2018. This consultation sought views on the amount of contributions needed for a full-rate State Pension (Contributory); the number of credited contributions a person could use; the provision of homecaring periods; and whether there would be a ‘phase-in period’ for the changes. The Department is now analysing the views submitted. After considering the submissions, officials will prepare proposals for the Government on the specific design of the new approach.

Interim arrangements for people who applied for pensions after 1 September 2012

The Minister for Employment Affairs and Social Protection announced in January 2018 that the TCA option would be made available to people who applied for a State Pension (Contributory) after 1 September 2012 as an interim measure, that is, before it is rolled out fully in 2020. You will also be able to take advantage of the new HomeCaring credit if appropriate. From 30 March 2018, the Department of Employment Affairs and Social Protection is recalculating these pensions under the new Total Contributions Approach (TCA).

Under the TCA calculation model, HomeCaring credits will be available for up to 20 years of homemaking and caring duties. Periods of caring for children up to age 12, and for a person of any age who requires full-time care and attention, may be included in this calculation under similar rules to the Homemaker’s Scheme. Up to 10 years’ credited contributions are also available for other reasons. There will be a cap of 20 years on the overall number of credited contributions.

This new arrangement will benefit you if you applied for a State Pension (Contributory) after 1 September 2012 and received a reduced rate because of gaps in social insurance contributions when you spent time outside the workplace raising your family or caring for someone.

The Department will write to you if you are eligible for pension recalculation. You will be reassessed using the new TCA calculation. However, you will not lose out through reassessment, because the Department will revert to the yearly average system if it gives you a larger entitlement. If you qualify for an adjusted payment, it is likely to be issued in early 2019, including any arrears due from March 2018.

HomeCaring credits

The Homemaker’s Scheme makes it easier to qualify for a higher rate of State Pension (Contributory) if you have taken time out of the workforce for caring duties. The scheme, which applies to periods from April 1994, allows the Department to disregard up to 20 years spent caring for children under 12 years old or for other people over that age requiring care and attention when calculating your yearly average for pension purposes. This has the effect of increasing your yearly average, which determines the rate of your pension.

Under the new TCA calculation model, you will be able to supplement the social insurance contributions you have paid over your working life with new HomeCaring credited contributions. The current Homemaker’s Scheme will no longer apply. Like the Homemaker’s Scheme, HomeCaring credits will be available for periods of up to 20 years spent in homemaking and caring duties when looking after children up to age 12 or other people of any age who require full-time care and attention. Unlike the Homemaker’s Scheme, the new HomeCaring credit is available for periods of time **before** 1994 as well as periods **after** April 1994 not spent in employment because of family or caring commitments.

What rate of payment will I receive under the TCA?

The total rate of payment depends on your paid contributions, your HomeCaring credits and any other credited contributions you have (for example, from periods in receipt of Jobseeker's Benefit). Forty years' contributions are required for a maximum rate pension entitlement, but these do not all have to be paid contributions. If you have less than 40 years' contributions, you will receive a pro-rata payment. Your specific entitlement will depend on a number of factors.

Changes to the State pension qualifying age

State pensions are currently payable at age 66. This will increase to age 67 from 2021 and age 68 from 2028. The Government has also stated that, over the long term, increasing life expectancy will lead to an increase to the qualifying pension age. However, there will be no further increases in the State pension age before 2035, other than those already provided for in 2021 and 2028. Any changes to the State pension age after 2035 will be directly linked to regular assessments of life expectancy, beginning in 2022. At least 13 years' notice will be given before the implementation of any planned changes to the State pension age. It is expected that an assessment of life expectancy will take place every five years after implementing any such change. The actuarial assessment of life expectancy in 2022 will include a statistical review of the proportionality between time spent in working life and time spent in retirement.

Automatic enrolment

The second strand of the Roadmap contains proposals for the introduction of a new automatic enrolment savings system. By 2022, the Government proposes introducing a State-sponsored supplementary retirement savings system, which workers will be automatically enrolled in. The details of how the scheme will be structured have not been finalised yet and will be concluded after a public consultation process. As part of this consultation, the Government also published a 'straw-man' proposal – designed to generate discussion – on an automatic enrolment supplementary retirement savings system. Regional public consultation forums took place in Dublin, Galway and Cork during October 2018. These discussions and consultations will inform the design of the supplementary retirement savings system, including membership, contribution rates, financial incentives, policies for opting out and re-enrolment. The consultation is exploring the option of automatically enrolling all private-sector employees earning above €20,000 per year and without existing private pension cover, but allowing an opt-out after a minimum period of participation. Contributions will be made by workers and employers and then topped up by the State. Any contributions made by the State will replace rather than augment existing tax reliefs.

