Do you qualify for the State Pension?

Declan Gahan from Veterinary Ireland Financial Services explains how the State Pension (Contributory) works

Many vets are unsure if they qualify for the State Pension. Some think it's means tested and some believe the fact that they're self-employed negates their eligibility. However, in reality, most vets do qualify.

STATE PENSION (CONTRIBUTORY)

There are two different State Pensions systems:

- The social insurance system
- The social assistance system.

The social insurance system provides pension benefits based on an individual's PRSI record over their lifetime, whereas, the social assistance system provides means tested pension benefits.

In this article, I will concentrate on the State Pension (Contributory), which falls under the social insurance system based on an individual's PRSI contributions over their lifetime.

WHO QUALIFIES FOR THE STATE PENSION (CONTRIBUTORY)?

To qualify, an individual must have a certain minimum 'yearly average' number of weekly PRSI contributions in the appropriate PRSI class.

The main sectors of employment, that qualify for the pension, are private sector employees (PRSI Class A); public service employees recruited after April 6, 1995 (also PRSI Class A); and self-employed sole traders, partners, and proprietary directors (PRSI Class S). Most vets fall into the last category.

Those who pay PRSI under Classes E,F,G,H and N, are also eligible.

The main category of workers who don't qualify for the State Pension (Contributory) are public service employees recruited before April 6, 1995 (PRSI Class B, C and D).

Individuals, who have spent part of their working life in the public service paying social insurance contributions (PRSI Class B, C and D) and part in the private sector paying social insurance contributions (PRSI Class A, E, F, G, H, N and S), are deemed to have a 'mixed insurance record' and may still qualify for the State Pension (Contributory) on a pro-rata basis.

For individuals who have worked in Ireland and one or more other EU states, the social insurance contributions paid in these EU states, can be added to your Irish social insurance contributions to qualify for the State Pension (Contributory). Ireland also has bilateral social insurance agreements in place with Canada, the US, Australia, New Zealand, Japan, Republic of Korea and Quebec.

Due to the complexities involved, individuals who hope to qualify for the State Pension (Contributory) on the basis of 'mixed insurance records' or social insurance contributions paid in other states should contact the Department of Social Protection to determine their entitlements for this pension.

WARNING – SPOUSE AS AN EMPLOYEE

Some vets have their spouse employed in the practice and in many cases the spouse pays PRSI Class M. PRSI Class M does not qualify for the State Pension (Contributory) in its own right and in certain circumstances may not be eligible for the increase for dependent/qualified adult either. If this is applicable to you, you should seek advice on this issue.

TO QUALIFY FOR SOME LEVEL OF BENEFIT AN INDIVIDUAL MUST SATISFY THE FOLLOWING CONDITIONS:

1. You must have started paying PRSI before age 56; and
2. You must have paid at least 520 weekly contributions, of which no more than 260 of the 520 may be voluntary contributions (a lower limit for voluntary contributions applies if you commenced making voluntary contributions before April 6, 1997); and
3. You must satisfy the average yearly contribution limit which can be satisfied where:

- You have paid a yearly average of at least 48 paid credited or full-rate contributions from 1979 to the end of the tax year before they reach age 66; or
- You have paid a yearly average of 10 or more credited or full-rate contributions weekly contributions from 1953 (or the time you started insurable employment, if later) to the end of the tax year before you reach age 66.

WHAT AGE IS THE STATE PENSION (CONTRIBUTORY) PAID?

This retirement age has been increased in recent years. As things stand:

- For those born in or before 1954, the benefit is payable at 66;
- For those born between 1955 and 1960 the benefit is payable at 67; and
- For all those born in 1961 and thereafter the benefit is paid at 68.

HOW IS THE STATE PENSION (CONTRIBUTORY) AMOUNT CALCULATED?

The State Pension (Contributory) is payable in two distinct elements.

A personal amount – varies by the yearly average number of PRSI contributions (paid or credited) by the individual over their working lives;

An increase for a qualified adult – where spouse/civil partner or qualified cohabitant do not qualify in their own right, they may receive a benefit based on the calculation for a qualified adult. Table 1 sets out the rates of pension

Yearly average PRSI contributions	Personal rate per week	Increase for a qualified adult (under 66)	Increase for a qualified adult (over 66)
48 or over	€233.30	€155.50	€209.00
40-47	€228.70	€147.90	€198.60
30-39	€209.70	€140.80	€188.40
20-29	€198.60	€131.70	€177.30
15-19	€152.00	€101.30	€135.70
10-14	€93.20	€61.80	€84.10

Table 1: State Pension (Contributory) rates in 2017.

payable based on the yearly average of PRSI contributions. An increase for each dependent child – under-18 or up to 22 years of age in full-time education; the full rate increase per child equates to €29.80 per week; you cannot claim an increase for a dependent child with the State Pension (Contributory) where your spouse, civil partner or cohabitant has an income of over €400 a week; and where your spouse, civil partner or cohabitant earns between €310 and €400 a week you can qualify for the half rate of €14.90 per week.

EXTRA BENEFITS

You are automatically paid an extra allowance of €10 per week when you reach 80 years of age. This increase is not paid to qualified adults.
The Living Alone Increase may be payable to people who live completely alone.

You may also be eligible for other benefits for example medical cards, the Household Benefits Package and Fuel Allowance.

IS THE STATE PENSION (CONTRIBUTORY) TAXABLE?

If you have no other income, then the level of State Pension will be below the income exemption limit for income tax purposes, and so no income tax or universal social charge (USC) will be due.
Where other income pushes total income above the exemption limit for income tax purposes, all income will be taxable under PAYE with income tax and USC levied as applicable (no PRSI).
There is an income tax exemption available for individuals age 65 and over, currently subject to below limits:

- Single/widowed/surviving civil partner €18k;
- Married or in civil partnership €36k; and
- For those with dependent children, the exemption is increased by €575 for each of the first two children and by €830 for each subsequent child.

THE FUTURE STATE PENSION SYSTEM – ISSUES AND CONCERNS

It is important to note that State Pension entitlements will be assessed based on the eligibility conditions applicable on the date you reach pension age.
Under the National Pensions Framework, it is proposed to change the PRSI 'yearly average' contribution test to a 'total contributions approach'. This new approach is currently being designed by the Department of Social Protection. It is expected that the 'total contributions approach' will replace the current 'yearly average' approach by 2020.
The hope is that under this new approach the number of PRSI contributions recorded over a working life will be more closely reflected in the rate of pension received.
For those with shortfalls in contributions at pension age, it is proposed that they will be allowed to continue to make contributions to make up any shortfall and an actuarial increase will be paid from the date of claim.
As this is a very significant reform with considerable legal, administrative and technical issues to be ironed out, we can expect much discussion around this matter in the coming years.
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