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Income for Older People in Ireland

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This paper serves as a brief input into the considerations of the Citizens Assembly as it deliberates on the issue of how Ireland best responds to the challenges and opportunities of an ageing population. The paper is structured over three sections. The first examines the income of older people in Ireland and within this considers issues of poverty, deprivation and wealth. Section two focuses on the state pension, assessing its importance to pensioner income and its adequacy. The final section considers some current and future challenges for public policy and policy formation in this area.

The Income and Living Standards of Older People in Ireland

The annual Survey on Income and Living Conditions (SILC) from the Central Statistics Office (CSO) provides the most comprehensive insight into the incomes and living standards of people in Ireland. The survey has run since 2004 and gathers detailed data from a representative sample of the Irish population. The results of this survey are published annually by the CSO.

Using the data from 2014, Collins and Hughes examined the income of older people in Ireland; defined as those aged 66 years and over – see Table 1. In that year the average gross income for a pensioner was €19,257 or almost one-third less than the national average of €29,116 (CSO, 2015). Gross income includes all earnings, pensions and welfare payments.

On average, income from private and occupational pensions amounted to €6,222 per annum and accounted for 32 per cent of the total income for pensioners. State pensions were the most important source of income amounting to €10,222 per annum and they accounted for 53 per cent of income. A small minority of pensioners had income from work as employees or self-employed. Combined these sources of income provided around €1,300 per annum or about 7 per cent of total income. The remaining sources of income, rents, investment, housing allowances and other social transfers provided small amounts for pensioners and in each case did not account for more than 2.5 per cent of income for the average pensioner.

While this data is for 2014, its overall level and composition will not have changed dramatically since.

Table 1. Average composition of pensioner income in Ireland, 2014

Income Category	Average %	Average Amount €
Employee income	1.9%	359.67
Self-employment income	4.9%	941.41
Private pension income	4.4%	847.75
Occupational pension	27.9%	5,373.82
State old-age related payments	53.1%	10,222.32
Rent income	1.8%	355.71
Investment income	2.0%	385.67
Other direct income	0.0%	1.72
Housing allowances	2.3%	445.89
Other social transfers	1.7%	323.02
Gross income	**100.0%**	**19,256.97**

Source: Collins and Hughes (2017)
Note: Pensioners are defined as those aged 66 years and over. State old-age related payments are the state social welfare pension.

To complement this income analysis, it is possible to use measures of poverty and deprivation to assess the living standards of pensioners. Living standards capture a more comprehensive picture than income alone, as they derive from the collective ability and experience of a household to meet day to day needs and living costs. Put simply, the income of household members, irrespective of their age, is combined at the household level and serves as the basis for the collective ability of a household to meet its living costs.

In Ireland, and elsewhere in the EU, poverty is measured as a relative concept with those recorded as having an income below a certain benchmark defined as being at risk of poverty. That benchmark derives from the income of the household as a whole adjusted for the composition of those within it – the adjustment ensures that households of different sizes and compositions are comparable. Households found to have an income of less than 60% of the adjusted income of the household in the middle of the Irish income distribution are recorded as being below the poverty line. All the members of that household, irrespective of the age or individual income, are then recorded as being at risk of poverty.

Chart 1 tracks the rate of poverty among older people in Ireland since 2004. Over time the proportion of older people living in poverty has fallen from just over 1 in 4 in 2004 (27.1%) to 1 in 10 in 2015 (10.7%). The value of the poverty line for a single person pensioner household in 2015 was €12,000 (€230 per week) and for a pensioner couple was €19,920 (€382 per week). The large reductions in the early 2000s were driven by a series of Budgets which targeted increases in core welfare payments including the state old age pension. Relative to Ireland's position over time, and to the position in other EU states, the current rates of pensioner poverty in Ireland are low. The rate of pensioner poverty in 2015 (10.7%) compares to a rate for the overall population of 16.9% and within this a rate for children of 19.5%.

