



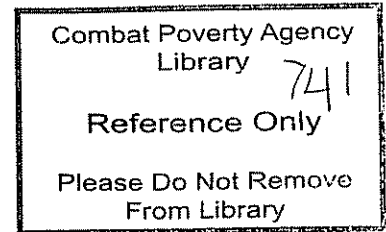
Policy Submission

Progressing Pensions Against Poverty

**A Response to the
National Pensions Policy Initiative**

May 1997

CPA/Report.



PROGRESSING PENSIONS AGAINST POVERTY

A RESPONSE TO THE NATIONAL PENSIONS POLICY INITIATIVE

by the

**Combat Poverty Agency
May 1997**

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SUMMARY OF MAIN POINTS AND RECOMMENDATIONS

Introduction

This response sets out baseline issues on pensions which are of fundamental concern to the Combat Poverty Agency. This response is not a definitive statement at this stage but reflects thinking in progress.

Contextual Issues

- Population ageing in Ireland is projected to be quite modest in Ireland compared to other countries.
- Unemployment is expected to decline and numbers at work are set to increase so that even if, in future, the old age pension bill rises it will be no less affordable in the future that it has been in the past.
- Ireland, which is an exception among western countries, will therefore have considerably fewer dependants per workers in the future than it has had over the last thirty years, which will give more room for manoeuvre in social welfare policy than ever before.
- In the context also of high economic growth in Ireland there is now ample opportunity to put in place, over the next number of years, systems to ensure that pensions are adequate and comprehensive by 2030 and beyond.
- The scale of growth projected, and declines in economic dependency provides the opportunity, and indeed necessity, to ensure that social welfare pensions are linked to average incomes so that pensioners do not become detached from prevailing living standards.
- Due to a variety of factors, the older population, while rising more rapidly than the population as a whole, will still have a relatively low old-age dependency ratio so that the additional burden of social welfare pensions arising from the growth in the elderly will be quite manageable and give no cause for alarm with regard to the sustainability of social welfare pensions for older people in the foreseeable future.
- The most recent poverty study shows increasing poverty risks for the elderly, following a period (1973 to 1987) when their poverty risk had fallen due to substantial increases in pensions.
- In the 1987 to 1994 period pensions were broadly indexed to inflation which increased at a lower rate than earnings so that the living standards of the elderly fell behind prevailing living standards.

- There is a particular concern for people moving from long-term unemployment to old age non-contributory pensions. People in these circumstances are subject to persistent poverty and erosion of any accumulated resources over time so that they are a particularly vulnerable group at high risk of poverty who will be dependent on an adequate basic state pension if they are not to remain excluded from mainstream society.
- There is a particular gender dimension to pensions and poverty. Women are less likely to have contributory old age pensions and occupational pensions and are more likely to receive an old age pension as an adult dependent. They therefore receive a lower level of income and are at a greater risk of poverty.
- Occupational pension coverage is particularly low among certain groups in the population such as the unemployed, people working in the home and others who are termed “not economically active”.
- Occupational pension coverage is also low among part-time and temporary workers. There is a gender dimension to this in that there are a higher percentage of women engaged in these types of jobs. It is also relevant that these are the areas which are likely to grow in the future.
- Workers in the community and voluntary sector have a low coverage of occupational pensions. This raises various issues to be addressed in relation to the nature of their funding and the availability of suitable pension schemes.
- While the state contributory pension scheme is broadly redistributive, tax reliefs etc. pertaining to occupational pension schemes are clearly of more benefit to higher earners. As such, the tax treatment of occupational pension schemes is highly regressive in nature, in that the higher the rate of tax payable, the greater the value in investing in an occupational pension.

RECOMMENDATIONS

Priority 1 - Adequacy of First Pillar

Recommendation 1: *The basic state pension should be adequate to provide sufficient income for pensioners to live in a manner compatible with human dignity. As a priority the level of payment of the non-contributory old age pension should be raised to the minimally adequate level set by the Commission on Social Welfare - £73.24 in 1997 terms.*

Recommendation 2: *In the interests of solidarity and promoting social cohesion to ensure a fairer, more equal, just and inclusive society it is important that the social insurance principle is endorsed and promoted, so that in future an increasing proportion of pensioners are entitled to a full contributory pension.*

Recommendation 3: *All social welfare pensions must be explicitly indexed linked to average earnings.*

Recommendation 4: *Establish an Expert Working Group to set out the steps and information requirements for an explicit and transparent agreed process of evaluating and up-rating social welfare pensions.*

Recommendation 5: *Consideration should be given to moving towards the individualisation of pension rights so that men and women are treated equally as citizens in retirement and for pension purposes.*

Recommendation 6: *Consideration should be given to the sustainability of social welfare pensions over the longer term. The opportunity exists in Ireland to do this. Various options such as re-deployment of alternative state resources and redistributive mechanisms should be considered in preference to limiting contributory pensions or detaching increases in pensions from prevailing living standards.*

Priority 2 - Coverage of Second Pillar and Equality Issues

In general, the Combat Poverty Agency sees second pillar issues as subsidiary to the pillar issues. It is in this context that the following recommendations on second pillar issues are made.

Recommendation 7: *In relation to extending the coverage of occupational pensions detailed consideration should be given to a range of options. The various options should be analysed with respect to the impact they would have on atypical and low paid workers.*

Recommendation 8: *In assessing various second pillar options the overall cost to the state should be calculated, including tax revenue foregone, so that decisions can be based on the overall picture.*

Priority Three - Redistributive Issues

Recommendation 9: *Consideration should be given to standard rating tax reliefs on pension contributions.*

Recommendation 10: *A study should be undertaken to assess the distributional consequences of pension fund taxation. Mechanisms should be put in place to collect the necessary data, where required.*

Priority Four - Poverty Proofing

Recommendation 11: *The development of national pensions policy should be guided by the goals, aims and principles of the National Anti-Poverty Strategy and all proposed actions should be assessed against their impact on poverty, low income and the income distribution more generally.*

Additional Issues

Recommendation 12: *As an overall objective National Pensions Policy should ensure that all citizens who reach retirement age, who are long-term incapacitated, or in the case of dependants on the death of the income provider and who have no other income should receive a state pension which is adequate to maintain a standard of living compatible with prevailing living conditions.*

Recommendation 13: *Information about pension options should be made more widely available in a clear and impartial way.*

Recommendation 14: *The pension needs of specific groups at long-term risk of poverty need to be addressed in detail in the National Pensions Policy Initiative. Such groups include members of the Travelling Community, People with Disabilities and people in same sex relationships.*

1. Introduction

1.1 *The Combat Poverty Agency*

The Combat Poverty Agency is a state agency which works for the prevention and decrease of poverty and social exclusion and the reduction of inequality in Ireland by striving for change which will promote a fairer and more just, equitable and inclusive society. In particular, the Agency works towards a reduction in existing poverty levels by promoting the redistribution of income and resources in favour of those living in poverty through reform of the tax and social welfare systems and by working to ensure that everyone has at least a minimally adequate income. It is a centre of expertise on poverty issues, policies and practices. A key element of its work is advising government on all aspects of economic and social planning in relation to poverty.

1.2 *Agency Response to the National Pensions Policy Initiative*

To date, the Agency has not engaged specifically in the pensions debate, welcomes the opportunity to respond to the National Pensions Policy Initiative. In general, the Combat Poverty Agency has an overriding concern that all social welfare benefits should be adequate to enable people to have a standard of living compatible with the living standards of the population in general and with respect for human dignity. In addition, the Agency has recently published a report on *The Welfare Implications of Demographic Trends*. This report clearly presents an opportunity for Ireland in the years ahead - this opportunity should not be wasted if we, as a nation, are to work towards a more just, equitable and inclusive society for all our citizens including our pensioners.

This Submission presents the current context for the consideration of pensions policy from a poverty and equality perspective, highlights the relevant policy positions and then addresses a number of issues which the Agency believes are key in developing a national pensions policy for the future. The document should not be taken as a definitive statement at this stage - it is a response reflecting thinking in progress. However, the Submission clearly sets out baseline issues in areas of particular concern to the Agency; other issues of concern to the Agency will be addressed in more detail in the future.

2. Context

2.1 Demographic

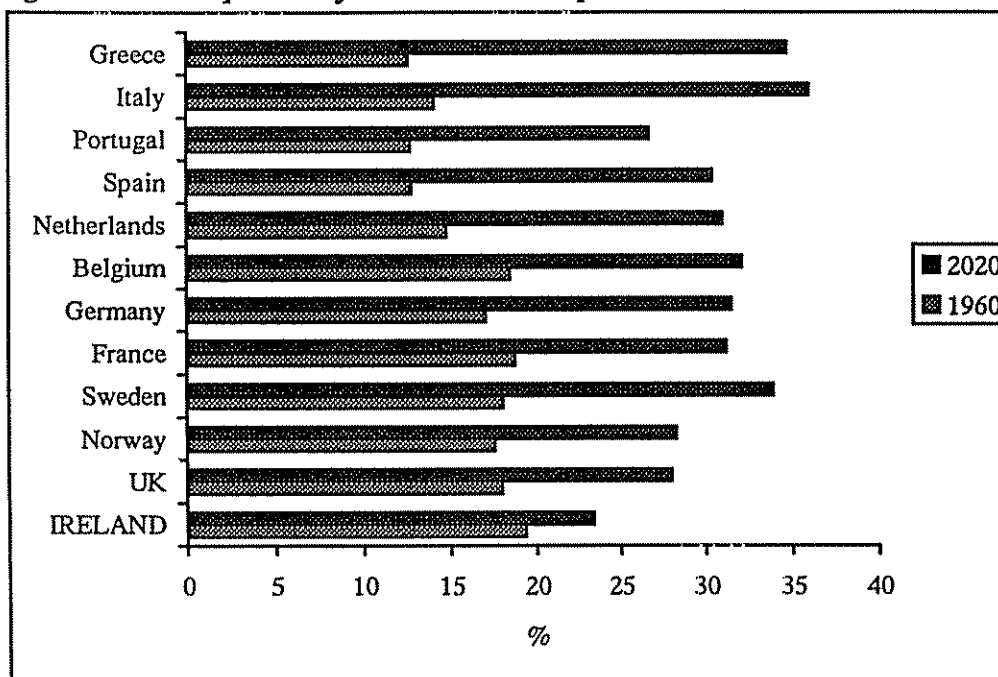
The recent report *The Welfare Implications of Demographic Trends* provides a new perspective on the future of Irish pensions.

