Oireachtas report signals political cost of higher state pension age

COLMAN HIGGINS

An Oireachtas Committee's recommendation that the state pension age should remain at 66 has increased political pressure to maintain the status quo.

The ultimate decision remains with the Government, which unlike the Committee has to balance conflicting budgetary considerations.

But given that increasing the state pension age has been shown to be one that voters feel strongly about - and is but one of several options for dealing with the increasing cost of state pensions - one cannot rule out the Government opting in the coming weeks for a line of less resistance, such as increasing PRSI rates or Exchequer contributions by more than was recommended by the Commission on Pensions late last year

The Oireachtas Committee on Social Protection, Community and Rural Development and the Islands was charged with responding to the Commission's report. That report had set out four options, with various combinations of PRSI increases, increases in state pension age and higher Exchequer contributions.

The Commission recommended the fourth option, which distributed the burden evenly between all three sources, including a gradual rise from 66 to 67 between 2028 and 2031 and an even more gradual rise to 68 between 2033 and 2039.

The Oireachtas Committee has eschewed any rises in pension age, going instead for the third option. But while this option from the Commission had higher increases in PRSI, to compensate for the status quo on pension age, the Committee takes an 'a la carte' approach to the Commission's menu of options, stating that it remains opposed to the increases in employee PRSI set out in that third package (while supporting higher PRSI on employers and self-employed).

FISCAL RESPONSIBILITY

Oireachtas Committee recommendations are necessarily a compromise between Government and Opposition politicians and Committee members are not responsible for the budgetary implications of what they recommend. This understandably leads to recommendations that are broadly popular in the area covered by the report, regardless of the consequences for other areas of Government activity.

The Commission had to recommend options with fiscally similar outcomes and its recommendations are still likely to carry more weight with Government than this week's Committee report.

But if the Government is seeking political cover to choose a Pensions Commission option that avoids the thorny issue of the state pension age, the Committee report may be significant.

Increases in retirement age are easier for the public to understand than the financial detail of PRSI or Social Insurance Fund contributions - making them much more politically problematic.

The Commission had stated that increasing the state pension age in the way it recommended would save about €3.8 billion by 2050, or a 28% reduction in spending.

But the Committee said the argument for saving money by increasing state pension age was undermined by simultaneously providing alternative payments to those forced to retire. It pointed to ESRI evidence that the increase to 66 in 2014 had little impact on numbers retiring at 65.

MANDATORY RETIREMENT

However, this raises the issue of mandatory retirement at 65, which was still common practice in 2014, but would be dealt with by proposals from the Commission (which would abolish mandatory retirement before state pension age) and the Committee (which would abolish mandatory retirement ages altogether).

If either of these reforms were in place, they would avoid replacement of state pension spending by other social welfare spending (which has been happening since 2014) and allow the twin benefits of later retirement, by having more workers paying PRSI and fewer retirees drawing state pensions.

Retirement before state pension age may be necessary in certain occupations on safety grounds, or in other physically demanding jobs on health reasons. Many of these workers start their careers earlier than others, so can argue that they have made enough PRSI contributions to justify earlier retirement.

The Commission recommended that Government consider allowing those with 45 years of PRSI contributions to retire at 65, while acknowledging there would be some extra cost involved. The Committee recommended that those with 40 years of PRSI contributions be allowed to access their state pension at 65.