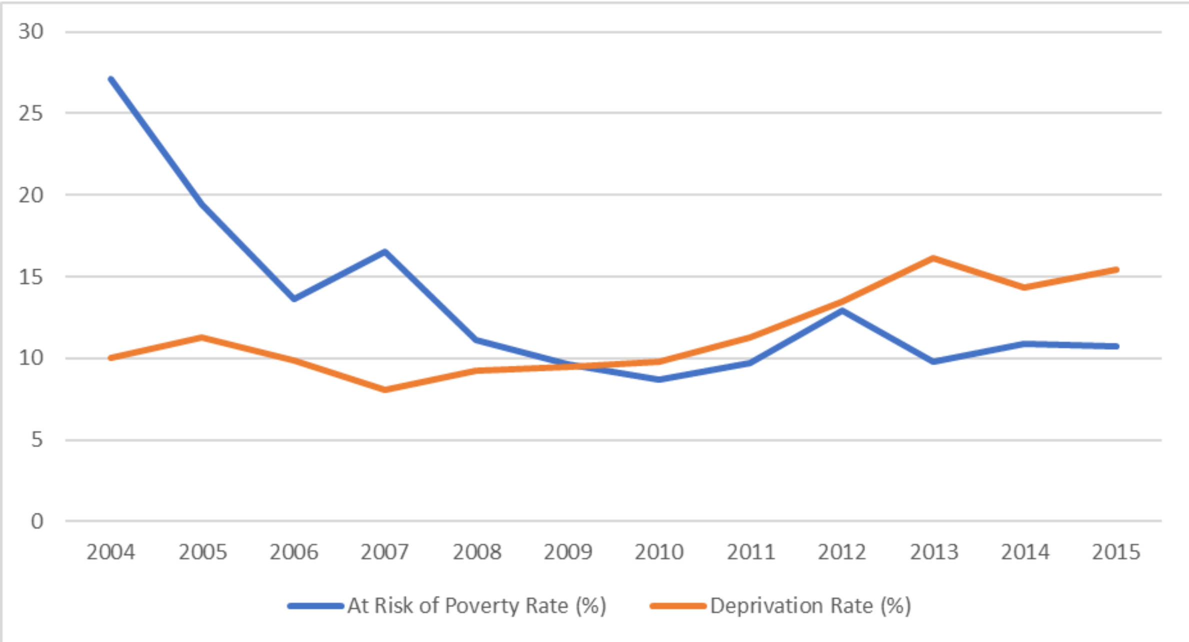
Alongside poverty, Chart 1 also records the proportion of pensioners who experience deprivation (the deprivation rate). This is measured as the number of people who indicate that, because of financial constraints, they are unable to afford at least two of eleven basic items. These items include:

1. Two pairs of strong shoes
2. A warm waterproof overcoat
3. Buy new (not second-hand) clothes

4. Eat meal with meat, chicken, fish (or vegetarian equivalent) every second day
5. Have a roast joint or its equivalent once a week
6. Had to go without heating during the last year through lack of money
7. Keep the home adequately warm
8. Buy presents for family or friends at least once a year
9. Replace any worn out furniture
10. Have family or friends for a drink or meal once a month
11. Have a morning, afternoon or evening out in the last fortnight for entertainment

In 2015 one in every seven pensioners (15.4%) experienced deprivation of at least two of these items. This number increased over the recession from less than one in ten in 2007.

Chart 1: Poverty and Deprivation Rates for Older People, 2004-2015



Source: CSO SILC surveys. Note: older people are those aged 65 years and over.

Results from the first Household Finance and Consumption Survey (HFCS) by the CSO in 2013 provide a further insight into the living standards of elderly people in Ireland. Among other things, the survey captured the net wealth of households where net wealth is defined at the value of the assets held by a household after deducting its debts (outstanding mortgages, loans etc). The survey found that the average wealth of an Irish household was €218,900. The wealth of the household in the middle of the wealth distribution was €102,600. The latter is a more useful measure as it avoids the distortion effect of high wealth households (these skew up the average figure). See Table 2.

Table 2 also reports the distribution of net wealth across the age groups. Households where the reference person (respondent to the survey) is aged more than 65 years hold almost one third of all the household wealth in the state with the median value of this wealth just exceeding €200,000. Although the report does not decompose net wealth by asset category, it highlights the concentration of net wealth in housing assets and land.

Table 2: Net Wealth of Households in Ireland in 2013, by age group of reference person

	Median Net Wealth, €000s	Mean Net Wealth, €000s	Share of Net Wealth
State	102.6	218.9	100.0%
Age Group of Households Reference Person			
Under 35 yrs	4.0	38.0	3.5%
35-44 yrs	31.5	122.5	13.3%
45-54 yrs	157.1	283.4	25.1%
55-64 yrs	195.5	344.1	25.7%
65 yrs +	202.3	348.2	32.5%

Source: CSO Household Finance and Consumption Survey, 2013.