"Much of the concern which has arisen in Ireland about the effects of future demographic trends on welfare and support requirements has been imported from abroad and has been inappropriate in the Irish context. Other countries are fearful of the 'demographic winter' they face Ireland is different in that it has already had its demographic winter - and indeed it was a uniquely long winter which lasted from the mid-nineteenth century. Spring began to break through in the 1960s but the climate of demographic dependency remained unfavourable in many ways up to the recent past. The mid-1980s brought a particularly unfavourable spell. At that time, an exceptionally small working population was supporting a relatively large population of children, old people, unemployed and under-employed. Now it seems, as we approach the end of the century, a long-term improvement in demographic dependency is on the horizon. The ratio between dependants and productive segments of the population is about to become more favourable to an unprecedented extent."

This report notes that:

- population ageing in Ireland is projected to be quite modest compared to other countries. For example, 30 years ago, Ireland had one of the highest old-age dependency ratios whereas thirty years hence it will have one of the lowest. The increase in *old-age dependency* in Ireland over this period will be about one quarter, compared to a two or three fold increase in many other western countries, see Figure 1.
- *unemployment* is expected to decline from the very high levels of the recent past. Some projections have forecast a halving of the present unemployment rate to 6% by the year 2010 (Forfas, 1996). At present, unemployment costs the state about as much as old age in terms of social welfare payments (at about £1,000 million in social welfare expenditure each, or about 6.6% of GNP in total). Social welfare savings arising from a decline in the numbers unemployed could thus go a long way to counter-balancing the extra costs of social welfare pensions for the increased numbers of older people in the future;

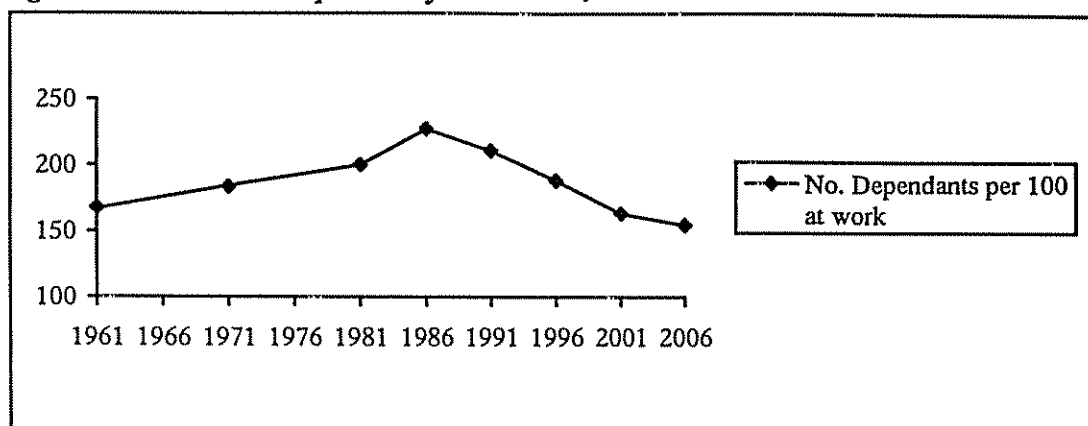
Figure 1: Old Dependency in Selected European Countries, 1960 and 2020



Source: Fahy & Fitzgerald, 1996, p120.

- the *numbers at work* are projected to increase. Employment in Ireland has increased rapidly since 1993 and is projected to continue to do so for the foreseeable future. In particular, the decline in the numbers of children will release large quantities of currently unpaid female labour for participation in the paid labour market. In addition, women's labour force participation is likely to increase sharply in the future, because of the decline in fertility and partly also because of women's improving educational profile. This increase in participation rates by women will be one of the main sources of expansion in the labour force, giving rise to a disproportionately large boost to income tax revenues. Therefore, even though the supply of young people entering the labour force will decline and the departure of older people through early retirement may increase in the years ahead, the supply of prime-age workers is projected to increase rapidly, leading to a net overall growth in the labour supply. This will broaden the overall income tax and social insurance support base from which social provision for older people might be funded;
- thus, while on an age-ratio basis, old age dependency will gradually increase in the years ahead, on an *economic dependency* basis it will actually decline, so that it will be markedly lower in the next decade than at any other time since the 1960s. At the peak of economic dependency in the mid-1980s, there were over 220 dependants for every 100 workers; that ratio is projected to have fallen to 133 dependants per 100 workers by 2010 (Forfas, 1996), and see Figure 2.

Figure 2: Economic Dependency in Ireland, 1961 to 2006



Source: Fahy and Fitzgerald, 1996, p 120.

Even though a certain degree of population ageing is likely to occur over this period, labour force growth will also mean a slight decline in the number of elderly dependants per 100 workers: from 35 elderly persons per 100 workers in 1986, to 31 by 2006. Therefore, even if the old age pension bill rises, it will be no less affordable in the future than it has been in the past.

- **emigration.** Until recently it has been anticipated that there would continue to be a net outflow of people from Ireland in the future. For example, in 1989 net outward migration was in excess of 44,000. However, recent evidence has shown that just 7 years later in 1996 this figure has reversed to an estimated net inward migration of just under 6,000. The recent *Medium-Term Review 1997-2003* by the ESRI has noted that incorrect migration assumptions have been the single most important source of error in previous demographic projections for Ireland. They have predicted that there will be zero net migration to 2005, followed by net immigration of up to 7,000 per annum to 2010. However, while migration forecasts remain an uncertain aspect of demographic projections, it is likely that there will be a changing pattern of migration in the future compared to the past.

"The traditional haemorrhaging of population through emigration will be stemmed either through a reduced outflow or a greater return of past emigrants, and far larger proportions of those born in Ireland will remain and live most of their lives in Ireland", (Fahy and Fitzgerald, 1996, p111).

In general, then, pessimistic forecasts about the future sustainability of social welfare pensions for the elderly in Ireland, such as those made by the National Pensions Board in 1993, have rightly assumed that the number of pensioners will increase in the future but have been excessively negative about prospects for a reduction in unemployment and a growth in the numbers at work. Therefore, in Ireland which is an exception among western countries, there will be considerably fewer dependants per workers in the future than there have

been in the recent past. In such a scenario the welfare state in Ireland should become more affordable in the years ahead than it has been over the last thirty years, and to give more room for manoeuvre in social welfare policy than ever before.

2.2 *Economic Context*

The recently published *Medium-Term Review: 1997-2003* by the ESRI reinforces other evidence that the Irish economy is growing more rapidly than the rest of the EU, at over 5% per year. This growth rate in Ireland in recent years has led to a convergence in the Irish standard of living, measured in terms of GNP per capita, with the EU average. Thus, from a position of relative under development just a decade ago, Ireland is now emerging as a modern, developed economy with a strong underlying growth potential.

The key factor where Ireland stands apart from international trends in most developed economies is its demographic structure, as described above. The increase in the working age population and the trend of the increasing participation of women in the labour force together account for an annual increase of 2% in the supply of labour throughout the 1990s. These trends have also led to a large decrease in the dependency ratio.

Other factors which have contributed to Ireland's growing economy are an increase in human capital through investment in education and training, the openness of the economy, investment in infrastructure mainly through EU transfers, and stability in the domestic macro-economic environment.

In looking to the future, the *Central Forecast*, prepared by the ESRI presents a picture of the Irish economy continuing to grow very strongly over the forecast period 1997 to 2003, with the average growth rate in the medium term being well above that of the other EU countries. If these projected changes come to pass the ESRI envisage that the Ireland of 2010 will be a very different country to that of the past. However, they caution that this window of opportunity will last about 20 years, but will not be permanent. Therefore, it should not be wasted.

If the fruits of economic growth are to be shared and substantial inroads are to be made in reducing the high levels of unemployment, poverty and social exclusion the ESRI emphasise the need for continued wage moderation. The first priority from a poverty perspective is to ensure that the projected reduction in employment comes about.

Also important in this context is the level of social welfare support which can be provided to those outside the labour force. The ESRI clearly state that:

"The scale of economic growth projected, with the associated fall in numbers unemployed, is such as to allow the incomes of those depending on social welfare payments to increase in line

with other incomes without unbalancing the public finances. For groups such as the elderly, for whom work incentives are not relevant, the opportunity thus exists to ensure that, by linking support levels to average incomes, they do not become detached from ordinary living standards over the forecast period” (Duffy et al, 1997, p161).

In the future then, the ESRI suggest that the tax revenue devoted to the national debt interest would be available to fund the increasing burden which rising old-age dependency might impose on the state. In particular, they propose that the strategy of debt repayment should be used to supplement the traditional pay-as-you-go method of funding pensions if the long-term future were to produce periods of demographic burden.

However, it seems unlikely that over the next 30 years Ireland will suffer from the kind of problems of old age dependency which are in prospect for most other EU countries. Even though the improving trends in dependency in Ireland may last only up to the middle or end of the next decade before they begin to reverse in a negative direction, the slowness in the negative age-dependency trend and the healthier base from which it will be starting out will mean that the dependency levels in thirty years time are forecast to be lower than those being experienced at present, and will be considerably below those of the recent past. Even in the long-term the outlook as far as dependency is concerned is a great deal more favourable than the record has been over recent decades, (Fahy & Fitzgerald, 1997, pps 99-100).

Thus, over the next thirty years Ireland is likely to experience a set of demographic and economic conditions which means that the increase in social spending arising from a growing elderly population is likely to be counterbalanced by declines in other areas or by a greater capacity in the economy to support social spending for older people. While this may be less so beyond the next 30 years there is now ample opportunity to put in place, over the next number of years, systems to ensure that pensions are adequate and comprehensive by 2030 and beyond.

