Statement to the Joint Committee on Social Protection, Community and Rural Development, and the Islands, November 10th, 2021.

Dr. Claire Keane, ESRI.

My name is Dr. Claire Keane, and I am an economist working as part of the ESRI's Taxation, Welfare and Pensions research programme. As part of the Pensions Commission public consultation I, along with various ESRI colleagues[1], made a submission to the consultation summarising relevant ESRI and other research relating to the issues of:

- The financing and sustainability of the State Pension
- Retirement and the qualifying age for the State Pension
- Pensions and income adequacy in retirement

The Commission was established in part as a response to public discontent with the proposed rise in pension age. The State Pension age was due to increase to 67 in January 2021 having increased from 65 to 66 in 2014. This increase was in recognition of the sustainability issues surrounding the State Pension – people are living longer, and the population is aging so the old-age dependency ratio is set to rise substantially. The proposed age increase was paused while the Commission examined the issue. Regarding pension age, *Dolls et al. (2017)*[2] estimate that across Europe (incl. Ireland) the pension age would need to rise by 5 years by 2030 to offset the effect of demographic change in the absence of any other changes (e.g. tax or social insurance increases). The positive fiscal effect comes mainly through increased taxes paid by those working longer rather than the savings made on pension benefits.

In our submission we pointed out that increasing the retirement age is not the only way to address pension affordability - increased PRSI or income taxes or reduced State Pension payments for current

1 Dr. Karina Doorley; Dr. Anne Nolan; Dr. Paul Redmond; Dr. Barra Roantree and Dr. Adele Whelan

2 https://ideas.repec.org/a/kap/itaxpf/v24y2017i4d10.1007_s10797-017-9462-3.html

or future recipients would also help affordability. Along with the proposed increase in pension age, the Commission proposes increases in the self-employed rate of PRSI. This would help equalise the treatment of income from self-employment and employment. They also propose other PRSI increases[3], all of which would help with the fiscal sustainability of the State Pension.

Regarding the 2014 increase in pension age from 65 to 66 *Redmond et al. (2017)*[4] examined this rise and found no evidence of a reduction in the retirement rate of 65-year-olds. Why was this the case? There was no real financial incentive to continue working until the age of 66, as retirees could avail of Jobseeker's Benefit for one year. An additional issue is that of the retirement age stated in employment contracts and occupational pensions – these may take time to catch up with the policy change. The recommendation by the Commission to align retirement ages in employment contracts with the State Pension age is therefore an important one. In recognition of the fact that some people's contracts may require retirement earlier than the increased State Pension age the 'Benefit Payment for 65 Year Olds' was introduced in 2021 to bridge the gap. However, it is likely that such a payment will continue to result in people retiring before the increased State Pension age. Achieving improvements in the sustainability of the system via an increased State Pension age is therefore likely to require reforms to such de-facto pension payments.

The Commission also recommends increased flexibility regarding access to the State Pension which would be welcomed. This would include deferred access to the State Contributory Pension with a resulting increase in the rate of payment received. This would allow those who want to work for longer remain in employment. Importantly, given the finding of *Dolls et al. (2017)* it would mean these people continue to pay income taxes for longer helping the fiscal situation further. In addition, while many people may welcome retirement, others may experience negative impacts. *Dave et al. (2008)*[5] found, in the U.S., negative physical and mental health effects of retiring, particularly where retirement was involuntary. Therefore, retiring at a later age may lessen or postpone poor health outcomes for older adults, raise well-being, and reduce health care services usage.

As well as increased flexibility we also need to give people certainty regarding the State Pension they will receive to allow them to plan accordingly. Difficulties currently exist for those planning for retirement in that they may be uncertain as to the State Pension amount they will receive as the move from the 'old' yearly average approach to the 'new' Total Contributions Approach has not been fully implemented. The Commission's recommendation that a full transition to the Total Contributions

[3] Specifically, increasing employer and employee PRSI, as well as removing the exemption from PRSI for those over the State Pension age and for supplementary pension income

4 https://www.esri.ie/publications/did-increasing-the-state-pension-age-in-ireland-affect-the-overall-retirement-rate-of-65-year-olds

5https://www.researchgate.net/publication/23545230_The_Effects_of_Retirement_on_Physical_and_Mental_Health_Outcomes

Approach should occur as soon as possible is welcome as well as confirmation on the calculation basis (i.e. how many years/contributions will qualify someone for the maximum State Pension). This would provide certainty to future retirees. It is also positive that they recommend the issuing of regular PRSI contribution statements that would inform those of working age of the State Pension amount they can expect to receive, therefore people can plan for retirement accordingly.

Finally, the Commission also examined the issue of pension adequacy. A key area of policy concern is the extent to which those who retire will have adequate resources to fund their retirement. Currently, the rate of income poverty amongst the older (65+) population is lower than for other age groups and the maximum State Pension rate is higher than that of working age benefits. Why then are some of the 65+ group at risk of poverty? Up to one quarter of those receiving the State Pension are getting below the top 2 rates. This can be explained by weak previous attachment to the labour market and periods of emigration. The proposal to allow people continue to pay social insurance contributions past State Pension age will facilitate people to plug gaps in their contribution history. We may also need to consider wider policy approaches - the average pension income of retired women is 35 per cent lower than that of retired men.[6] Therefore, policies that seek to keep women in employment for longer e.g. affordable quality childcare, long-term care services and flexible work arrangements will also be important.

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6 Nolan, A., Whelan, A., McGuinness, S. and Maitre, B. (2019). Gender, Pensions and Income in Retirement. ESRI Research Series Report No. 87. ESRI, Dublin.