The State Pension: Importance and Adequacy

Table 1 above highlights the importance of the state pension for the average pensioner in Ireland. Collins and Hughes (2017) also note that this importance differs across the income distribution; with its role being more pronounced for households lower down the distribution. However, as Table 3 shows, it is only among pensioners living in the top 30% of Irish households that the state old-age pension becomes the source of less than half of their annual income. Put simply, the state old-age pension is the bedrock of pensioner income for the substantial majority of current pensioners in Ireland.

Table 3: Sources of income of pensioners in Ireland by decile, 2014 (%)

Income Category	**Bottom**	**2nd**	**3rd**	**4th**	**5th**	**6th**	**7th**	**8th**	**9th**	**Top**
Employee income	0.0	0.6	1.5	0.0	1.2	2.1	0.3	1.3	1.9	5.7
Self-employed income	2.2	1.4	1.7	0.9	3.0	1.8	4.7	8.0	5.5	10.3
Private pension income	2.6	1.2	0.2	2.8	1.4	3.3	3.5	3.5	5.4	12.0
Occupational pension	7.8	8.9	2.5	3.7	14.4	18.0	32.0	42.1	54.8	44.9
State old-age related payments	***65.4***	***81.3***	***85.0***	***85.4***	***72.5***	***60.2***	***53.9***	***40.0***	***27.7***	***17.6***
Rent income	3.7	1.6	0.9	1.1	0.7	0.7	1.3	2.4	1.5	4.3
Investment income	2.8	0.1	0.5	0.1	0.6	6.9	1.1	1.0	2.2	4.5
Other direct income	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Housing allowances	10.6	4.1	5.1	4.2	2.8	2.3	1.3	1.4	0.7	0.4
Other social transfers	4.8	0.9	2.7	1.8	3.5	4.8	1.9	0.4	0.3	0.2
Gross income	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Collins and Hughes (2017)

The adequacy of this income is best judged against the living costs for pensioners and pensioner households. An insight into this issue is available using the results of the Vincentian Partnership for Social Justice (VPSJ) assessments of Minimum Essential Standards of Living. These studies establish the cost of the minimum required to live and partake in the social and economic norms of life in contemporary Ireland at a standard of living which members of the public agree nobody should be expected to live below. These benchmarks derive from a consensual budget standards research method and include costs associated with more than 2,000 goods across 16 expenditure categories (See Collins et al, 2012 and VPSJ, 2017).

This method is also useful as it captures the effect of the various non-cash benefits and entitlements pensioners receive. The provision of these benefits reduces the living costs of households who are able to avail of them; thereby reducing the cost of achieving a minimum standard of living. The analysis includes the Living Alone Allowance, the Fuel Allowance, the free travel pass, the medical card (where appropriate), the Christmas Bonus and the Household Benefits Package.

The most recent VPSJ report includes a comparison between these living cost measures and the income of two pensioner households (single pensioner and pensioner couple) who are solely dependent on income from the old-age pension. As minimum living costs differ for households living in urban and rural areas (costs are higher in rural Ireland) the analysis looks at these cases separately. The assessments also assume entitlement to a full medical card and living in social housing. Table 4 below summarises these results.

Table 4: Assessing the Adequacy of Pensioner Social Welfare Income, 2017

	Single Pensioner	**Single Pensioner**	**Pensioner Couple**	**Pensioner Couple**
Pension type	**Non-contributory**	**Contributory**	**Non-contributory**	**Contributory & Qualified Adult**
URBAN IRELAND				
Weekly Expenditure	246.98	248.68	309.98	311.69
Weekly Income	247.25	258.55	465.25	408.35
Income Adequacy	***+0.27***	***+9.87***	***+155.27***	***+96.66***
RURAL IRELAND				
Weekly Expenditure	304.90	305.40	372.25	371.25
Weekly Income	247.25	258.55	465.25	408.35
Income Adequacy	***-57.65***	***-46.85***	***+93.00***	***+37.10***

Source: VSPJ, 2017

The findings in Table 3 demonstrate that for most pensioner households the combined effect of the state old age pension and associated secondary benefits ensure that pensioner households are able to afford a minimum standard of living. The exception is for rural single pensioner households where higher costs, in particular transport costs, result in a deficit. The findings echo assessments for previous years and demonstrate that for the most part social welfare pension incomes are adequate.

A final proviso accompanies the assessment in Table 4. It is that the case studies examined assume pensioner households where individuals are in good health and are not burdened with additional health or care related living costs. The emergence of such costs may erode or entirely eliminate any income adequacy surplus.