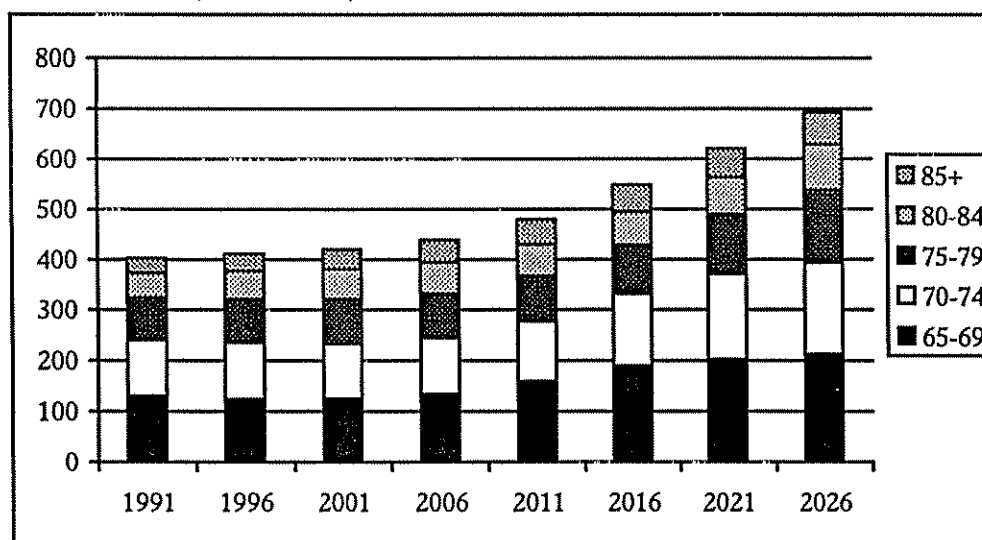
2.3 *The Elderly Population in Ireland*

The population over 65 years of age is projected to increase from 402,000 in 1991 to over 690,000 in 2026, which is an increase of about 72% over the 35 year period. Most of this increase is expected to occur after 2006. Prior to this the elderly population is projected to grow by only 10% or so to 440,000 by 2006, see Figure 3. Within the elderly population, the greatest absolute increase is projected to occur among the younger elderly aged 65 to 69, but the greatest relative increase will occur among the older elderly, especially those aged 85 plus.

Increases in life expectancy have been one of the factors contributing to population ageing in other countries. However, in Ireland one of the reasons

for the slower rate of population ageing has been the smallness of the increases in life expectancy at older ages. This is mainly because life expectancy for older men has hardly increased at all. Life expectancy among older people in Ireland is now among the lowest in the western world. In forecasting the future a significant improvement in life expectancy for both men and women is projected over the next 20 years. However, in spite of the improvement in life expectancy the overall number of people aged 65 and over will grow relatively slowly over the next 15 years because of the continued impact on the population profile of the emigration of the 1950s. Therefore, the overall change in numbers will still leave the old-age dependency ratio in 2001 very low by EU standards.

Figure 3: Projected Age Composition of the Elderly Population, 1991-2026 (Thousands)



Source: CSO, 1995

The central conclusion from these projections in relation to the implications for social welfare pensions is that the additional burden on public spending which will arise from the growth in the elderly will be quite manageable and will give no cause for alarm with regard to the sustainability of social welfare pensions for older people in the foreseeable future. This conclusion is based on the expectation that the active population and the labour force will grow and the numbers of unemployed will decline in the years ahead, see previous sections. Reductions in the present massive burden of payments to unemployed people together with an increase in the tax and social insurance base due to labour force growth will greatly enhance the capacity of the state to meet its obligations to older people. As a result, while growth in the number of older people will undoubtedly give rise to an increase in financial burdens on the state, parallel developments in the active age ranges will enhance the state's capacity to carry those burdens. In such a scenario, the overall balance between support requirements and support resources is unlikely to be radically altered as far as public provision for older people is concerned.

In the longer term it is envisaged that problems could arise from the ageing of today's young adults. However, that eventuality is so far away and subject to be influenced by any number of unpredictable circumstances that it is difficult to speculate about the precise level of dependency burdens in forty to fifty years time. It is clear, however, that while there may be some worsening of dependency burdens in the long term, the intervening improvements will mean that, relative to the present position, the outcome can be far more favourable than the current one.

2.4 *Poverty in the 1990s*

A recent study *Poverty in the 1990s* (1996) revealed that the numbers living in poverty in Ireland had risen between 1987 and 1994. However, the depth of their poverty had been reduced, the number of people experiencing the worst levels of poverty had been reduced and there had also been a small reduction in the number of people experiencing long-term poverty.

A particularly worrying trend, however, was the finding that poverty among the elderly had increased. This was on foot of reductions in poverty among the elderly over the previous 14 years, between 1973 and 1987.

The 1994 national household *Living in Ireland* survey found that households headed by a retired person made up 10% of poor households.¹ When income level is combined with deprivation indicators² the proportion of the retired households among the poor increases to 13%. Combining income poverty lines with deprivation indicators is a good gauge of persistent poverty.

The study found that the risk³ of poverty for retired households had increased since 1987 particularly at the 60% income poverty line, see Figure 4. When poverty risk is examined by type of household the risk for single adult households almost doubled between 1987 and 1994 at the 50% income poverty line from 12% in 1987 to 21% in 1994. Thus, in 1994 just over one fifth of

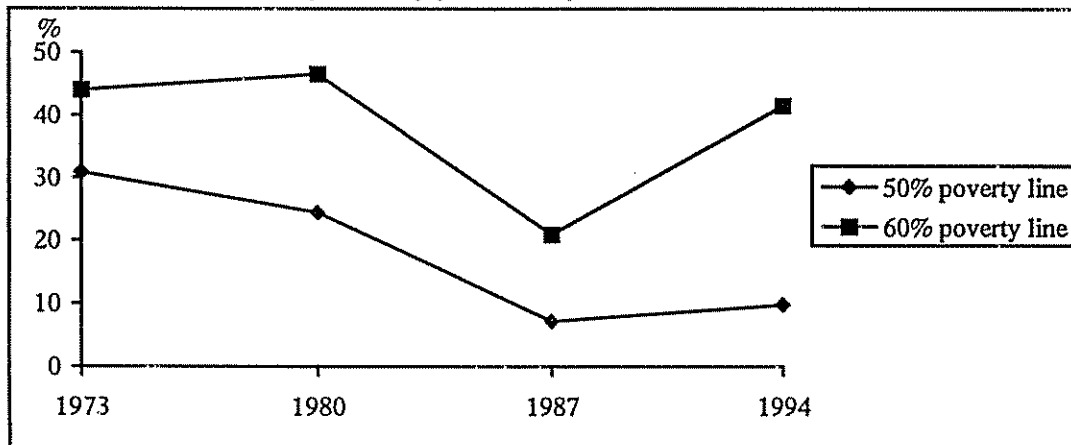
¹ At the 50% income poverty line. The *Poverty in the 1990s* study identifies three relative income poverty lines based on percentages of average household income. These are set at 40%, 50% and 60% of average household income. The 50% line is most commonly accepted as reflecting the reality of poverty and is used at EU level. In 1994 money terms these three lines represented approximately £52, £64 and £77 per week for a single adult. The 50% poverty line was closest to the main social welfare rates for a single person at that time.

² Deprivation refers to the extent to which someone is denied the opportunity to have or to do something that is considered the norm in society. A basic deprivation index has been constructed by the ESRI which includes indicators such as not having adequate heating, a day without a substantial meal, arrears on mortgage, rent, electricity or gas, and lack of a warm winter coat. Combining income poverty lines with deprivation indicators can be used to identify people who are consistently poor, and are therefore most subject to long-term poverty.

³ The risk of poverty experienced by a particular group tells us what proportion of that group actually falls below an income line, and therefore to what extent that group is at risk of poverty.

single adult households were at risk of being in poverty. At the 60% poverty line the risk more than doubles to more than fifty per cent (52%). Single adult households are now one of the household types at highest risk of poverty, after two adult households with four or more children and other adult households with children. A significant proportion of the single adult households below the poverty line in 1994 comprise an elderly person or a widow.

Figure 4: Risk of Poverty for Elderly Households



Source: Callan *et al*, 1996.

A key factor in explaining these sharp increases in the poverty risk for single adult households and households headed by an elderly person, with a good deal of overlap between the two, is the changing relationship between poverty lines and the rates paid under different social welfare programmes. This reflects the fact that the rate paid under non-contributory Old Age or Widow's Pension in 1994 was just below the 50% line for a single person up until the mid-year increase after which it was just above that level. In 1987, by contrast, the rate paid under these schemes was significantly higher than the 50% line at that time. While mean equivalent income and thus relative poverty lines rose by 50% between 1987 and 1994, the rates paid under Old Age and Widow's Pensions (contributory and non-contributory) were increased by about 30% over the period. This was as a result of the strategy adopted of giving priority to increasing the lowest rates of social welfare, such as unemployment assistance and SWA. It is also worth noting that in the ten to fifteen years prior to 1987 increases in old age pensions had been prioritised and as a consequence the incidence and risk of poverty among the elderly fell substantially. The next section deals with pension rates in more detail.

2.5 *Pension Rates*

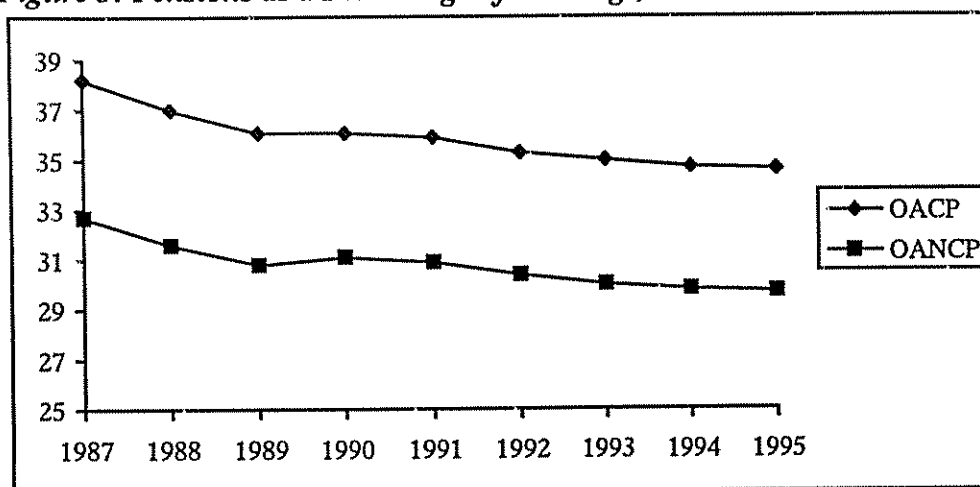
The setting of current pension rates has been guided by the Commission on Social Welfare (CSW) which reported in 1986. At this time the Commission recommended that all social welfare recipients should be entitled to a minimally adequate basic payment, which it estimated to be in the range £50-£60 per week for a single person in 1985. Since the Commission reported its estimates of minimally adequate income have played an important part in debates about the adequacy of social welfare support rates. In 1985 old age contributory pension (OACP) reached the bottom of the recommended range at £51.40. Old age non-contributory pension (OANCP) for a single adult was 88% of the bottom of the recommended range at £44.

Last year the ESRI undertook a review of the Commission on Social Welfare's Minimum Adequate Income and reported in December 1996.⁴ Using a variety of approaches the ESRI produced estimates of the minimum adequate income for a single adult in 1996 ranging from £68 to £96 per week. Upated for inflation the CSW's £50 to £60 per week was equal to £68 to £81 per week. Upating the CSW's range in line with net earnings in industry gives the much higher figures of £84 to £100, reflecting the growth in real take-home pay over the period.