Other pension reform changes

As well as the proposed move to a TCA by 2020, and the introduction of an automatic enrolment savings system, there are several other proposals designed to reform the pension system. These include:

- Setting a formal benchmark for pension income at 34% of average earnings
- Linking future increases in the rate of pension to the Consumer Price Index and average earnings
- Reviewing mandatory retirement in the public service in advance of State pension age
- Various improvements in the governance frameworks of pension schemes

Indexation

The current rate of State Pension (Contributory) is €243.30 per week (or 34% of average earnings) and is decided through the annual Budget process. In reforming the State pension, the State must decide how best to sustain this level of payment based on contributions to the system, while also maintaining adequacy of income and affordability of the contributions that fund it. Ireland is atypical in that the rate of pension is set in the Budget, unlike a formal system of automatic or semi-automatic increases linked to an economic indicator. Such a system of automatic indexation is intended to lead to greater long-term certainty among pension recipients.

Proposals on linking pension rates to the Consumer Price Index and average earnings are to be brought forward before the end of 2018. This change would ensure that future rate changes are transparent and objective. This will also make it easier for people to predict the level of additional resources they will need if they would like a higher level of retirement income.

Increase in compulsory retirement age for public servants

The compulsory retirement age for new entrants to the public sector has been 70 since 2013. People who joined the public sector before 2004 have a compulsory retirement age of 65/66, which is earlier than the age of eligibility for the State pension. The Government has committed to introduce legislation to increase the compulsory retirement age to 70 for public servants recruited before 1 April 2004. Interim arrangements allow public servants recruited before this date to retire when they reach 65 and be rehired for the period until they reach pension age.

Governance and regulation

Concerns have been expressed regarding the very large number of private pension schemes in Ireland, the professional fees charged to these system (both for administration and investment advice), and the standard of governance of these schemes. These views were echoed in the deliberations of the Citizens' Assembly on the future of pension provision in Ireland. The Pensions Authority made several recommendations to the Minister concerning private pension schemes and the need for an enhanced regulatory framework that imposes rigorous obligations on pension providers, facilitates closer supervision and provides an improved suite of powers in order enable intervention and address non-compliance.

The Government intends to empower the Pensions Authority to implement a revised regulatory framework and a take prospective risk-based approach to supervision, intervention and enforcement. It is also intended to reduce the number of pension schemes in operation by ensuring that future pension provision by smaller employers will increasingly be by means of membership of a large multi-employer structure or pension contracts. This will help facilitate effective oversight as a smaller number of larger schemes offers the chance of better scheme governance, lower costs and better outcomes for members.

Claiming a pension if you have worked outside of Ireland

If you have worked in Ireland and one or more EU states, the social insurance contributions you paid in each EU member state will be added to your Irish social insurance contributions for assessing your entitlement to social welfare payments. Ireland also has bilateral social security agreements with Canada, the US, Australia, New Zealand, Austria, Japan, the Republic of Korea, Quebec, the UK and Switzerland, which allow social insurance paid in Ireland and the other countries to be combined for the purpose of old-age retirement pensions. If you do not have enough Irish social insurance contributions, you may qualify for a pro-rata pension from Ireland or a pension from another country or countries. EU rules on co-ordination between the social security systems of member states enable you to move around European states and not lose out on social security rights.

Under Irish legislation, for a bilateral social security agreement to apply to your pension or pensions, you must have been in insurable employment for at least one week in Ireland and have a minimum of 52 reckonable weeks including those spent working abroad.

You should normally make a claim for a pension in the country of residence. If you are living in Ireland, you should therefore apply for a pension to the Department of Employment Affairs and Social Protection. If you indicate that you were insured (or, where relevant, resided) in a country with which Ireland has a bilateral agreement, the Department will initiate a claim for pension in that country by contacting the relevant institution on your behalf.
The same procedure applies in reverse if you claim your pension in another country but have paid social insurance contributions in Ireland.

