



An Chomhairle Pinsean The Pensions Council

Pensions Council Meeting

21 September 2022 @ 3:00 pm

Venue: MS Teams

Minutes

Council members in attendance:

Roma Burke (Chair) (RB)
Clare Dowling (CD)
Olive Gaughan (OG)
Ciara McLoughlin (CML)
Munro O'Dwyer (MD)
Tim O'Hanrahan (TH)
Rob O'Toole (ROT)
Joanne Roche (JR)

Council members apologies:

Deirdre Cummins (DC)
Stephen Gillick (SG)
Brendan Kennedy (BK)

Also present:

Aaron Bayle (DSP) (AB)
Declan Tuomey (DSP) (DT) (Joined at 15:05 – Left at 15:30)
Marco Carlesso (note taker, secretariat)

Quorum: Quorum present – 8 members present (6 required for Quorum)

1. Conflict of interest:

No conflicts of interest were declared by the Pensions Council members and all members confirmed there were no relevant changes in circumstances to be reported.

2. Adoption of Agenda:

The Agenda was approved by the members.

3. Operational matters

The Council welcomed ROT as incoming member of the Pensions Council, following his appointment to the position by the Minister for Social Protection

4. Discussion – Means Testing

The Chair summarised the contents of correspondence sent for her attention by a member of the public. The Council agreed to discuss the matters raised in the correspondence. The Chair welcomed DT, Assistant Principal at the Department of Social Protection (“DSP”) to the meeting, thanking him for giving a presentation illustrating the concept of means testing to the Council.

DT highlighted that the current state pension legislation in Ireland is based on original legislation from 1908, and that over the years subsequent pieces of legislation have been added to it. Since 1908, therefore, the legislation has been amended and expanded several times, but its core is still based on the original one.

In Ireland there are two types of state pension: contributory (based on an individual’s PRSI contribution record) and non-contributory (means tested).

To qualify for a non-contributory pension, an individual must satisfy certain conditions, including ‘habitual residence’ in the State.

DT outlined that the concept of means testing was introduced to ensure that the State only intervenes to support people who would not otherwise be able to support themselves in retirement; outlining that an individual’s primary residence and the first €20,000 of assets (€40,000 for a couple) are disregarded from the means test. Following this threshold, a ‘sliding scale’ is applied, with progressive reduction of weekly state benefits as the person’s means is assessed to be higher. Limits are built into the system to ensure fairness and impartiality; however, this may be seen as unfair by those whose claims are reduced or declined due to being above certain limits by modest amounts.

To assess means, any capital amounts (for example, savings, a holiday home) over the threshold are converted into an expected income in order to assess a person’s means. The formula used is set out in the legislation. The Chair noted that, in the current economic scenario, a given amount of assets would be extremely unlikely to provide the ‘expected income’ used for means testing and asked DT for more information about the formula used to calculate it.

DT explained that the current rules for the assessment of capital for the means test for non-contributory pension are in place and unchanged since June 2005. In that period interest rates were considerably higher than the present. While the formula hasn’t been updated, social welfare payments have increased, but the thresholds have not increased meaning that people in receipt of means-tested benefits are better off, all else being equal. Social welfare payments are intended to direct support towards those who need them most. For fairness reasons the State expects individuals to use part of their savings before being able to claim social welfare benefits, including non-contributory pensions.

DT stressed that any claimant in receipt of a means-tested benefit may approach the DSP if their circumstances change and ask for a review; therefore, if capital depletes, the amount of weekly non-contributory pension may be increased.

TH noted that, according to recent data, the number of people receiving a contributory pension is significantly higher than those receiving a non-contributory one.

DT agreed with TH and stated that since 1988 self-employed workers have been required to pay PRSI contributions. This changed the state pension landscape, as an increasing number of workers started paying contributions and therefore qualifying for a contributory pension.

OG asked DT if indexation of payments could be considered. DT explained that at the moment the payments are not linked with inflation, and that the increases are decided by the Government in the budget, each year.

The Chair and the Council thanked DT for his presentation. DT thanked the Council for hosting him and left at 15:30.

A broad discussion followed.

OG pointed out that it would be useful to compare the rate of return considered by DSP with annuity rates currently available on the Irish market. The Chair noted that commercial annuity rates are only available for pension money and include insurance company profit margins and loadings. Particularly for small capital amounts, they may not be an appropriate comparison for means-testing purposes.