In June 1997 Contributory Old Age pensions (£78) will be 112% of the lower end of the CSW's minimally adequate figure upated by inflation, whereas non-contributory Old Age pensions will be 97% of this rate. Over the last 10 ten years there has been an increase of 9.5% in the contributory and almost 11% in the non-contributory personal pension rate in real terms. However, as a percentage of earnings, pension rates have been falling in relative terms, as illustrated in Figure 5. Thus, the living standards of pensioners have been falling behind prevailing living standards, as discussed in the previous section.

⁴ The ESRI applied five of the CSW's methods using up-to-date data and arrived at estimates of a minimum adequate income for a single adult in 1996 of £75 to £96 per week. The ESRI also applied a range of other methods with recent data (the Living in Ireland Survey, 1994) and arrived at estimates of £68 to £92 per week.

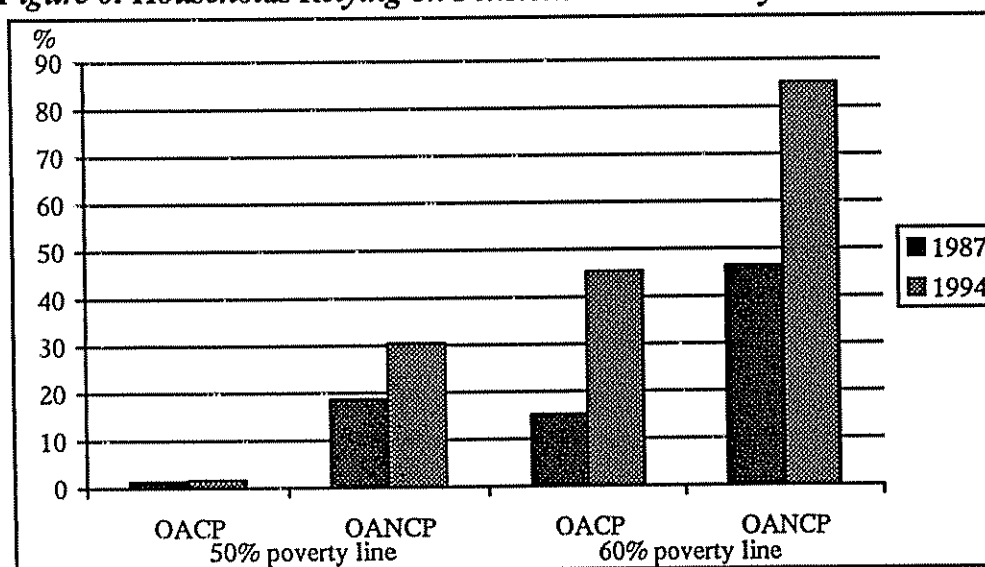
Figure 5: Pensions as a Percentage of Earnings, 1987-1995



Source: Vaughan, 1997, p9

This is further illustrated by examining the number of households who are relying on pensions and who fall below the poverty line, see Figure 6. This shows that the percentage of households relying⁵ on pensions and who are in poverty has increased between 1987 and 1994. This is particularly the case for households reliant on the means-tested pension, who now have an 85% risk of being in poverty, (at the 60% poverty line).

Figure 6: Households Relying on Pensions and In Poverty



Source: Callan *et al*, 1996, pp38-40

Thus, while in the recent past old age pensions have been broadly in line with the minimally adequate rate as proposed by the Commission on Social Welfare,

⁵ "Relying" refers to a situation where payments from the scheme account for more than 50% of household income.

as uprated by inflation, pensions are now falling behind the prevailing living standards. This is due to a number of factors including that incomes, and particularly earnings, have risen much faster than inflation. As social welfare pension rates have been broadly indexed to inflation rather than earnings, pensions are now starting to fall behind the prevailing living standards. This is resulting in an increasing number of households being in poverty or at risk of poverty. The next section examines, in particular, people who enter retirement following a period of long-term unemployment.

2.6 *Unemployment*

A time dimension is important in understanding the dynamics of poverty and the processes which cause people to fall into poverty or escape from poverty. This is particularly important in the context of people who are long-term unemployed moving from unemployment assistance to old age non-contributory pensions. Heads of households who are unemployed make up a third of the poor (in 1994) and have a 59% risk of being in poverty.⁶ Combining income lines with deprivation indicators gives a measure of long-term or persistent poverty. Using this measure the proportion of unemployed people among the poor increases to 36% (in 1994) and remains the largest group. Thus the unemployed make up a substantial proportion of people who can be defined as persistently poor. It is also known that the current risk of being in poverty depends not only on current labour force status but also on the extent of unemployment experienced in the past. Therefore the risk of being poor rises sharply as the extent of unemployment increases.

Labour market experiences are a central factor in the risk of poverty over time. Factors associated with longer term poverty seem to be related to class origins, childhood economic circumstances and the erosion of resources over time. Households on low incomes over a prolonged period run down any accumulated resources so that eventually they have no resources in reserve on which they can draw. This has been shown to be the case for many households on long-term unemployment assistance.

This has implications for households making the transition from long-term unemployment to retirement. There are a number of factors here - households may already be in poverty; they may have few or no resources they can draw on; and very few have entitlements to an occupational pension. In their study on the transition to retirement Whelan and Whelan (1988) found that the financial well-being of retired people was related to their route into retirement. However, their study was confined to recent retirees, and as a result those who had experienced long durations of unemployment prior to retirement were excluded. Nevertheless they did find that the vast bulk of those experiencing poverty in retirement had retired through ill health or redundancy. There was a

⁶ At the 50% income poverty line in 1994. This risk of poverty increases to 78% for unemployed heads of household at the 60% poverty line in 1994.

strong relationship between being in poverty and social class, with those from manual backgrounds being twice as likely to experience poverty in retirement as those who had been in professional or managerial jobs.

Ronayne (1993) refers to the role played by access to occupational pensions in reducing the risk of poverty among the retired population. While this issue is discussed in more detail in section 2.8 below, it is relevant here to note that very few of the older and long-term unemployed possess an occupational pension, and that:

“this provides a reasonable basis for concluding that income differentials among the older population will widen over time, and that it is among those entering retirement following long periods of unemployment or unstable employment that those with the lowest incomes will be found” (Ronayne, 1993, p82).

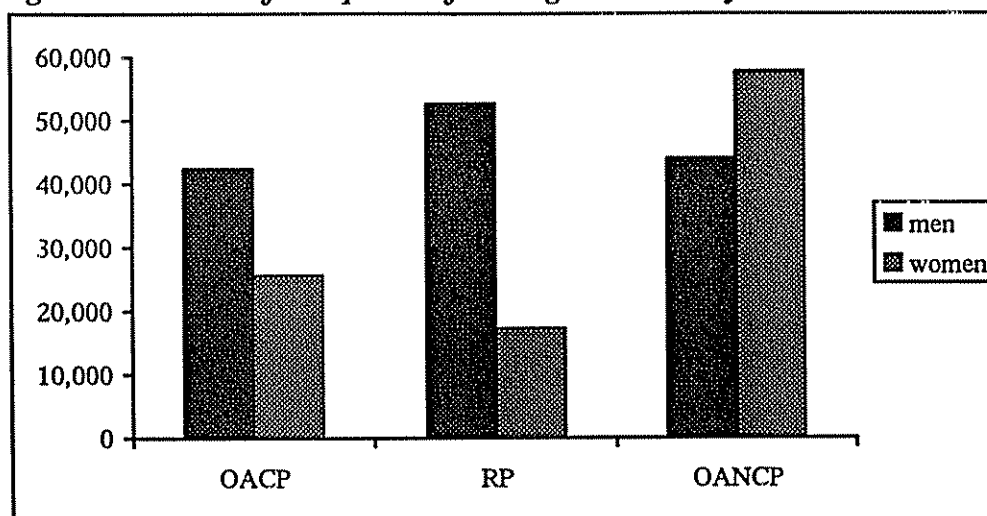
This leads to the conclusion that for the older long-term unemployed, becoming eligible for the current level of state pension is unlikely to be accompanied by an improvement in their financial well being. It is more likely that the relationship between old age and risk of poverty reflects the effects of occupational status and income prior to reaching retirement age.

2.7 Gender

There are two issues of concern here. The first is the treatment of women in the social welfare system; and the second is in relation to occupational pension coverage for women.

The Irish social welfare system is built around a traditional model of a man's working life, although there have been some modifications to this model in recent years. Nevertheless, the principle which still underlies the current system is that women will be financially supported by men and that the traditional family with the man as breadwinner is predominant. This has consequences for women in the social welfare system, in that it treats women as men's dependants and prolongs a traditional home-making role for women. This is reflected in an analysis of social welfare old age pension recipients by gender, see Figure 7.

Figure 7: Number of Recipients of Old Age Pensions by Gender, 1996

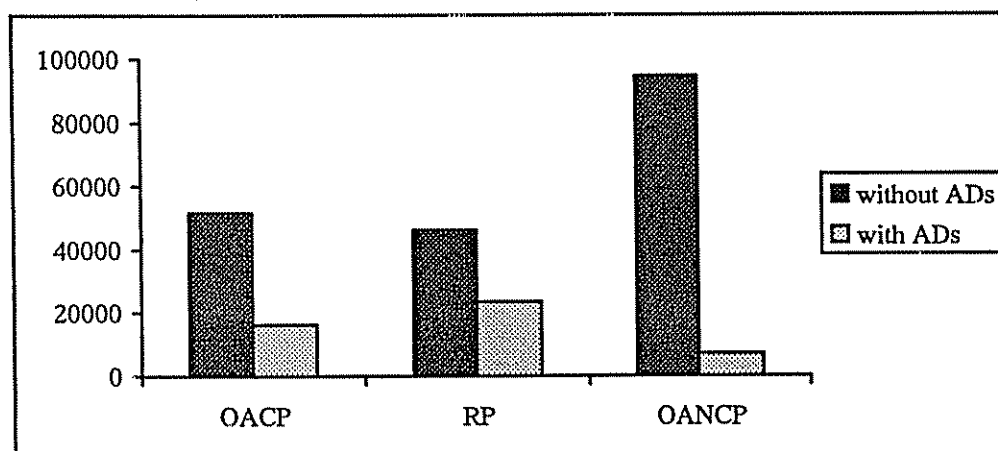


- Notes: 1. OACP = Old Age Contributory Pension
 RP = Retirement Pension
 OANCP = Old Age Non-Contributory Pension
2. It is noted that many women receive widow's non-contributory pension (15,589 aged 65 and over in 1995) and widow's contributory pension (62,901 aged 65 and over in 1995).

