Box D: Pensions Commission recommends substantial reforms to ensure sustainability of the pension system

The Commission on Pensions was established in November 2020 under a Programme for Government commitment to "examine sustainability and eligibility issues … and outline options for the Government to address issues including qualifying age, contribution rates, total contributions and eligibility requirements". Its work was completed this October with the publication of a substantial report highlighting the sustainability challenges facing the pensions system.

This box sets out the main recommendations proposed by the Commission and assesses their potential impact.

Main recommendations

The Commission's main recommendation was that a package of measures be undertaken to ensure sustainability of the pension system. Increases in social contributions, the pension age and additional Exchequer contributions were the key features.

Reform and share of pensions costs shortfall met by it	**Nature of specific reforms**
Social contributions increases (40%)	Increase self-employed PRSI rates from 4% to 10% by 2030. Increase higher Class A Employer rate by 2.4 percentage points by 2040 and by 0.1 percentage points by 2050. Increase employer and employee rates both by 1.35 percentage points by 2040 and 0.1 percentage point by 2050.
Pension age increases (38%)	Increase the pension age by three months each year from 2028 to reach 67 in 2031. Then increase by 3 months every 2 years from 2033 to reach 68 in 2039.
Exchequer contribution increases (13%)	Allocate the equivalent of 10% of State Pension Contributory spending to pension spending annually.
Moving fully to a "Total Contributions" approach (9%)	Currently, people availing of the state pension can choose between the most favourable option based on a "Yearly Average Approach" or a "Total Contributions" approach. This reform would see the former option abolished and a full move to the total contributions approach, whereby 40 years of contributions (including credits) are required for a full pension.

The reforms are expected to address the shortfall primarily through the social contribution and pension age increases (Figure D1).

Reforms suggest a need for tax increases

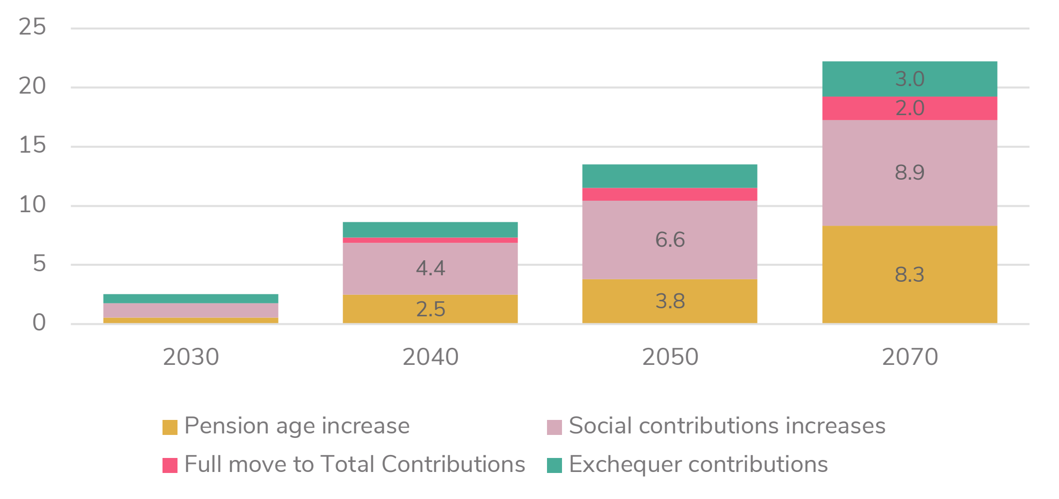
The choice to use taxes to fund much of the costs is reasonable, though it raises questions about the willingness of governments, both current and future, to raise PRSI contributions on this scale. The proposed increase in Exchequer contributions to 2030 (€790 million) would, if funded by taxes, roughly correspond to a further 1 percentage point rise in the standard 20 per cent income tax rate (€744 million full-year impact in 2022 — see Section S10). Relying on a rise in taxes over the longer term is not that credible without clear commitments to follow through on such an approach. To be credible, the Government should plan and legislate for these measures, acting sooner rather than leaving for another government term.

Increasing the pension age as the Commission proposes would mean that the gap between the pension age and the expected age of death, given life expectancy at age 65, will remain broadly fixed at about 20 years (Figure D2). The more gradual phasing is likely to make the changes easier to implement, avoiding large step changes.

However, the proposals recommend postponing increases in the pension age, which locks in a longer average retirement period. It also means higher costs than would be incurred by beginning to apply the same changes earlier, and it means that the full costs of an ageing population will need to paid for between now and 2028.. It is not clear what the rationale for recommending a delay in the pension age increases was. However, the Commission's report notes that "public concern [in relation to the originally planned pension age increase to 67] endures and was borne out in subsequent surveys and in many submissions to the Commission".

Figure D1: How the reform package addresses pension cost shortfalls

€ billions, cumulative funding raised by source

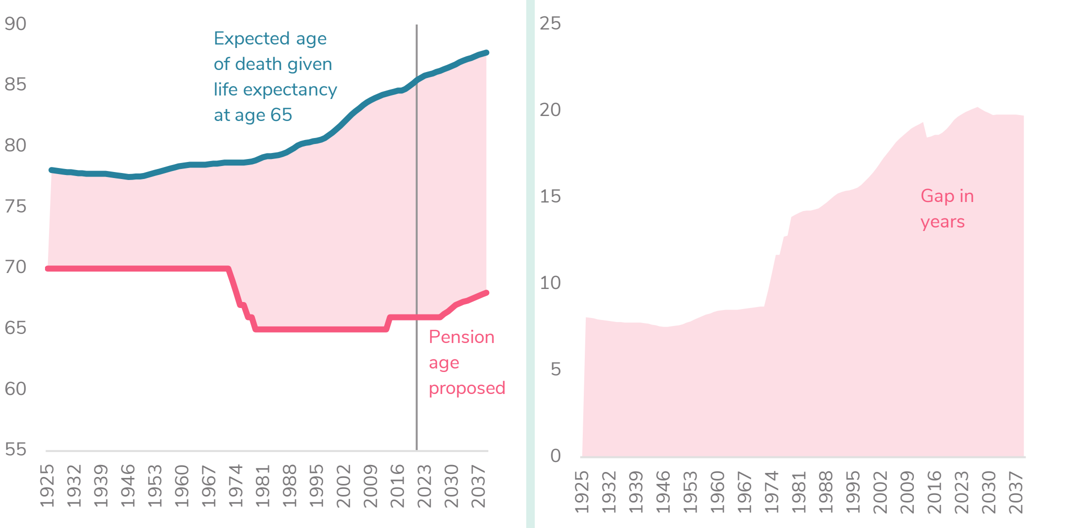


Source: Commission on Pensions (2021). Get the data.

Phasing the increase in the pension age as the Commission proposes will mean that the gap between the pension age and the expected age of death given life expectancy at age 65 will remain broadly fixed at about 20 years (Figure D2).

Figure D2: Expected years of retirement to stay broadly fixed at 20 years

Age (left panel); and gap in years between life expectancy at age 65 and pension age (right panel)



Sources: CSO Life Tables; Pensions Commission Report; and Fiscal Council workings.
Notes: Life expectancy at age 65 is interpolated from CSO Life Tables; projections are from the Council's Long-term Sustainability Report (2020); the pension age rises in line with the Pensions Commission's recommendations. Get the data.