TH made a comparison with the 'Fair Deal' scheme, where applicants are required to use part of their income and assets to pay for long term care.

CML noted that in Ireland the maximum rates of contributory and non-contributory pension are relatively similar, while in other jurisdictions like the UK there are significant differences between the amounts.

The Chair said that the non-contributory pension in Ireland was designed to keep the vast majority of old people out of poverty.

ROT noted that to ensure more fairness on expected asset returns, calculations could be redone periodically, and assumed returns regularly updated. However, to balance the cost of this adjustment to the State, the thresholds could be reduced, so the net position could be that the person is no better/worse off as a result of regularly updating the calculations.

The Chair was satisfied with the outcome of the discussion and instructed the Secretariat to refer the querist to the meeting minutes, which will be available on the website once approved.

5. Minutes

The minutes for the June 2022 meeting were approved.

6. Developments in the pensions' environment

The Chair noted BK's apologies, thanked AB for the useful briefing presented to the Council, and asked CD to provide updates from DSP.

CD informed the Council that the Minister is currently working on the reform of the state pension system, which was announced recently.

She then stated that Auto Enrolment is developing as planned, and some minor changes to the original design are being discussed at the moment.

The Chair asked for information about the date of expected launch of Auto Enrolment. CD said that it is expected that the first contributions from enrolled workers will be received during 2024. No funding has been set aside for the implementation of the Central Processing Authority.

7. Strategic work in progress

Tax free lump sum paper

A draft paper had been circulated to the Council members in advance of the meeting to reflect the debate at the June meeting regarding the option for more flexibility on accessing the tax-free lump sum at retirement. The Council members agreed that they are in favour of flexibility.

JR noted that it would be reasonable to give the option to keep part or all the funds invested rather than having to withdraw them all at once. She then noted that it would be beneficial to allow drawing funds gradually in order to fund retirement, spreading the tax relief over the years.

The Chair stated that the psychological aspect of seeing the tax-free lump sum in an account could be achieved by splitting the value of the fund at retirement, and creating a so-called 'tax free account', which will be kept invested.

ROT outlined that giving people options is positive, and made comparisons with Pensions Freedom in the UK.

The Chair stated that it is important to preserve simplicity, using clear terms to ensure that savers understand their options.

OG suggested that as a further step, the state could provide guaranteed annuity options for pension money. The Chair stated that this had been explored previously by the Council and while there was merit the idea, it was beyond the bounds of this particular paper.

CML outlined how important it would be to give the option to keep funds invested instead of having them sitting in a bank account in periods of high inflation, as this would better preserve the value of the retirement pot.

The Chair informed the Council that AB had contacted several insurance companies operating in the Irish market to gather information on any insight regarding retirees accessing their tax-free lump sum. AB informed the Council that at the moment, just one response had been received.

The Chair asked for volunteers to review the draft paper, and OG, CML and ROT offered to be responsible for it.

The Chair thanked the three members for this and agreed to liaise with them.

Investment strategy for Auto Enrolment

The Chair thanked CD and JR for the work done. The Chair will contact BK to discuss any further work to be done before progressing the paper.

Pensions Cost Transparency and Gender Pension Gap Reports

Following a brief discussion, the Council agreed to publish both reports at the end of October 2022.

8. AOB

The Chair mentioned that she will be giving a talk at an event organised by the Irish Institute of Pensions Management and the Society of Actuaries ('The future of pensions in Ireland') on 11 October and extended the invitation to attend to any interested Council member.

The Chair then briefly discussed with the Council a recent paper published by the Central Bank on wealth accumulation and inter-generational inequality with inverted population pyramids.

TH offered to organise presentations to the Council from his colleagues if there is appetite to discuss specific topics, including economic research and decumulation. The Chair thanked TH for the offer and invited her fellow members to propose any topic of interest.

10. Next Meeting

The next meeting is scheduled to be held remotely via MS Team on Wednesday 19 October 2022.

Action Items:

No.	Action Details	Person responsible	Date to be completed:
1	Progress Investment Strategy for AE paper	Chair	Before October meeting
2	Prepare updated draft of lump sum paper	OG, CML, ROT	To be discussed further at October meeting
3	Publish Pension Cost Transparency and Gender Pension Gap reports	Secretariat	31 October 2022
4	Prepare response to querist directing to September minutes	Secretariat	Reply as soon as practicable, minutes to be published once approved by Council