Source: Department of Social Welfare

Figure 7 shows that men are more likely to receive contributory old age pensions than women. However, more women than men receive the means-tested non-contributory pension. When pension recipients who are receiving adult dependants allowance are examined more closely it is clear that it is mainly those in receipt of contributory pensions who are in receipt of adult dependants allowance. This is illustrated in Figure 8. Thus, women are more likely to receive an adult dependants allowance or a non-contributory means-tested pension.

Figure 8: Number of Old Age Pension Recipients by Adult Dependents, 1996



Notes: As Figure 7
 ADs = Adult dependants

Source: Department of Social Welfare

The personal rate for a contributory social welfare pension is £78 and the rate for an "adult dependant" is £51 (£55.40 if aged over 66), from June 1997. For those who do not qualify for a contributory pension an old age non-contributory pension of £67.50 per week (and £40 in respect of an "adult dependant"), subject to a means test, is available. Thus, the "adult dependant" rate is about £22 to £28 less than the personal rate and the main people affected are women "dependants". The implications of this are three-fold: first, the "woman's" payment is less than the man's;⁷ secondly, where an adult dependant's allowance is part of the payment the total payment is usually made to the main recipient, that is, the man; and thirdly, in general, women are less likely to have a contribution record and are therefore more likely to be treated as an "adult dependant" rather than receiving a contributory old age pension in their own right.

The largest group of people excluded from compulsory social insurance in their own right are those working in the home. The Pension Board estimated that in 1993 there were 460,000 such persons between the ages 16 and 65. The vast majority of these people are married women, and are usually indirectly covered by social insurance as dependants of their husbands, as discussed above. Some women will also have had insurable employment before marriage and in recent years increasing numbers return to work and are subsequently able to build up a contribution record for pension purposes. In 1994, Homemaker provisions were introduced where periods of time spent out of the workforce caring for children or incapacitated people are ignored or disregarded when calculating a person's pension entitlements. These provisions were extended in 1996.

On occupational pensions, coverage rate is considerably lower for women employees at 43% than for men employees, at 58%. This is partly explained by differences in employment status and age structure. For example, for full-time employees men's coverage is 63% while women's is 54%. This has long-term implications as women's participation in the workforce is increasing. Another important issue in this area is the low occupational coverage in part-time and occasional jobs in which women predominate. This issue is dealt with further below. Many women are affected by the problems of atypical work, and many must leave the labour force, at least temporarily.

2.8 *Coverage of Occupational Pensions*

Moving on from the consideration of social welfare pensions to occupational pensions the main points of note are:

- in general, there is under 50% coverage on occupational pensions; and
- the coverage rate is much lower for low income groups.

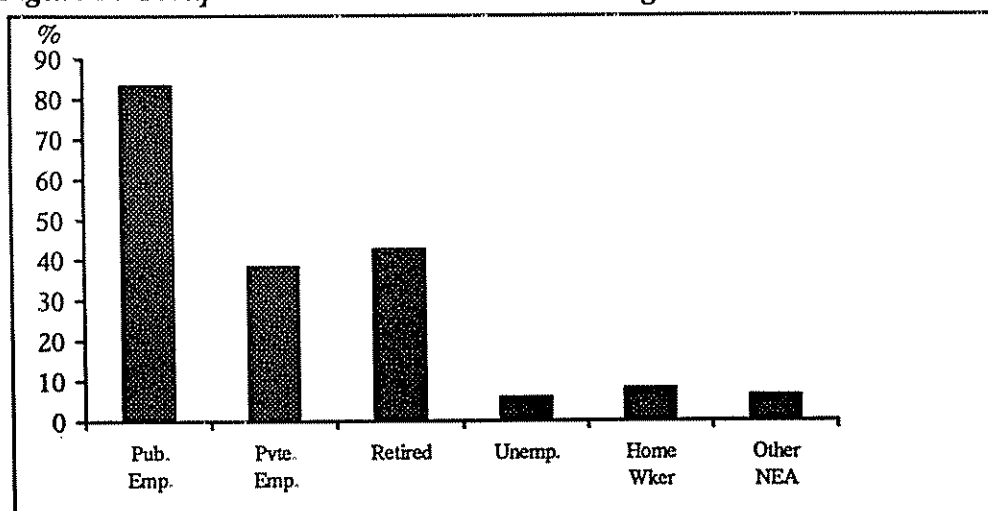
⁷ Women are entitled to personal rates of Contributory Pension and Non-contributory pension, where they qualify for these in their own right.

Recent research by G Hughes and B Whelan (1996) shows that an average of 52% of employees across the public and private sectors were covered by an occupational pension scheme in 1995. However, only 27% of the self employed and relatives assisting are members of a pension scheme, and the coverage rate for those who do not have jobs is extremely low. Less than 1% of people who are unemployed, working in the home or "not economically active" make contributions to a pension scheme. Thus overall only 46% of all those at work in 1995 were covered by an occupational pension scheme. For employees in the public and private sectors the coverage rate for pension schemes fell from 54% in 1985 to 52% in 1995. Changes in the type of job available may account for some of the decline in occupational pension coverage of private sector employees in Ireland. For example, between 1988 and 1995 the number of regular full-time jobs increased by 8% while at the same time the number of part-time jobs increased by 80% and the number of occasional jobs increased by nearly 76%. In addition, the number of jobs held by women increased by over 31% while the number of jobs held by men increased by only 6%. Since female employment and part-time and occasional employment are all positively correlated with lower pension coverage their increase could lead to a fall in pension coverage. In general, pension coverage is variable by sector and occupation, by gender and type of job and by firm size.

For those who are not currently in paid employment (referred to as the "economically inactive") only 12% of them (183,700) ever belonged to an occupational pension scheme, and nearly half of these are people who are currently retired. People who are unemployed or working in the home are also included among the "economically inactive". For example, less than 6% of persons who were unemployed had ever been in a pension scheme⁸, see Figure 9. Research by Hughes and Nolan (1996) shows that pension coverage rates are very low in unskilled occupations. Since the great majority of the unemployed are unskilled it follows that few of them have ever belonged to a pension scheme.

⁸ This statistic is based on the 1995 round of the *Living in Ireland* Survey carried out by the ESRI as part of the European Community Household Panel Survey.

Figure 9: Occupational Pension Scheme Coverage



- Notes: 1. For public sector employees and private sector employees the graph presents estimates of coverage of occupational and personal pension scheme coverage. For those who are retired, unemployed, home workers or classified as not otherwise economically active the graph presents an estimate of the percentage who have ever been in any type of occupational pension scheme.
2. Private employees refers to employees in private non-agricultural sectors.
3. Other NEA refers to Others Not Economically Active.

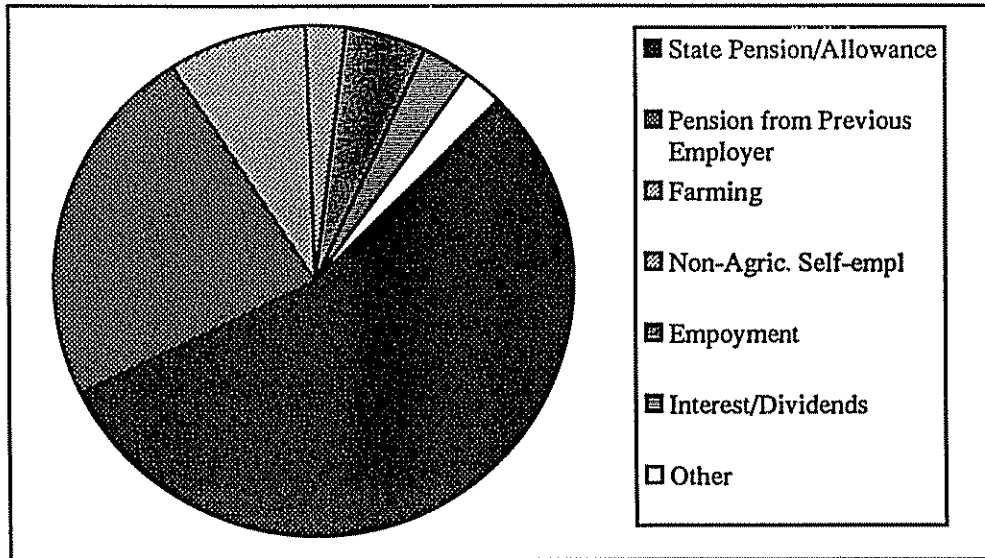
Source: Hughes and Whelan, 1996.

Of the currently “economically inactive” people who once were in a pension scheme nearly one third of them received a refund of their pension contributions when they stopped their employment. Just over half of them have a preserved benefit. However, it is anticipated that for many of them the value of the preserved benefit will fall significantly before retirement and in relation to earnings, if there continues to be moderate growth in earnings as the preserved benefit is not indexed to earnings. Hughes and Whelan (1996) stress that this point is important since virtually none of the unemployed, retired, people working in the home, or others termed “not economically active” is currently contributing to any type of pension scheme.

When the sources of income which people have in their retirement is examined the importance of a state pension becomes evident, see Figure 10. The average income of the elderly in 1995 amounted to over £95 per week. Of this about £53 was accounted for by a State pension or allowance, £22 by a pension from a previous employer, over £15 from employment and the remainder by interest, dividends and other sources. Three quarters of the elderly population were in receipt of a State pension or allowance in 1995. This source of income accounted for 55% of the weekly average income of retired persons. Although not all of the elderly received the full basic State old age pension of £72.80 in 1995, without it many people would have had no other source of income and their exposure to poverty in old age would have been much higher than it was. Thus, an adequate State pension is clearly required to prevent

poverty, particularly for people who have no or low occupational pension coverage many of whom are in vulnerable groups.

Figure 10: Income Sources of All People Aged 65 and Over (1995)



Source: Hughes and Whelan, 1996, p31.