State Pension (Non-Contributory)

The State Pension (Non-Contributory) is a means-tested payment for people aged 66 or over who, on their record of social insurance contributions, do not qualify for the State Pension (Contributory) or only qualify for a reduced contributory pension. To qualify for the State Pension (Non-Contributory) you must meet all the following conditions:

- Be aged 66 years or over
- Be habitually resident in the State
- Be living in the State while getting the State Pension (Non-Contributory)
- Have a valid Personal Public Service (PPS) Number
- Satisfy a means test

Means test

The means test is a method of assessing whether you have adequate resources to support yourself and how much payment, if any, you may qualify for. 'Means' are any income belonging to you or your spouse or partner, and any property (except for your own home) or asset that could provide you with an income.

Provided you meet the age, residency and PPS number requirements, as listed above, you will qualify for a State

Pension (Non-Contributory) if your weekly means are at or below €257.50. The weekly rate of payment will depend on the amount of weekly means. You must complete an application form declaring your means and those of your spouse or partner. If you are married or in a civil partnership or cohabiting with another individual, your means are taken to be half the joint means of you and your spouse or partner. You will have to provide supporting documents, such as bank statements or accounts, to the Department of Employment Affairs and Social Protection.

When you are granted a pension, you are legally obliged to report any increase in means to the Department. If you fail to report an increase in means within three months, you may receive an overpayment of pension, which will have to be repaid to the Department either by you or by your estate after your death.

The items considered as means are:

- Cash income belonging to you or your spouse or partner (for example, earnings from employment, self-employment, an occupational pension or a UK or other foreign pension). The first €200 of weekly earnings will be disregarded if you are in employment, but not if you are self-employed or working in farming.
- The value of any capital you hold (for example, savings, shares, bonds, funds, cash in hand).
- Any property you have (except for your own home, unless you are getting an income from it).

Assessment of cash income

- If you and/or your spouse or partner are **employed**, your cash income is the amount you earn less certain disregarded items. These include:
  - The first €200 of each person's weekly earnings
  - Social insurance contributions (PRSI)
  - Superannuation contributions
  - Trade union subscriptions

However, neither income tax nor Universal Social Charge (USC) are disregarded – you cannot deduct these charges from your earnings.

- If you are **self-employed**, your income is taken to be the gross profit less allowable work-related expenses. Normal household running costs are not allowed as deductions against profit from self-employment. There is no exhaustive list of allowable expenses for self-employed people, but the main expenses allowed are:
  - Materials (cost of supplies)
  - Motor running costs (incurred on business use only)
  - Depreciation of machinery and equipment
  - Insurance relating to the business
  - Telephone (the portion applicable to business only)
  - Lighting and heating (for business use only)
  - Advertising
  - Bank charges
  - Van leasing
  - Labour costs
  - Pension plan
  - Other costs associated with running a business

- If you own a **farm**, the yearly value of any advantage you or your spouse or partner have from it will be assessed as income. Advantage is calculated by deducting any necessary expenses incurred from your gross income.

- If you or your spouse **deprive yourself of an income** in order to either qualify for a pension or to qualify for a pension at a higher rate, this potential income will be included in your means.

- If you receive **maintenance** payments, part of the maintenance payments may also be assessed as means.

- The value of **capital** (any savings, shares, bonds, funds, cash and property that is not your own home) is added together. A notional weekly income is then assessed from this total and is counted as part of your weekly means. If you save a portion of your State Pension (Non-Contributory) each week, these savings are taken into account as part of your means and may lead to a reduction in your pension, since the greater your means, the less pension you are entitled to. The first €20,000 of savings per year is disregarded for this purpose.

- **Your home** – If you vacate your home on a temporary or indefinite basis due to old age or incapacity, the value of the home itself will not be assessed as means. However, if you rent out your home, then the rental income you receive will be assessed as means. If you sell your home, the capital value of the house may be assessed as means. However, if you have been living in accommodation which no longer suits you or which you cannot maintain, you may be able to sell your home and move to a more suitable property without the sale affecting your weekly means. Certain conditions apply:

  - Only proceeds of a sale up to €190,500 may be disregarded in these circumstances. Additional proceeds over the €190,500 threshold are counted as means.

- The allowance only applies where you buy or rent alternative accommodation; or move into a private nursing home; or move in with the person caring for you (who receives a carer's payment); or move to sheltered or special housing.
- If you sell part of your home under an equity release agreement, the disregard of €190,500 does not apply.

