The Economic and Public Finance Context for Pensions

Alan Barrett

ESRI, Trinity College and
Irish Fiscal Advisory Council

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Structure of the talk

- Provide the broad medium-term macroeconomic context for pensions planning and policy
- Look to the long-term: the growth in age-related spending
- Internationally, how are countries planning to deal with the "pensions time-bomb"?
- What do we know about the reaction of Irish people to announced policy changes?
- Summing up – less scope for public support for age-related spending but do people know this?

Medium–term Macroeconomic Context - EU forecasts from Sept

	2011	2012	2013	2014	2015
Real GDP (% change)	0.6	1.9	2.4	3.0	3.0
Consumption	-2.4	-1	0.5	1.8	1.7
Investment	-10.7	1.6	4.8	5.1	5.5
Government	-3	-1.5	-3	-4.8	-2.9
Exports	6	5.2	4.9	4.9	4.9
Imports	3.2	3.8	3.7	3.7	4.1
Unemployment rate	14.3	13.8	13.3	12.6	11.5
General Govt. Bal. (% GDP)	-10.2	-8.6	-7.5	-4.6	-2.9
Debt Ratio (year end)	109.9	116.2	119.4	117.6	113.9

What about the Long-Term?
- CSO population projections

	2011	2021	2031	2041
Over 65	535,716	769,484	1,060,496	1,396,585
% of population	11.4%	14.1%	18.0%	22.4%
Over 80	130,598	189,051	311,312	457,962
% of population	2.8%	3.5%	5.3%	7.3%
Dependency ratio (popn 65+/popn 18-64)	0.18	0.23	0.30	0.38
Inverse of the dependency ratio	5.7	4.4	3.3	2.6

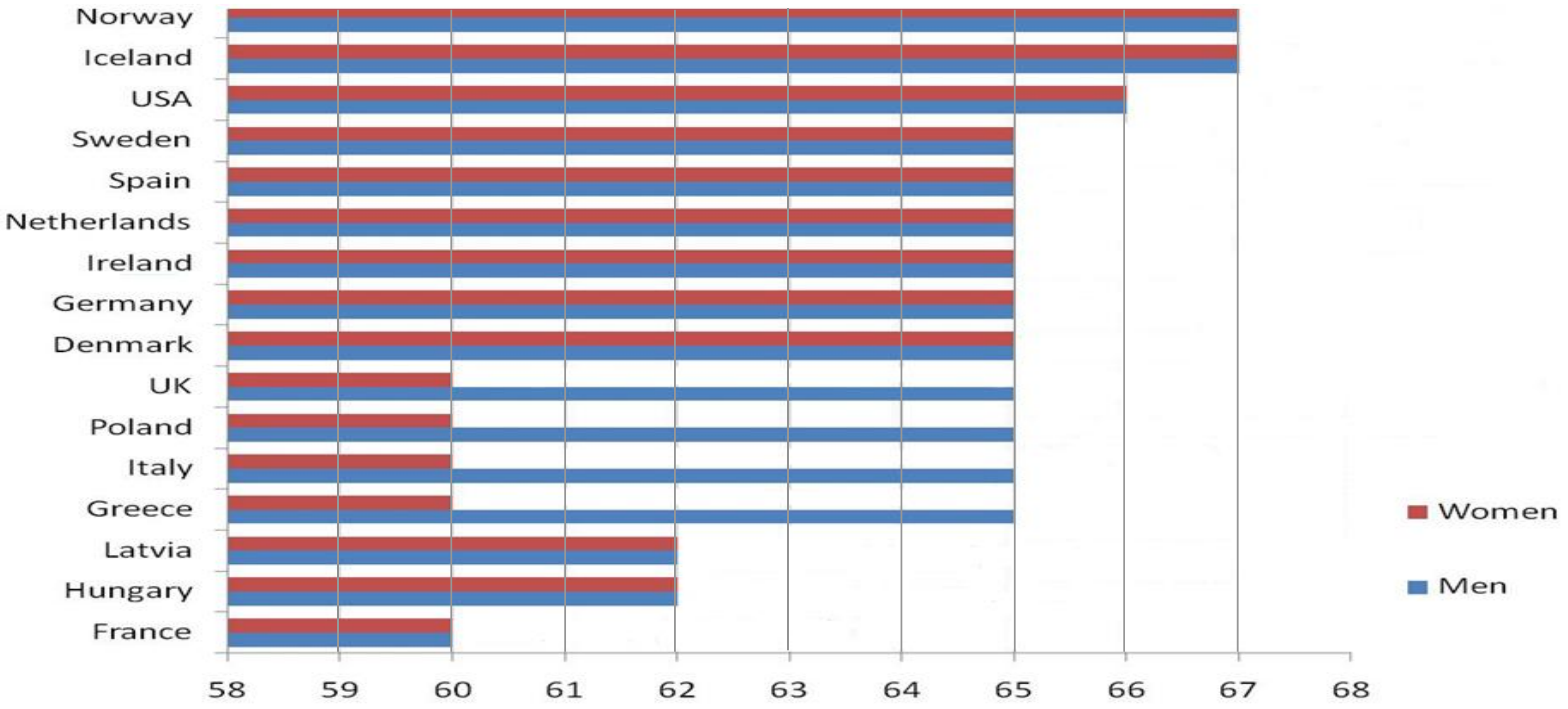
What about the Long-Term?
- Public spending