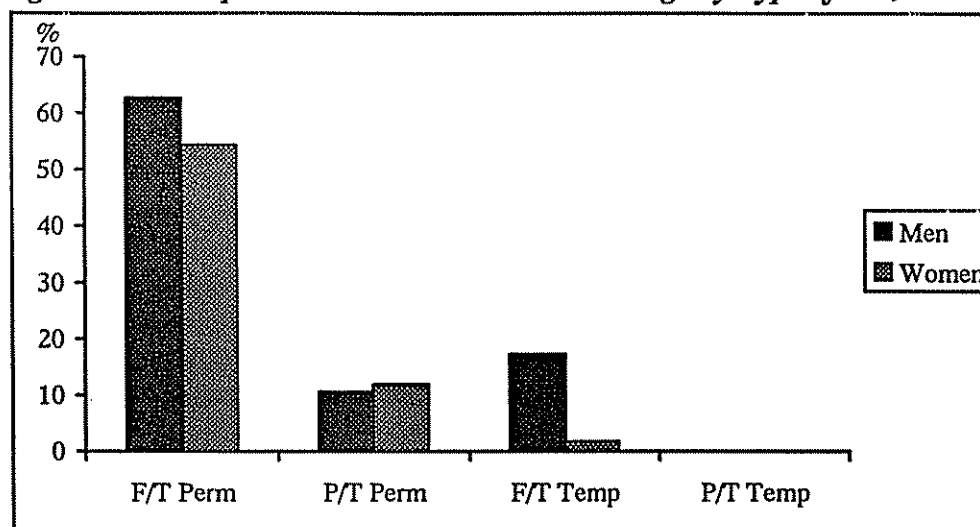
2.9 Pension Coverage for Part-Time and Temporary Employees

In general, the great majority of employees (90%) are working in full-time jobs; the remaining 10% are part-time. As indicated above, however, the type of jobs available in recent years has been changing, with a growing number of part-time and temporary jobs, and jobs held by women. For example, the 1996 Labour Force Survey shows that women make up 38% of the overall Irish work force. This is expected to increase in future. In 1995, of the 152,400 part-time jobs in Ireland 72% were taken by women and more women (12%) than men (8%) are in temporary employment. It is in part-time, occasional and female employment that occupational pension coverage has traditionally been low.

Figure 11 shows the coverage rates for various types of jobs.⁹ It shows that whereas coverage rates for full-time permanent employees is around 60%, the coverage rates for part-time employees is much lower at 11%, which is similar to the rate for temporary employees who are full-time. However, temporary part-time employees, of whom there are 23,500 (16,800 women and 6,700 men), have no occupational pension cover.

⁹ In 1995 there were 773,600 full-time permanent employees (512,400 men and 261,200 women); 63,500 part-time permanent employees (19,800 men and 43,700 women); 56,200 full-time temporary employees (33,100 men and 23,100 women); and 23,500 part-time temporary employees (6,700 men and 16,800 women).

Figure 11: Occupational Pension Scheme Coverage by Type of Job, 1995



Source: Hughes and Whelan, 1996 pp 47-49

Gender analysis shows that occupational coverage for women is generally lower than for men, and is comparatively low in full-time temporary jobs (at only 2%). However, for part-time permanent employees there is no significant difference between men and women overall, but there are significant differences between sectors. Part-time women employees have higher coverage rates than part-time men in all sectors (manufacturing/building, distribution and services) except the public sector, where 19% of men are covered compared to just 6% of women.

Of the 440,000 employees who are not covered by an occupational pension scheme about 49,000 people (11% of those not currently covered; 5% of all employees currently employed) could be eligible if they fulfil the qualification conditions which are specified by their firms. However, this leaves 391,000 employees who are not covered and are not eligible (about 40% of all employees) and it is difficult to estimate how many of those who could have an entitlement to an occupational pension scheme will actually become eligible.

Occupational pension coverage rate is also directly related to size of firm. Coverage rate is much lower in small firms than in larger firms - only 16% of those in small firms belong to an occupational pension scheme whereas 79% of those in large firms are members of such schemes. This holds for both men and women employees although the coverage rate for women in all size classes is consistently lower than the corresponding rate for men. Recent employment trends show that small firms are growing, with the potential consequence that occupational pension coverage overall will be reduced.

Occupational pension coverage is therefore low among part-time and temporary employees. Since current evidence suggests that part-time and

temporary employment will continue to grow, the overall level of occupational pension coverage can be expected to decline.

2.10 *Voluntary and Community Sector*

The community and voluntary sector is a growing sector of the economy. Many initiatives in this area are targeted at addressing disadvantage, poverty and exclusion and are thus of particular interest and concern to the Combat Poverty Agency. The Combat Poverty also has a statutory responsibility for supporting and encouraging community development projects and strengthening the anti-poverty infrastructure through assisting groups in tackling poverty. In working to empower those living in poverty the Agency is concerned to develop effective support structures for anti-poverty action in the community and voluntary sector.

Many of the jobs in the community and voluntary sector are time-limited, being dependent on grant funding, and provided with minimal resources. Thus many of the jobs are temporary and part-time and as a consequence, occupational pension coverage in the sector is relatively low. A recent report for the Combat Poverty Agency examined employment practice in the community development programme¹⁰. 45 projects surveyed employed 103 staff. The types of Contracts used by projects varied widely, although fixed term contracts were the most popular at 43%; 18% of staff were on permanent contracts, 25% were on fixed term renewable contracts and 14% had no contracts. The fixed term contracts usually chosen were for three years in line with the funding commitment. 28% of the employees work part-time. Notably only 2 of the 45 projects had a pension scheme, even though it is recommended as good practice that all companies provide a pension scheme for its employees.

Workers in the community and voluntary sector, therefore, have a low likelihood of having, or having access to, an occupational pension scheme. This has obvious implications in relation to their level of income and subsequent standard of living in retirement, as outlined above. Some of these issues are dealt with in more detail in Section 4 of this submission on the Agency's response to the pensions initiative. However, it is worth raising here, the implications of occupational pension provision for employers, as well as employees in the community and voluntary sector. It may be difficult for small community and voluntary sector employers to set up pension schemes in circumstances where project funding is limited, the future structure of the

¹⁰ Report for the Combat Poverty Agency on *Employment Policy and Practice in the Community Development Programme* by Maria Power, May 1997 (Unpublished). The Community Development Programme (CDP) was established in 1990 to assist, through a community development process, individuals and community groups to assert more control over their lives and over issues that affect their communities. The programme is funded by the Department of Social Welfare in the form of fixed grants to particular projects that are located throughout the country. There are currently 71 projects in the Programme.

project is uncertain, staffing complements are small and on a range of temporary and part-time contracts, and where there is no dedicated expertise to explore the whole “pensions menu” to ensure that suitable pension provision can be made for employees. In addition, where employment is low paid, employees may not wish to contribute part of their already small pay packet to a pension scheme which will potentially bring them benefits a long time into the future.

2.11 *Redistribution*¹¹

The current state system of old age contributory pensions is a redistributive mechanism, where by and large people pay in a percentage of their income into the social insurance fund and then everyone receives a standard pension on retirement. In other words those with higher incomes who can afford to pay more do, but everyone benefits to a similar extent. This is based on the principle of social solidarity. In contrast, occupational pension schemes are regressive in nature, in that the higher the rate of tax payable the greater the value in investing in an occupational pension. However, it has been argued by the National Pensions Board that the tax treatment of occupational pension funds is broadly equitable:

“We believe that the present tax treatment of pension funds is simple to understand and operate, is broadly equitable and clearly acts as a major encouragement to the establishment of funded occupational pension schemes”. (National Pensions Board, 1993, p216).

The development of occupational pension schemes is encouraged by tax reliefs on employer and employees contributions, on the investment income and capital gains of the funds, and on lump sum benefits on retirement. With the reduction in recent years of mortgage interest tax relief the cost of allowances and reliefs on pensions is now one of the largest provisions for tax relief. It has been noted by the National Pension’s Board, however, that:

“These arrangements are seen as deferring tax liability rather than conferring tax exempt status, since pensions in payment (aside from lump sums) are fully liable to income tax in the normal way”. (National Pensions Board, 1993, p216).

Nevertheless, as noted by Hughes, tax exemption on contributions and fund income, and the deferment of tax on pensions until they are paid at a time in the life cycle when tax rates are lower than when members are contributing to their fund confers considerable financial benefits on pension funds.

¹¹ This section draws on a paper given by G Hughes to the Statistical and Social Inquiry Society of Ireland on *Pensions, Savings and Tax Expenditures*, March 1997.

It has been estimated that the approximate cost of these tax expenditures on occupational pensions is about £200 to £250 million. The estimated cost of the Exchequer subsidy to the State Contributory Old Age and Retirement Pension Scheme in the same year was £133 million.¹² On a per contributor basis these figures suggest that the Exchequer subsidy for occupational schemes was £685 to £856 per contributor whereas for State schemes the Exchequer contribution was £122 per contributor or 5 to 7 times less than the subsidy for occupational pension schemes,¹³ see Table 1.

Table 1: Cost of Tax Relief on Occupational Schemes and of Exchequer Support for the State Contributory Old Age Pension Schemes in 1993.

| | Occupational Pension Schemes (OPS) | State Contributory Old Age Pension Schemes (COAP) |
|---|------------------------------------|---|
| Cost of tax relief to OPS and Exchequer subsidy to COAP | £200-£250 million | £113 million |
| Number of members | 291,900* | 930,000 |
| Average subsidy per contributor | £685-£856 | £122 |

Note: * = 1995 figures

Source: Hughes, 1997, p7.

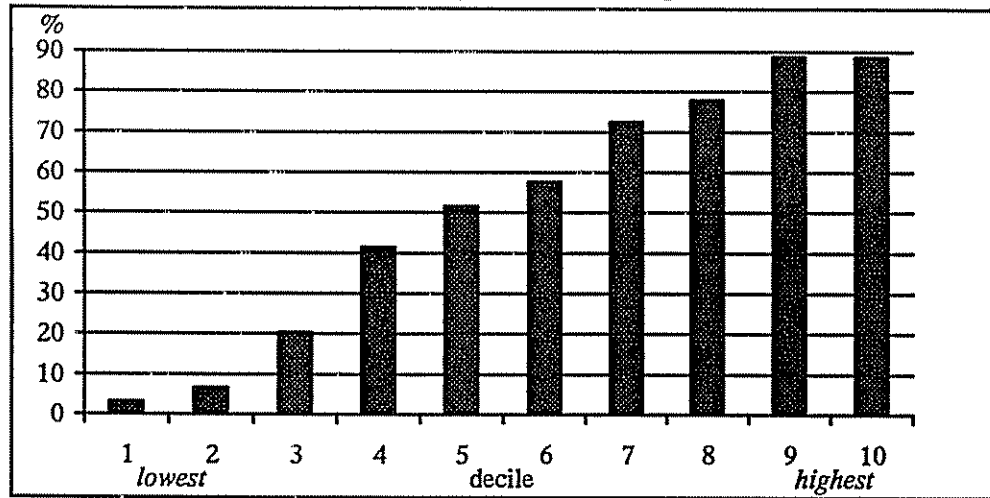
Information on how different income groups benefit from tax expenditure on pensions is not available. However, analysis from the ESRI 1994 *Living in Ireland Survey* provides information on the gross hourly earnings of employees who are members of any type of pension scheme. Figure 12 illustrates pension entitlements by earnings and shows that less than 10% of employees in the bottom 20% of earnings belong to a pension scheme whereas nearly 90% of employees in the top 20% of earnings are members of a scheme. In between these extremes the percentage of employees who are members of a pension scheme increases strongly in line with increases in gross hourly earnings.

