Standard Life

Pension Post

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For financial advisers only

The State Pension (Contributory)

For many, the State Pension (Contributory) will be the bedrock of their retirement provision. However, entitlement to the pension is shrouded in complex rules and not everyone will get the maximum pension. Tony Gilhawley of Technical Guidance Ltd explains.

Entitlement to the pension

A State Pension (Contributory) is payable from the State Pension Age as of right (not means tested) to those who satisfy the necessary PRSI contribution conditions, which are broadly:

- your client must have started working and paying PRSI before age 56
- they must have paid at least 520 weekly PRSI contributions, of which no more than 260 can be voluntary PRSI contributions (explained later).

  The PRSI contributions which are taken into account are Class A, E, F, G, H, N or S. The two most common are Class A (most workers in the private sector, and public service employees who joined the public service after 6 April 1995) and Class S (the self-employed). Class B contributions (public service employees who joined the public service before 6 April 1995) do not count towards the State Pension (Contributory)

The State Pension age varies by year of birth:

Year of birth	State Pension age
1948 to 1954	66
1955 to 1960	67
1961 +	68

Rate of pension

While the State Pension (Contributory) is currently referred to as €248.30 per week, in fact this is the **maximum** payable and many will get less than this, particularly if they have a broken pattern of employment.

The rate of State Pension (Contributory) payable to a retiree will be the **higher** of the Pension calculated on two difference bases:

- The Yearly Average Test, and
- The Aggregated Contributions Approach (TCA).

Under the **Yearly Average Test** the rate of Pension payable varies by the individual's average annual number of weekly PRSI contributions, paid or credited, between when they first started paying PRSI and their State Pension Age:

Annual average of weekly PRSI contributions paid/ credited over working life	State Pension (Contributory) per week
48 +	€248.30
40-47	€243.40
30-39	€223.20
20-29	€211.40
15-19	€161.80
10-14	€99.20

Credited contributions are PRSI contributions added to an individual's PRSI record when they are not working and are claiming certain Social Welfare benefits, such as Jobseekers and Illness benefits.

To get the maximum State Pension under this test, the retiree will need an annual average of 48 or more weekly PRSI contributions. The lower the average, the lower the State Pension becomes. And this is the big problem for many people, particularly women who have gaps in their working life.

However, the Homemaker Credit scheme disregards, for the Yearly Average Test, any period spent by a man or woman after 6 April 1994 working in the home providing full-time care for a child under age 12, or an ill or disabled person. But the scheme was not backdated for such periods before 6 April 1994.

Example

Karen first started work and paying PRSI at 22. She gave up work between 28 and 40 (12 years) to look after her children. Let's say 8 years of this 12 year gap in paying PRSI related to working at home minding her children (under age 12) after 6 April 1994.

She went back to work at 40 and plans on working up to 67 (her State Pension Age) so that by 67 she will have paid PRSI contributions for 33 years, i.e. from age 22 to 28 and from age 40 to 67.

While her full working life, from the time she started paying PRSI until she qualifies for the State Pension is 45 years, i.e. from 22 to 67, we can disregard 8 years of this under the Homemaker Credit, so that her working life for the Yearly Average Test is 45 – 8 = 37 years.

Her annual average PRSI contributions over this period is therefore:

33/37 x 52 weeks = 46.37 rounded to 46 weeks

Based on current rates under the Yearly Average Test, she would get a pension of €243.40 per week on this basis.

Under the alternative **Aggregated Contributions Approach** test, the retiree is entitled to a Pension of 1/40th of the maximum rate of Pension for each year of full rate PRSI contributions (paid or credited) over their working life, to a maximum of 40/40ths.

A credit (called a 'HomeCaring' credit) is given for any year spent outside the workforce minding children (under age 12) or an incapacitated adult, full time, to a maximum credit of 20 years, either before or after 6 April 1994.

Example - Karen

Taking the same Karen example as above:

- She will have paid 33 years PRSI contributions
- She can claim another 7 years HomeCaring credits for period spent full time minding her young children
- She will therefore qualify under the Total Contributions Approach for the full State Pension (Contributory) of €243.30 per week (the maximum current rate).

So, Karen, in this case, will get the higher €248.30 per week, as the Aggregated Contributions Approach gives a higher pension than the Yearly Average Test.

PRSI on investment income

Since 2014, PRSI @ 4% is levied on investment income (excluding deposit interest) of more than €5,000 per annum. However, this PRSI is at Class K and hence doesn't count towards entitlement for the State Pension (Contributory).