- Estimates of possible spending increases in Ireland out to 2060 from the European Commission (2009):
  - **Pensions:** 5.2% of GDP in 2007 to 11.3%
  - **Health**: 5.8% to 7.6%
  - **Long-term care**: 0.8% to 1.3%

Combining the medium-term and long-term outlooks

- Debt levels are now high relative to GDP
- Debt/GDP fell dramatically during the Celtic Tiger years due largely to an increase in GDP - such growth rates will not be repeated
- National Pension Reserve Fund had been established as a pre-funding vehicle but it has been diverted
- As a result, scope for significant public funding of increased pensions costs is limited

So how are countries planning to deal with this?



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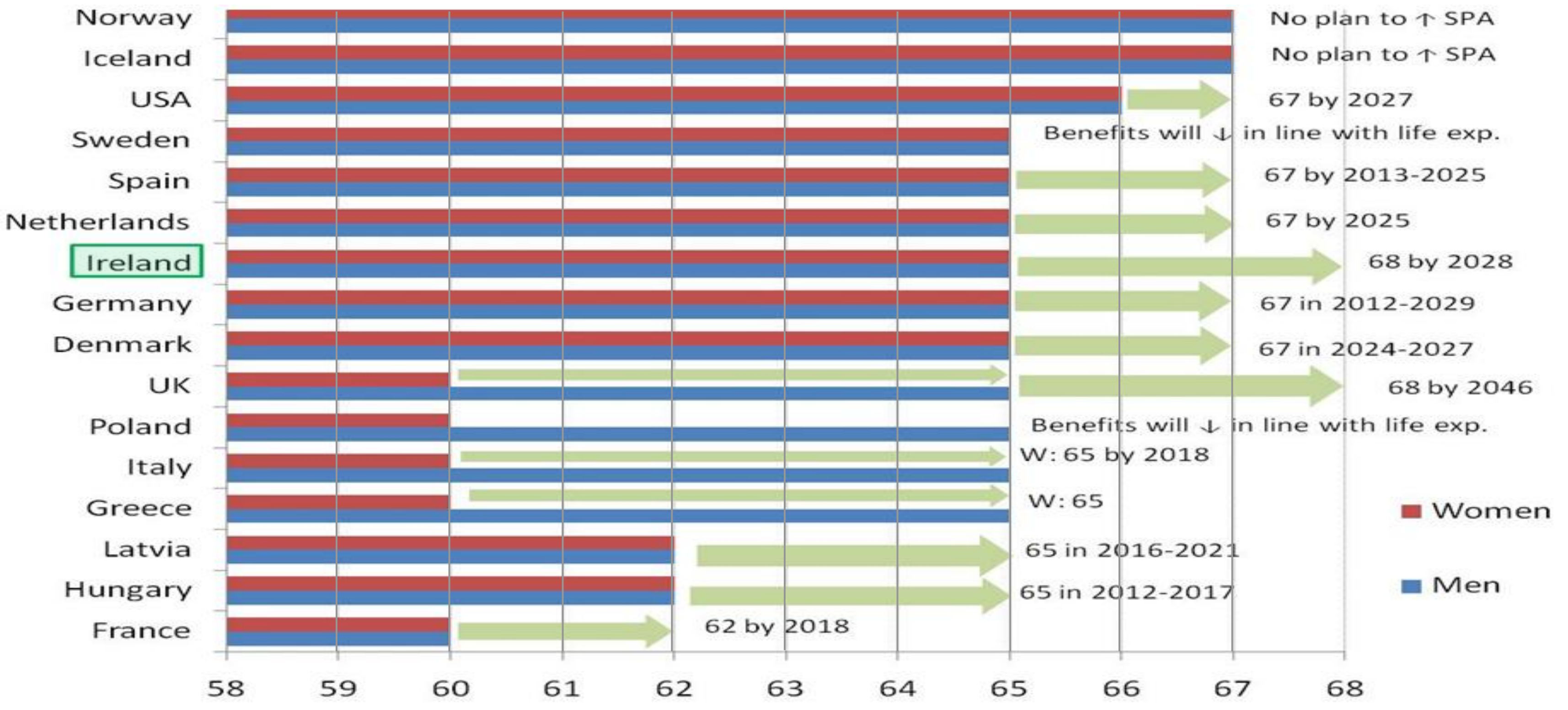