The graph clearly suggests that the tax reliefs on occupational pension schemes benefit those employees with above average hourly gross earnings and questions the assumption that the tax treatment of occupational pension funds is equitable.

¹² This information is based a paper by G Hughes, 1997. The cost of the Exchequer subsidy to the State pension schemes is estimated from employer and employee contributions to the Social Insurance Fund, an average PRSI contribution for old age pensions of 5.71% and the difference between expenditure on contributory old age pensions and the amount paid into the fund by employers and employees.

¹³ It is noted that ways of calculating the cost of tax expenditures varies, particularly in relation to the time horizons used for the estimates.

Figure 12: Pension Entitlements by Gross Earnings, 1994



Note: A decile is where employees gross incomes are ranked from lowest to highest and then divided into 10 groups, containing the same number of employees in each group. Thus the lowest decile is the tenth of employees whose gross earnings are lowest.

Source: G Hughes, 1997, p8.

This position has been referred to by O'Connell and Rottman as follows:

"Middle-class employees can combine a social insurance pension with occupational pension entitlements, private pensions and savings, all subsidised through tax expenditures, in order to attain financial comfort in old age A universal entitlement to a state-guaranteed minimal pension is, therefore, supplemented by private savings and insurance based schemes that are subsidised by state tax expenditure for higher income groups, thus reinforcing market based inequalities" (O'Connell and Rottman, 1992, p225).

In contrast, people moving from low paid or temporary employment, unemployment to retirement will only have the basic state pension on which they can draw. If this is not adequate nor increased in line with the prevailing living standards social inequality among the elderly will increase. This highlights the need for the priority to be adequate first pillar provision.

3. Current Policy Position

3.1 Introduction

There are a number of recent policy documents and debates which are relevant in considering the development of pensions to alleviate poverty and ensure pensioners have an adequate income and do not become detached from prevailing living standards. These are outlined in the following sections.

3.2 *Sharing in Progress - National Anti-Poverty Strategy*

In April 1997 the National Anti-Poverty Strategy (NAPS) *Sharing in Progress* was launched. Under the Strategy all Government Departments and state agencies are expected to include the reduction and prevention of poverty in the development and implementation of their policies and programmes. Specifically, government departments and agencies are to set targets to ensure that their policies and programmes contribute to achieving a fairer distribution of resources and opportunities in all areas of day-to-day life and do not create or perpetuate inequalities.

The NAPS is guided by 7 key principles: (i) ensuring equal access and participation for all; (ii) guaranteeing the rights of minorities especially through anti-discrimination measures; (iii) the reduction of inequalities and in particular addressing the gender dimensions of poverty; (iv) the development of the partnership approach; (v) actively involving the community and voluntary sector; (vi) encouraging reliance through respecting individual dignity and promoting empowerment; and (vii) engaging in appropriate consultative mechanisms.

The NAPS has set a global target of reducing the numbers of those who are "consistently poor" from 9-15% to less than 5-10% by 2007. A number of key areas have been identified in tackling poverty. These are educational disadvantage; unemployment, particularly long-term unemployment; income adequacy; disadvantage in urban areas; and rural poverty. Objectives, targets and policy actions have been set for each of these 5 key issues.

The overall objective on income adequacy is that:

"Policies in relation to income support, whether these policies relate to employment, tax, social welfare, occupational pensions or otherwise should aim to provide sufficient income for all those concerned to move out of poverty and to live in a manner compatible with human dignity" (National Anti-Poverty Strategy, 1997, p13).

Relevant policy actions in relation to progressing pensions against poverty are that:

“All social welfare payments will be increased to the minimum of the lower range recommended by the Commission on Social Welfare, in line with the commitment set out in Partnership 2000” (National Anti-Poverty Strategy, 1997, p13).

On occupational pensions the NAPS states that:

“At a minimum, pensioners should have the guarantee of an income that provides for essential needs and this is provided by the Social Welfare pension programmes. The provision of pensions cover that maintains established standards of living is mainly provided for, at present, by occupational and personal pension arrangements, set up on a voluntary basis, which supplement Social Welfare pensions. However, coverage is not complete with 46% of those at work being covered by occupational pensions” (National Anti-Poverty Strategy, 1997, p15).

The NAPS Strategy Statement goes on to describe the National Pensions Policy Initiative, which it is envisaged will frame recommendations on the steps required to ensure that all citizens have adequate replacement income in retirement. Also relevant is the NAPS commitment on tax policies, that:

“action on personal taxation will be implemented in an integrated manner with measures to promote social exclusion” (National Anti-Poverty Strategy, 1997, p15).

3.3 *Partnership 2000*

Partnership 2000 for Inclusion, Employment and Competitiveness says relatively little about pensions. In relation to assisting the position of pensioners the Government agrees that it will, in each year of the Partnership, review the income tax allowance and exemption limits for those over 65 years with a view to further assisting the position of the aged. *Partnership 2000* also makes reference to the National Pensions Policy Initiative and states that the application of the Revenue Commissioners regulations on pensions will be reviewed in light of the Initiative. The Minister of Social Welfare is also to ask the Pensions Board to look at a number of issues including: the abolition of front-end loading commissions; indexation of pensions in payment; offering a choice of a fixed pension or a lower indexed pension to all annuity recipients and defined contribution scheme recipients; and provision of a Certificate of Reasonable Expectation by the providers of defined contribution schemes.

Also of relevance is: (i) the commitment that the minimum rates recommended by the Commission on Social Welfare will be implemented before the end of Partnership 2000; and (ii) that the importance of the role of the Social Insurance System in the overall provision of social protection is recognised.

3.4 *Debate on Social Insurance*

In October 1996 the Department of Social Welfare published a discussion document on *Social Insurance in Ireland*. This document emphasises the importance of social insurance as an expression of social solidarity. It is promoted as a system where part of the wealth created during people's economically active years is used to provide pensions and other entitlements which are paid to contributors when required, for example, when they retire. This expression of social solidarity between groups and generations is described as part of an ongoing social contract between governments, employers, employees and the self employed.

The document notes that while spending on social insurance and social assistance weekly payments were similar in size at almost £1,700 million in 1995, the mix of income contingencies met by social insurance is different to that met by social assistance. About two thirds of social insurance recipients are pensioners, while in contrast, only one third of social assistance recipients are pensioners.

The economic and social environment in which the social insurance system operates has changed over the years. The Discussion Document is intended to stimulate debate on the future of the social insurance system in Ireland, which is also relevant in the context of developing a National Pensions Policy Initiative.

3.5 *EU Perspective*

Most EU countries and the EU as a whole is concerned about increasing old-age dependency and thus about the future viability of public pension systems. The key point here is that while it is important that Ireland engages in the European pension debate, Ireland's demographic and economic profile is significantly different from most other European countries. Projections indicate that the welfare state in Ireland should become more affordable in the years ahead than it has been over the last thirty years. In such a scenario, it is important that the Irish pension debate focuses on Irish characteristics and projections and does not assume that Ireland shares the demographic and economic profile of the EU as a whole.

4. Agency Response

4.1 Introduction

The Combat Poverty Agency supports the contributory principle. The contributory principle underpinning the social insurance system has a strong solidarity component. The benefits payable are related mainly to the insured person's circumstances and to a lesser extent on previous income and the level of contributions paid. This expression of social solidarity underpins social cohesion and helps to reduce poverty and social exclusion.

The social insurance system is thus an expression of solidarity between groups and between generations. It has been established that social insurance is an effective mechanism for getting support to those who need such support.¹⁴ It is not the case that significant numbers of those in receipt of Social Insurance payments could afford to do without the income. The fact that better off sections of today's contributors support those who are more vulnerable or insecure is an expression of social solidarity and confers mutual advantage. There is also the principle that the people who are creating wealth today should benefit from it in the future. There is a strong case to be made that pensioners should share in the benefits of economic growth, since they helped to create it. This argument endorses the contributory principle and makes the case for linking pensions to growth.

The Combat Poverty Agency is particularly concerned about those who are not entitled to a contributory pension and who are solely dependent on a state old age non-contributory pension. Pensioners on an old age non-contributory pension are currently a declining but vulnerable group - currently about one quarter of the elderly population, (102,984 non-contributory old age pensioners in 1995; compared to 134,940 contributory old age pensioners).¹⁵ This group are at an increasing risk of poverty and their position will worsen unless their pensions are linked to earnings.

4.2 *Priority 1 - Adequacy of First Pillar*

In examining social welfare pension rates and assessing their adequacy, it is useful to view these from a social policy perspective, where pensions are but one element of a much larger system of social security, the purpose of which is to promote social equity and to protect citizens from the uncertainties of a market economy. Thus the numbers of beneficiaries, the levels of benefits they receive and the share of current revenues to be devoted to pension payments

¹⁴ See Department of Social Welfare Discussion Document on Social Insurance in Ireland, 1996, p23.

¹⁵ It is also relevant to note that in 1995 94,713 people were in receipt of a widow's/widower's contributory pension (64,619 of whom were aged 65+) and 19,108 people were in receipt of widow's non-contributory pension (15,589 of whom were aged 65+).

are public policy decisions. The resource constraints on such policy changes are not a direct consequence of accumulated resources and liabilities in a pension fund but are shaped by a wide range of factors such as economic growth, growth in productivity, trends in overall public revenues and expenditures, trends in the size of the social security budget and in the competing claims on that budget. Therefore, in making realistic forecasts of the future sustainability of a particular set of social welfare pension arrangements, it is necessary to take into account these broader factors as well as trends in social welfare pensions in a narrow sense, (Fahy and Fitzgerald, 1997 pp 88-89).

Recommendation 1: *The basic state pension should be adequate to provide sufficient income for pensioners to live in a manner compatible with human dignity. As a priority the level of payment of the non-contributory old age pension should be raised to the minimally adequate level set by the Commission on Social Welfare - £73.24 in 1997 terms.*

The number of people in receipt of a contributory state pension has been increasing in absolute and relative terms.

Recommendation 2: *In the interests of solidarity and promoting social cohesion to ensure a fairer, more equal, just and inclusive society it is important that the social insurance principle is endorsed and promoted, so that in future an increasing proportion of pensioners are entitled to a full contributory pension.*

The key issue for all social welfare pensions is that they must be linked to earnings, not prices if the standard of living for people relying on a state pension is not to fall behind the prevailing living standards in society. We can already observe this happening as the elderly are facing an increasing risk of poverty. Ireland is one of the very few countries where pensions are not indexed in this way. In a period of economic growth it is important that pensions will be so indexed otherwise those who created the wealth will not share in its benefits. We can currently afford to increase pensions in this way as demonstrated by the ESRI in their recent *Medium Review: 1997 to 2003*, where rates of payment to welfare beneficiaries are assumed to rise in line with average earnings in industry.

