Pensions at a Glance 2023

Ireland

Ireland: Pension system in 2022

The public pension is a basic scheme paying a flat rate to all who meet the contribution conditions. There is also a means-tested pension to provide a safety net for the low-income elderly. Voluntary occupational pension schemes have broad coverage: over half of employees.

Key indicators: Ireland

		Ireland	OECD
Average worker earnings (AW)	EUR	54 649	39 182
	USD	57 548	41 261
Public pension spending	% of GDP	3.3	7.7
Life expectancy	at birth	82.7	80.7
	at age 65	85.5	84.6
Population over age 65	% of working-age population	25.8	31.3

Qualifying conditions

The State Pension is payable from age 66. The Qualifying Age was set to be increased to 67 in 2021 and 68 in 2028 but legislation in late 2020 repealed this increase pending a review from the Commission on Pensions which was established by Government to examine sustainability and eligibility issues in respect of State Pension arrangements. As part of its response to the Commission on Pensions' recommendations, the Minister for Social Protection announced on 20 September 2022 that the State Pension Age will remain at 66 years of age.

- Full entitlement to the State Pension (Contributory) requires an average of 48 weeks' contributions or credits per year throughout the working life. The pension value is reduced for incomplete contribution histories. This is known as the "yearly average" method. In January 2018, an interim "total contributions approach" qualification system was announced, effective from March 2018, for those pensioners who reached state pension age after 1 September 2012. This requires a person to have 40 years' worth of contributions to receive the full rate. There is a minimum total period of paid (as opposed to credited) contributions of 520 weeks (i.e. ten years' full coverage). Current State Pension (Contributory) payments are paid on the better of the two calculations, with the applicant receiving the higher calculation. As part of a series of landmark reforms announced in September 2022, the phased 10-year transition to the Total Contributions Approach and the abolition of the Yearly Average approach for calculating individual State Pension (Contributory) entitlement is to commence from January 2024.

A means-tested State Pension (Non-Contributory) is alternatively payable from age 66, where a person may qualify at a higher rate under that scheme.

Benefit calculation

Basic

The State Pension (Contributory) benefit is EUR 265.30 per week and an additional EUR 10 a week is paid if the receiver is aged 80 or above. If the pensioner is living alone, there is a further allowance of EUR 22 per week. If they have an adult dependent they may be paid a means-tested allowance (directly to the dependent) of EUR 237.80 (over 66) or EUR 176.70 (under 66).

Targeted

The maximum value of the means-tested State pension (non-contributory) benefit is EUR 254 per week for a single person with an extra EUR 167.80 for an adult dependent aged under 66. Where the dependent is 66 or over, s/he may make a claim for this pension in his/her own right and qualify for a payment of up to EUR 254 per week. There is a weekly disregard in the means test of EUR 30, and an additional earnings (from employment) disregard of EUR 200. There is also an assets test (excluding family home), with capital of more than EUR 20 000 being assessed as means, using a formula.

To address rising inflation and the cost-of-living crisis, particularly due to increasing energy prices, in Budget 2023, the Government implemented additional measures to address the problem which included a series of once-off lump sum payments as follows:

- An Autumn Cost of Living Double Weeks Payment to most weekly Social Protection schemes (including pensions), was paid in October 2022.
- The Double Payment of Child Benefit to support families with children was paid alongside the regular Child Benefit Payment in November as well as the following:
  - EUR 400 lump sum Fuel Allowance Payment to all households receiving the Fuel Allowance (many of them pensioners);
  - EUR 200 lump sum Payment for pensioners and people with a disability receiving the Living Alone Allowance;
  - EUR 500 lump sum Payment to all families in receipt of the Working Family Payment;
  - EUR 500 lump sum Payment to those on Disability Allowance, Blind Pension and Invalidity Pension.
  - The EUR 500 lump sum Payment will be paid to Carers during the week commencing 21st November 2022.
- In addition, the 100% Christmas Bonus was paid to long-term welfare recipients (including pensioners) during the week beginning in December 2022.

Voluntary private pensions

There is an additional voluntary pension which is made up of both defined benefit and defined contribution schemes. The defined contribution rate is assumed to be 10%.

With effect from January 2024, an Automatic Enrolment Retirement Savings System is being introduced. Under Auto Enrolment, employees will have access to a workplace pension savings scheme which is co-funded by their employer and the State. A key feature of the system is that although participation is voluntary, it operates on an ‘opt-out’ rather than an ‘opt-in’ basis.