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The Irish Solution

- On 3 March 2010 the Irish Government announced an increase in the state pension age (SPA):
    - from 65 to 66 in 2014
    - to 67 in 2021 and
    - to 68 in 2028
- One reason for pre-announcing such a change is to provide time to adjust

How have people reacted?

- We can get some sense of this using data from **The Irish Longitudinal Study on Ageing** (TILDA)
- TILDA is a survey of over 8,000 people aged 50 and over, conducted from late 2009 to early 2011 (part-funded by Irish Life)
- People have been questioned on a wide range of issues, including pension planning, and have undergone health assessments
- They will be re-interviewed every two years until 5 waves of data exist

Fortunate timing of the data collection

- The data was collected from late 2009 to early 2011
- We interviewed people before and after the announcement of the pension age change
- This period also covered the arrival of the EU, IMF, ECB troika
- We can examine the following question:
  - **Did the expected age of retirement change in response to (a) policy or (b) the economic deterioration**
- Note: Research still in progress

Looking first at expected retirement ages in general

	Outcome category: planning to retire at…				
	50-64	65	66+	Do not plan	Don’t Know
Male	17%	35%	14%	22%	11%
Female	26%	34%	10%	17%	13%
None/primary educ.	9%	37%	14%	24%	16%
Secondary educ.	20%	34%	13%	21%	13%
Third/higher educ.	31%	33%	11%	16%	9%
Public sector worker	36%	38%	10%	9%	8%
Not public sector worker	15%	33%	13%	24%	14%
Has occupat./private pension	28%	38%	11%	14%	9%
No occupat./private pension	9%	28%	15%	30%	18%

Less than   Greater than

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And what about policy v. recession?

	50-64 (N=520)	65 (N=763)	66+ (N=267)	Do not plan (N=423)	DK (N=261)
Interviewed after pension reform	20.2%	33.4%	12.6%	20.9%	13.0%
Interviewed before pension reform	22.6%	38.0%	12.1%	17.2%	10.2%
Interviewed after late Sept	19.1%	28.9%	10.7%	23.6%	17.6%
Interviewed before late Sept	21.1%	35.7%	12.9%	19.2%	11.1%

Data suggest that the recession has had the bigger impact, with little reaction to the policy change in terms of a shift away from early or "standard" (i.e. at 65) retirement

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Summing up

- The medium term outlook sees Ireland’s public debt at above 100% of GDP in 2015
- Age-related spending will tend to put upward pressure on the public budget
- Policy will need to contain this
- This is happening in Ireland already but little evidence of a reaction to the change in the state pension age