Payment for dependants

State Pension (Contributory)

If you receive a State Pension (Contributory), you can get an increase in your payment for an adult dependant (called a qualified adult). Your income is not taken into account in this assessment. However, any income the qualified adult has from employment, self-employment, savings, investments and capital (for example, the value of any property they have, other than their own home) will affect the amount of increase. If you have joint savings or investments with your spouse or partner, only half is taken into account. In general, the Increase for a Qualified Adult is automatically paid directly to your adult dependant. You can also get an increase in your payment for child dependants (known as qualified children). However, you cannot claim an Increase for a Qualified Child (IQC) with your State Pension (Contributory) if your spouse or partner has an income of over €400 a week. You get a half-rate IQC if your spouse or partner earns between €310 and €400 a week.

State Pension (Non-Contributory)

The rate of payment for a State Pension (Non-Contributory) is made up of a personal rate plus additional rates for dependants, and the rate of this payment will depend on their and your means. If you are married, in a civil partnership or living with a person under 66, you may be entitled to an Increase for a Qualified Adult in respect of your spouse or civil partner or cohabitee, provided this qualified adult is over 16 and being supported by you. You may claim an Increase for a Qualified Child where you maintain a child who is under 18 (or between 18 and 22 if they are in full-time education) and who lives with you.

Widow's, Widower's or Surviving Civil Partner's (Contributory) Pension

This is a social insurance payment made to widows, widowers and surviving civil partners. It is based on the social insurance contribution (PRSI) record of either you or your late spouse or civil partner. The pension is not means tested, and is payable regardless of other income you may have, such as an occupational pension or earnings from employment.

You may be entitled to this pension if you are not cohabiting with another person, and you:

- Are widowed or a surviving civil partner, or
- Are divorced from your late spouse and have not yet remarried, or
- Have had your civil partnership with your late civil partner dissolved and did not register a new civil partnership or marry

To qualify for the Widow's, Widower's or Surviving Civil Partner's (Contributory) Pension, you must also satisfy the following social insurance contribution conditions:

- Either you or your late spouse or civil partner must have paid 260 social insurance contributions before they died or reached pension age (currently 66).
- Of these 260 contributions, there must be a yearly average of 39 paid or credited social insurance contributions in either the three or five years before the death of your spouse or civil partner before they reached pension age (called the 'short yearly average').
- Alternatively, there must be an average of 24 contributions from the year of first entry into social insurance until either the year of death of your spouse or civil partner or the year they reached pension age, whichever is earlier (called the 'long yearly average').
- All of these contributions must have been made on one person's record alone. You must not combine your records with those of your spouse or civil partner, and all contributions must have been made before the death of your spouse or civil partner.

You should apply for this pension as soon as possible after the death of your spouse or civil partner. Payment may only be backdated six months prior to the date of the claim, regardless of the date when your spouse or civil partner died. However, a later claim may be backdated where you failed to claim because of incorrect information supplied by the Department or because you were ill or incapacitated.

The Citizens Information Board provides independent information, advice and advocacy on public and social services through citizensinformation.ie, the Citizens Information Phone Service and the network of Citizens Information Services. It is responsible for the Money Advice and Budgeting Service and provides advocacy services for people with disabilities

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Taxation of pensions

Generally, all pension income in Ireland is subject to taxation. Occupational pensions are taxable under the PAYE system. If you receive an occupational pension and a State pension, you may have to pay tax on both. Occupational pensions are also subject to social insurance contributions and the Universal Social Charge.

Where you have an occupational pension and a State pension, your State pension will be taxed, because your tax credits are reduced by the tax liability on the occupational pension. For higher incomes, the standard rate cut-off point will also be reduced. You effectively pay tax on both pensions, but it is collected from the occupational pension. The technical term for this is 'coding in' of credits. The same arrangement applies if you have income from a job and a State pension. If your State pension was not coded in, you would have to pay tax as a self-employed person in a lump sum by 31 October each year.

If your other source of income is not taxed on the PAYE system (for example, if you have an occupational pension from abroad or investment income) then you are classed as a self-employed person and your tax is payable annually by 31 October each year.

If you have a social security pension from abroad, it is also generally taxable in Ireland. The tax is payable annually unless you have a source of income that is subject to PAYE.

Certain foreign pensions that would be exempt from tax if a person were resident in the country paying the pension are also exempt from tax in Ireland. Income that comes from abroad is generally taxable in Ireland if you are resident in Ireland. This tax is paid as a lump sum instead of PAYE. Foreign pensions (including those from the UK and US) are liable to income tax and USC but not PRSI. You do not pay PRSI contributions on occupational or State pensions.

The information in *Relate* is intended as a general guide only and is not a legal interpretation

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