In order to encourage workers to participate, those people who choose to remain in the system will have their pension savings matched on a one-for-one basis by the employer. The State will also provide a top-up of EUR 1 for every EUR 3 saved by the worker. This means that for every EUR 3 saved by the employee, a further EUR 4 will be invested by the employer and the State combined.

The aim of Automatic Enrolment is to address the pension coverage gap in Ireland. It will apply to all employees who meet certain age and earnings criteria and who do not already have an occupational pension plan. The introduction of Auto Enrolment will be very gradually phased in over a decade, with both employer and employee contributions starting at 1.5%, and increasing every three years by 1.5% until they eventually reach 6% by Year 10 (2034). This steady phasing allows time for both employers and employees to adjust to the new system.

Variant careers

Early retirement

The State Pension (Contributory) and the State Pension (Non-Contributory) can only be claimed from the age of 66 and cannot be claimed before the normal eligibility age.

Late retirement

There is no provision currently to defer claiming the pension. In September 2022, the Government announced that with effect from January 2024, an option will be introduced for people to defer receipt of the State Pension up to age 70, with an actuarial increase paid on claiming the pension and providing people with an opportunity to improve their contribution history. Legislation to effect this change will be introduced this year.

Childcare

Eventual public pension entitlement is not affected by periods out of paid work for caring purposes since 1994, provided at least 520 weeks of contributions are paid over the course of the working life, as such periods - caring for children and/or incapacitated adults - are disregarded when calculating the average contributions used to determine pension entitlement (up to a maximum of 20 years). Under the “Total Contributions Approach” a qualifying procedure introduced in January 2018, a maximum of 20 years (out of the 40 required for full rate) caring for children (up to 12 years old) and people with a care need can be counted towards the 40 years required for a maximum rate pension (under this system, there is no ‘post-1994’ rule).

Unemployment

Eventual public pension entitlement is not affected by periods of unemployment provided at least 520 weeks of contributions are paid over the course of the working life, as contributions are credited in respect of such periods when the averaging method is used. Under the “Total Contributions Approach”, a maximum of 10 years can be credited (with an overall limit of 20 years for all credited contributions including home caring etc.).

Self-employed

In the mandatory pension scheme the benefits do not depend on earnings and the self-employed can expect the same benefits as employees with the same length of the contribution record. This means they may be entitled to the State Pension (Contributory), depending on contributions, or the State Pension (Non-Contributory), depending on the means available from the profit from such self-employment.

Personal income tax and social security contributions

Taxation of pensioners

There is an additional tax credit for persons above 65 years of age of EUR 245 in 2023 for single people. This is on top of the general credit, which is EUR 1 775 in 2023 per person.

People over the age of 65 are also entitled to a high exemption limit (below which no tax is paid). For single people, over 65s have an exemption of EUR 18 000 in 2023.