Filling the PRSI gap

The big issue for some, is a gap in their PRSI contribution record which can drag down their State Pension (Contributory) entitlement. There are a number of potential ways in which this gap may be filled, at least in part:

- If unemployed and no longer entitled to Jobseeker Benefit, an individual may be able to **'sign on for credits'** at their local Social Welfare office when they continue to be unemployed and available for work. A PRSI credit is awarded for each full week of proven unemployment where available for work, genuinely seeking work and capable of work
- **Social Insurance contributions paid in other jurisdictions** can count as a PRSI contribution here in certain circumstances, and may help qualify for some level of State Pension (Contributory) where otherwise the individual might not be entitled to any level of Pension
- **Go back to work** even part time, up to their State Pension Age. As long as an individual works at least one day a week and earns more than €38 per week gross as an employee or €5,000 per annum if self-employed, each week's employment is insurable for PRSI and hence counts towards your PRSI average test for the State Pension (Contributory). Bear in mind, an employee pays no PRSI (but their employer pays 8.7%) if their income is less than €352 per week gross, so, the employee may get a PRSI contribution on their record without having to pay for it
- **Opt to pay a voluntary PRSI contribution** before age 66, while not working, for example, taking early retirement a few years before the State Pension Age. The current rate of voluntary PRSI contribution is a minimum of €500 per annum. The contribution does not qualify for tax relief

  Not everyone can opt to pay a voluntary PRSI contribution to keep up their PRSI record. There are certain conditions, including:

  - they must have paid at least 520 actual PRSI contributions, when they were working; and
  - they must apply to pay the voluntary PRSI contribution within 60 months of the end of the year during which they last paid PRSI, or were last awarded a credited contribution

However it may not always make financial sense to pay a voluntary PRSI contribution, because:

- they might be entitled to a 'free' credited contribution anyway, for example, signing on for credits or claiming a Social Welfare illness or unemployment benefit; or
- even if they pay the voluntary contribution, they may not increase their PRSI record enough to get a higher State Pension (Contributory)

Getting a 'double' State Pension

A single income couple can potentially get close to a double State Pension Contributory in certain circumstances.

Where a retiree has an adult dependant, for example, a spouse or partner, when they qualify for the State Pension (Contributory), that spouse/partner may qualify for an additional State Pension (called the Qualified Adult increase) in their own right on the back of the retiree's State Pension. However, entitlement to this additional pension is means tested, based on **the spouse/partner's** financial means, not the retiree's, and they can't be already claiming some other Social Welfare pension or benefit.

If the retiree's spouse/partner has weekly income of less than €100 and the retiree qualifies for the maximum State Pension of €248.30 per week, their spouse/partner will get the full Qualified Adult pension, currently €222.50 per week when over age 66, which is almost 90% of the retiree's State Pension. So, a couple could potentially get up to 190% of the maximum State Pension (Contributory) in certain circumstances.

If the retiree's spouse/partner has weekly income between €100 and €310 they will get a scaled down rate of Qualified Adult pension. If they have weekly income of more than €310, they are not entitled to this pension at all.

Weekly income for this test includes any gross (before taxes and PRSI) earnings the spouse/partner has, rental income and the notional weekly income from any savings and investments (excluding the family home) they have. Assets held in joint names are taken at 50% of their value for the spouse/partner for this purpose.

The total value of assets held by the spouse/partner is converted to notional weekly income by a formula as follows:

Value of assets	Notional weekly income
First €20,000	Nil
Next €10,000	€1 per €1,000
Next €10,000	€2 per €1,000
Balance	€4 per €1,000

So, for example, if the retiree's spouse/partner had total savings of €60,000 in their own name, this would equal to notional weekly income as follows:

Value of assets	Notional weekly income
First €20,000	Nil
Next €10,000	€10
Next €10,000	€20
Next €20,000	€40 x 2 = €80
Total	€110

If the retiree's spouse/partner had no income and only assets of up to about €58,000, they would be deemed to have weekly income of less than €100 per week and hence qualify for the maximum Qualified Adult pension, which would be paid directly to them.

Of course, a retiree's spouse/partner may be able to qualify for a higher State Pension (Contributory) in their own right on a non-means tested basis, based on their own PRSI record. If so, of course they should claim that pension instead of Qualified Adult pension described immediately above.

It's complex!

As you have gathered by now, qualifying for the State Pension (Contributory) and the rate of pension you or your spouse/partner may get is complex. Only a brief summary of the main points is included here. More useful information is available at

www.citizensinformation.ie/en/social_welfare/social_welfare_payments/older_and_retired_people/state_pension_contributory.html

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