Recommendation 3: *All social welfare pensions must be explicitly indexed linked to average earnings.*

In order to determine the appropriate rate of annual increase it may be useful to gather more detailed data than are currently available on indicators of general living standards such as earnings and household incomes and their distribution. To pursue this in more detail and to set out an explicit process of uprating consideration should be given to the establishment of an Expert Working Group for this purpose.

Recommendation 4: Establish an Expert Working Group to set out the steps and information requirements for an explicit and transparent agreed process of evaluating and up-rating social welfare pensions.

In relation to social welfare pensions for women there is a strong and growing case to give consideration to the individualisation of pension rights due to the individualisation process which is ongoing at a deeper societal level. Marriage patterns, childbearing rates and timing, household formation and dissolution are no longer connected as they once were and a more general recognition of the unpaid contribution of homemakers to the social care of children and frail, ageing relatives puts an onus on policy makers to respond with policies that treat women and men equally as citizens in retirement and for pension purposes.

Recommendation 5: Consideration should be given to moving towards the individualisation of pension rights so that men and women are treated equally as citizens in retirement and for pension purposes.

For those who argue that linking pensions to earnings is not sustainable in the longer-term, there are a number of responses to this. First, any major difficulty will be a long time away (at least thirty years). This provides an opportunity to assess options and put adequate "sustainability" structures in place. Secondly, while the growth in the number of older people will undoubtedly give rise to an increase in financial burdens on the state, parallel developments in the active age ranges will enhance the state's capacity to carry those burdens. Thirdly, concern around the ageing of today's young adults is so far away and so unpredictable that it is difficult to speculate about the precise level of dependency burdens in forty to fifty years time. Fourthly, the ESRI have suggested that the tax revenue currently devoted to national debt interest would be available to fund the increasing financial burden which rising old-age dependency might impose on the state. The strategy of debt repayment should be used to supplement pay-as-you-go methods of funding pensions if it seems likely that the future would eventually produce exceptional periods of demographic burden. Fifthly, as shown in section 2.11 above, the state currently subsidises private occupational pensions through tax reliefs etc. to a greater extent than state contributory pensions. This policy direction could be altered in future to give greater state subsidies to state pensions; that is, to the benefit of all instead of to the relatively higher income groups. Sixthly, if state pensions were to be thought to be unsustainable in the very long term consideration should be given to redistributive mechanisms, such as taxation, rather than limiting contributory pensions or detaching increases in pensions from prevailing living standards.

Recommendation 6: Consideration should be given to the sustainability of social welfare pensions over the longer term. The opportunity exists in Ireland to do this. Various options such as re-deployment of alternative state resources and redistributive mechanisms should be considered in preference to limiting contributory pensions or detaching increases in pensions from prevailing living standards.

4.3 *Priority 2 - Coverage of Second Pillar and Equality Issues*

If basic social welfare pensions are adequate and linked to prevailing living standards then the role of occupational and private pensions becomes less important in preventing poverty and providing an adequate standard of living for pensioners. Nevertheless, the Combat Poverty Agency has concerns about the coverage of occupational pensions from an equality and inclusion perspective, particularly in relation to addressing income and social inequalities. As highlighted in section 2 of this Submission part-time and temporary workers, women, the unemployed, people working in the home, and others classified as “not economically active” have very low coverage of occupational pensions.

Various approaches are proposed in the National Pensions Policy Initiative Consultation Document to address this. The main options are promotion of occupational pension schemes on a voluntary basis, including using tax incentives, introducing mandatory pensions or introducing a state earnings-related pension scheme (SERPS). The Combat Poverty Agency has not yet reached a firm view on which of these approaches should be recommended but a number of factors are influencing our thinking as follows.

- Extending coverage of occupational pension schemes on a voluntary basis is unlikely to greatly extend coverage. While various incentives can be introduced the schemes will be most attractive to those in stable employment, from the employers', employees' and pension industry's point of view. While tax advantages may extend these schemes to a certain degree they are more likely to be to the benefit of higher income groups rather than lower income groups. It is difficult to see how this approach would greatly extend coverage, particularly for atypical workers.
- Introducing mandatory occupational pensions would help to address some of the points made above and would presumably lead to increased coverage of occupational pensions. The introduction of mandatory schemes is worth considering, but a number of factors should inform this debate. If the basic state pension is adequate and linked to prevailing living standards then mandatory occupational pensions may not be required. State pensions are more inclusive and ironically, if the coverage of contributory state pensions continues to increase this could improve the take up of occupational and private pensions because it would remove the disincentive of the means test which operates in the case of the old age non-contributory pension and probably discourages a large stratum of low earners from making second pillar provision. If mandatory occupational pensions were to be introduced the nature and quality of the pension vehicle becomes a very important issue, especially with regard to atypical employees. For example, the introduction of mandatory occupational pensions could place a burden on employers in

the community and voluntary sector unless adequate supports are provided. Since many organisations and projects in the community and voluntary sector are state-funded a case could be made for state support for employers in the community and voluntary sector with regard to pension provision. Alternatively the introduction of a state earnings-related pension scheme (SERPS), could be considered.

- There is extensive debate about the advantages and disadvantages of SERPSs. The main reservations expressed have been in relation to employment and unemployment effects and a concern to avoid a pension "time bomb" as the population ages. Although the "time bomb" argument is not particularly relevant to Ireland, as discussed earlier, there is no cause for complacency and this opportunity must be used to plan for the future. However, the problem of old age pensions is to a large extent driven by social factors, such as pay and employment status. This is where a SERPS could be effective since it could potentially deal with atypical work histories and flexible work patterns better than the current structure of occupational pensions. It could address the particular problems of women workers, whose entitlements are generally more vulnerable than men's. In addition, administration costs are lower than for occupational pension schemes, contribution conditions are less stringent and benefits are less tightly tied to work history.
- The changing nature of employment participation such as the growth in part-time, temporary and fixed term contracts, combined with the more frequent tendency among people to change employers, increases the risk of discontinuity, particularly in relation to changing from a job with an occupational pension to one without. This suggests the need for some type of additional statutory arrangement to underpin the second pillar. This might, as an alternative to a SERPS scheme, take the form of a regulated scheme involving some mixture of private sector and state, for all those in employment who are increasingly subject to these types of uncertainty. The principle of such a scheme would be to give greater security to those who are not inclined to take out a private policy or not entitled to join an occupational scheme. It could take the form of pooling occupational schemes, with scope for inclusion of some people on an individual basis where there is no occupational pension scheme. Such a pooling arrangement might encourage more employers to set up a scheme.¹⁶

¹⁶ The NSSB currently has a Pension Plan Scheme for Voluntary Social Service Organisations, which is set up on a Defined Contribution basis. The Plan incorporates retirement benefits, life assurance cover and disability benefits. The Plan allows for transferability to an approved plan of a new employer both in the private and public sector which is capable of accepting a transfer value. Alternatively, the transfer value can be put into a personal policy in the member's name.

Recommendation 7: In relation to extending the coverage of occupational pensions detailed consideration should be given to a range of options. The various options should be analysed with respect to the impact they would have on atypical and low paid workers.

Recommendation 8: In assessing various second pillar options the overall cost to the state should be calculated, including tax revenue foregone, so that decisions can be based on the overall picture.

4.4 Priority Three - Redistributive Issues

The Agency has two main concerns in relation to the redistributive elements of occupational and private pension provision. First, tax incentives pertaining to pension contributions are regressive in the sense that the higher the rate of tax payable the greater the value of investing in an occupational pension. Unlike mortgage interest relief, for example, there is no standard rating of this allowance. Secondly, because of the way in which reliefs on pension contributions and pension fund income are given it is not known how different income groups benefit from the tax expenditure on pensions.

Recommendation 9: Consideration should be given to standard rating tax reliefs on pension contributions.

In relation to the distributional effects of pensions the following is proposed.

Recommendation 10: A study should be undertaken to assess the distributional consequences of pension fund taxation. Mechanisms should be put in place to collect the necessary data, where required.

4.5 Priority Four - Poverty Proofing

Under the National Anti-Poverty Strategy all Government Departments and state agencies are expected to include the reduction and prevention of poverty as key objectives in the development and implementation of their policies and programmes. Specifically, government departments and agencies are to set targets to ensure that their policies and programmes contribute to achieving a fairer distribution of resources and opportunities in all areas of day-to-day life and do not create or perpetuate inequalities. This is especially relevant to the development of national pensions policy.

Recommendation 11: The development of national pensions policy should be guided by the goals, aims and principles of the National Anti-Poverty Strategy and all proposed actions should be assessed against their impact on poverty, low income and the income distribution more generally.

4.6 Additional Issues

The Combat Poverty Agency has three further concerns. The first is in relation to the overall objective for National Pensions Policy; the second concerns an improvement in information provision on pensions; and the third identifies the need to consider the pension needs of vulnerable groups in our society.

Given the thrust of the Combat Poverty Agency's response to the National Pensions Policy Initiative the Agency proposes the following objective for national pensions policy.

Recommendation 12: *As an overall objective National Pensions Policy should ensure that all citizens who reach retirement age, who are long-term incapacitated, or in the case of dependants on the death of the income provider and who have no other income should receive a state pension which is adequate to maintain a standard of living compatible with prevailing living conditions.*

In relation to improving the provision of information on pensions the Agency makes the following recommendation.

Recommendation 13: *Information about pension options should be made more widely available in a clear and impartial way.*

Thirdly, there are particularly vulnerable groups in Irish society whose pension requirements need to be further assessed. These include, for example, members of the Travelling community, people with disabilities and people in same sex relationships. In this initial submission the Agency has not dealt specifically with these issues, but they are worthy of detailed consideration and should be addressed within the context of developing the National Pensions Policy Initiative.

Recommendation 14: *The pension needs of specific groups at long-term risk of poverty need to be addressed in detail in the National Pensions Policy Initiative. Such groups include members of the Travelling Community, People with Disabilities and people in same sex relationships.*

5. Conclusion

In the context of unprecedented economic growth and Ireland's favourable demographic position in the near future if Ireland is to be committed to social justice and solidarity there is a real need to take this opportunity to ensure that the living standards of pensioners keep abreast of general living standards and that Ireland is an inclusive and productive society in the years ahead.

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