Taxation of pension income

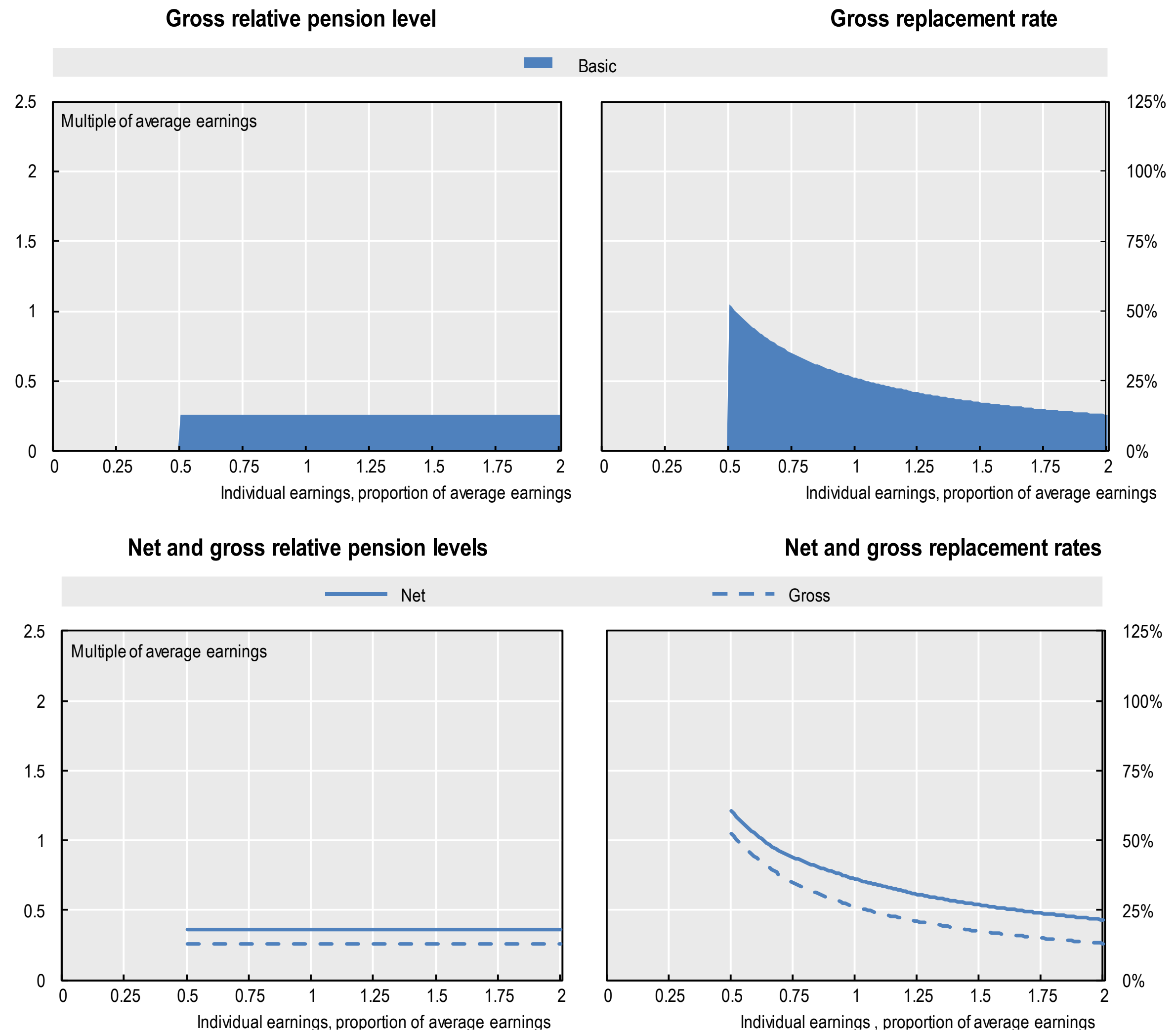
All pensions are taxable as income under the PAYE system and are also subject to the Universal Social Charge, but not PRSI.

State pensions are taxable, although they are paid without tax being deducted. If a person has an occupational pension, his/her tax-free allowance should be reduced when a State pension is being paid. This means that s/he will pay somewhat more tax on his/her occupational pension, to account for the tax that is due on the State pension.

Social security contributions paid by pensioners

Pensioners are not liable for social-security contributions. From 1 January 2011, the Health Contribution and the Income Levy have been combined to form the Universal Social Charge. This is payable at 0.5% for incomes below EUR 12 012, 2% for next EUR 10 908, 4.5% for next EUR 47 124 and 8% on the balance for people under 70. The reduced rate for people over 70 whose aggregate income for the year is EUR 60 000 or less is 2% of the balance in 2023.

Pension modelling results: Ireland in 2066 retirement at age 66



Men Women (where different)	Individual earnings, multiple of average 0.5	 0.75	 1	 1.5	 2	 3
Gross relative pension level	26.2	26.2	26.2	26.2	26.2	26.2
(% average gross earnings)						
Net relative pension level	36.1	36.1	36.1	36.1	36.1	36.1
(% net average earnings)						
Gross replacement rate	52.4	34.9	26.2	17.5	13.1	8.7
(% individual gross earnings)						
Net replacement rate	60.5	43.9	36.1	26.9	21.6	15.5
(% individual net earnings)						
Gross pension wealth	12.0	8.0	6.0	4.0	3.0	2.0
(multiple of individual gross earnings)	13.1	8.7	6.5	4.4	3.3	2.2
Net pension wealth	13.9	10.1	8.3	6.2	4.9	3.5
(multiple of individual net earnings)	15.1	11.0	9.0	6.7	5.4	3.9

Assumptions: Real rate of return 2.5%, real earnings growth 1.25%, inflation 2%, and real discount rate 1.5%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equals 90%. Labour market entry occurs at age 22 in 2022. Tax system latest available: 2022.