Some Further Challenges

In the context of the text above, this paper concludes by highlighting five points relevant to considerations of the incomes of current and future older people in Ireland.

(i) Private Pension Provision and the State Old Age Pension

The State allocates a considerable amount of resources each year to supporting savings for retirement via the private pensions system. Collins and Hughes (2017) note that this is equivalent to almost 5% of annual taxation and social insurance revenue for the state. These supports are currently skewed towards higher income individuals and there are policy attempts to expand them so that more middle and lower income workers are included and that women are greater participants. The implications of this is that further resources will need to be allocated to these supports.

Given the comprehensive role played by the state old age pension, and given the income adequacy it provides to most households, it is worth considering whether society should more efficiently use its resources to provide an improved basic living standard for all pensioners, one well above the minimum income standard, and discontinue subsidising private pensions savings. Those wishing to continue to save for such pensions could do so, without the various tax reliefs and supports, but would like all pensioners be certain of a generous social welfare pension in retirement.

(ii) Ensuring the State Old Age Pension does not fall behind

As highlighted above, pensioner poverty rates are currently low. However, comparing the poverty line and pensioner income shows that many pensioners, in particular single social welfare dependent pensioner households, live just above the poverty line. Were social welfare pension incomes to increase at a rate of less than earnings and take-home pay in the economy in general, then there is a risk that pensioner income will fall behind others and poverty rates will increase once again.

The experience of the 1990s and early 2000s is illustrative in this context. Table 5 below presents the rates of poverty for social welfare dependent groups over that period. As the Irish economy grew, earnings increased and income taxes reduced. While welfare rates increased marginally, the incomes of welfare households slipped back relative to that of others. Among older people poverty rates climbed from 1 in every 20 in 1994 to 1 in every 2 in 2001. Subsequent increases in social welfare payments in the early 2000s addressed this relative fall back. However, it is important to note the potential for history to repeat itself and the relevance of ensuring that pensioner social welfare incomes do not slip back once again.

Table 5: Percentage of persons in receipt of welfare benefits/assistance who were below the 60 per cent median income poverty line, 1994/1997/1998/2000/2001

	1994	**1997**	**1998**	**2000**	**2001**
Old age pension	5.3	19.2	30.7	42.9	49.0
Unemployment benefit/assistance	23.9	30.6	44.8	40.5	43.1
Illness/disability	10.4	25.4	38.5	48.4	49.4
Lone Parents allowance	25.8	38.4	36.9	42.7	39.7
Widow's pension	5.5	38.0	49.4	42.4	42.1

Source: Social Justice Ireland (2017)

(iii) Housing Wealth

Many older people in Ireland possess assets, often in the form of housing which they own outright. For the most part the current situation is that these people save throughout their life to pay for this asset and eventually die leaving it behind them. If it were possible to design a simple, state provided (not private provided) means of accessing a small proportion of this capital value in older age it would be possible to simply, and cheaply, increase the incomes and living standards of many older people in Irish society. For example, accessing €5,000 to €10,000 per annum from the age of 70 years and upwards would relieve the financial strain of many households. The funds could be recouped by the state from the estate of the individual and the entitlement of the state to these funds could be structured in the same way as the fair deal scheme currently works. It would be worth exploring the potential to establish such a scheme which has relevance to the discussion on income adequacy for current and future generations of pensioners.

(iv) Care Infrastructure

The quality of life of future generations of pensioners will be dependent on the provision and development of a broad infrastructure of care. This is likely to include many public services, and publicly supported services, which will require the state to allocate more resources to this area in the decades to come. There is an opportunity for Ireland to plan for this transition; identify these future needs and how they will be provided and funded. The work and recommendations of the Citizen's Assembly has a valuable potential to influence this process and commence a period of policy planning for this future eventuality.

(v) Understanding the Personal Cost of Retirement

Both individuals, policy makers and financial institutions need to gain a greater appreciation of the costs of living most individuals face during most of the time in retirement. Often an exaggeration of these expected costs drives individual and policy decisions. The VPSJ analysis of Minimum Essential Standards of Living offers a useful insight into the needs of retired individuals. For example, using their 2017 results, a pensioner couple wishing to live at twice the minimum income standard would require a net income of €32,500 per annum; a single pensioner at a similar living standard would require approximately €30,000 per annum. While individuals should be free to maintain a living standard well above these levels if they wish, there is little merit in policy using the states limited resources to support incomes beyond such levels.

Further enhancements to the provision of public services for retired individuals would reduce these income needs.

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