Changing the mix for the sake of sustainability?

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Grade	Index Value	Countries	Description
A	>80	Denmark Netherlands	A first class and robust retirement income system that delivers good benefits, is sustainable and has a high level of integrity.
B+	75–80	Australia	A system that has a sound structure, with many good features, but has some areas for improvement that differentiates it from an A-grade system.
B	65–75	Finland Sweden Switzerland Singapore Canada Chile	
C+	60–65	Ireland UK	A system that has some good features, but also has major risks and/or shortcomings that should be addressed. Without these improvements, its efficacy and/or long-term sustainability can be questioned.
C	50–60	Germany USA France Malaysia Brazil Poland Austria	
D	35–50	Italy South Africa Indonesia Korea (South) China Mexico India Japan Argentina	A system that has some desirable features, but also has major weaknesses and/or omissions that need to be addressed. Without these improvements, its efficacy and sustainability are in doubt.
E	<35	Nil	A poor system that may be in the early stages of development or non-existent.

Ireland gets 62% Overall in the *Melbourne Mercer Global Pension Index* 2016

3 sub indices

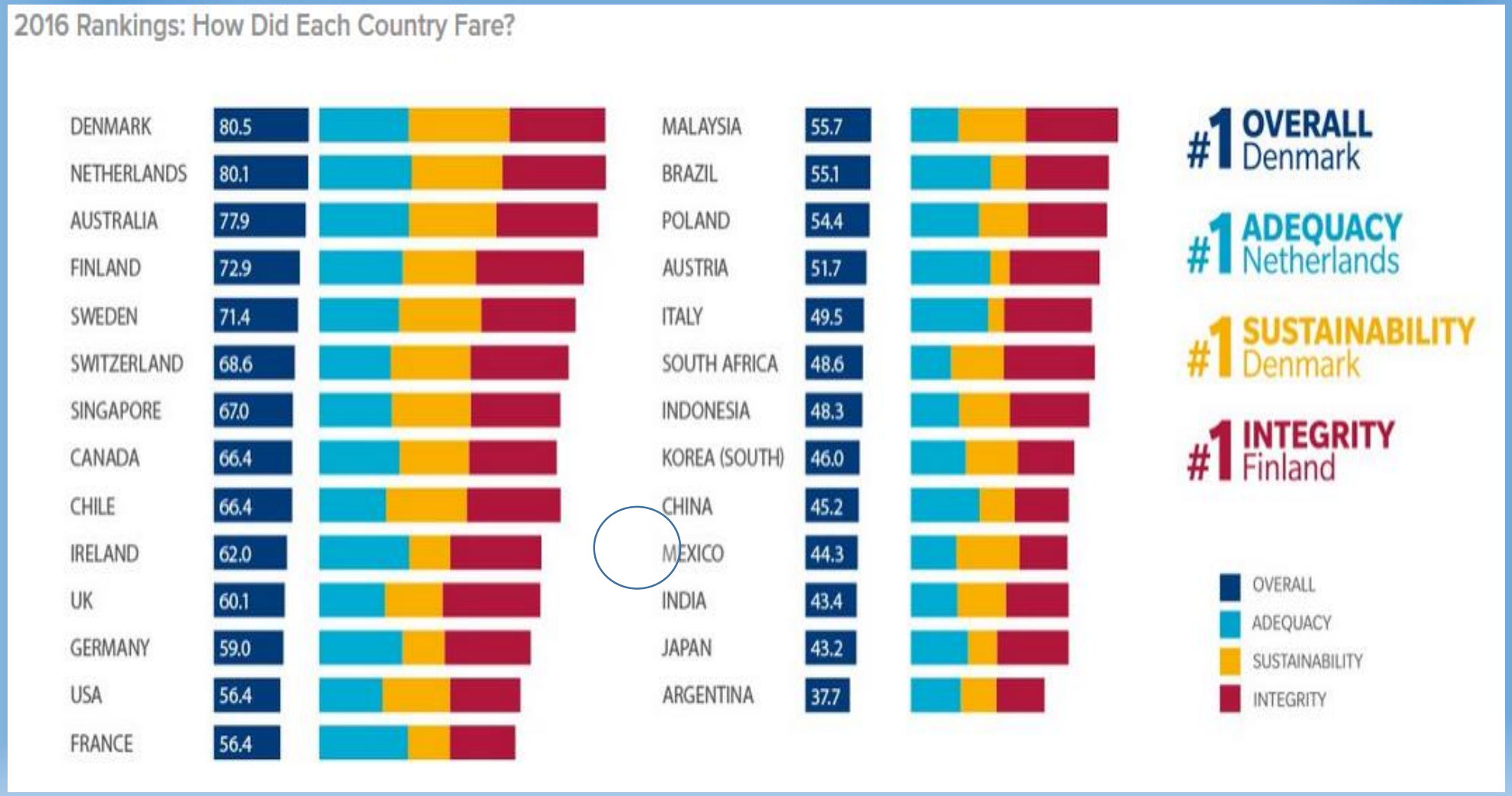
- Ireland ranks well on Adequacy (76%)
- & Integrity (77.3%)
- But poorly on sustainability (34.8%)

The following table shows the overall index value for each country, together with the index value for each of the three sub-indices: adequacy, sustainability and integrity. Each index value represents a score between zero and 100.

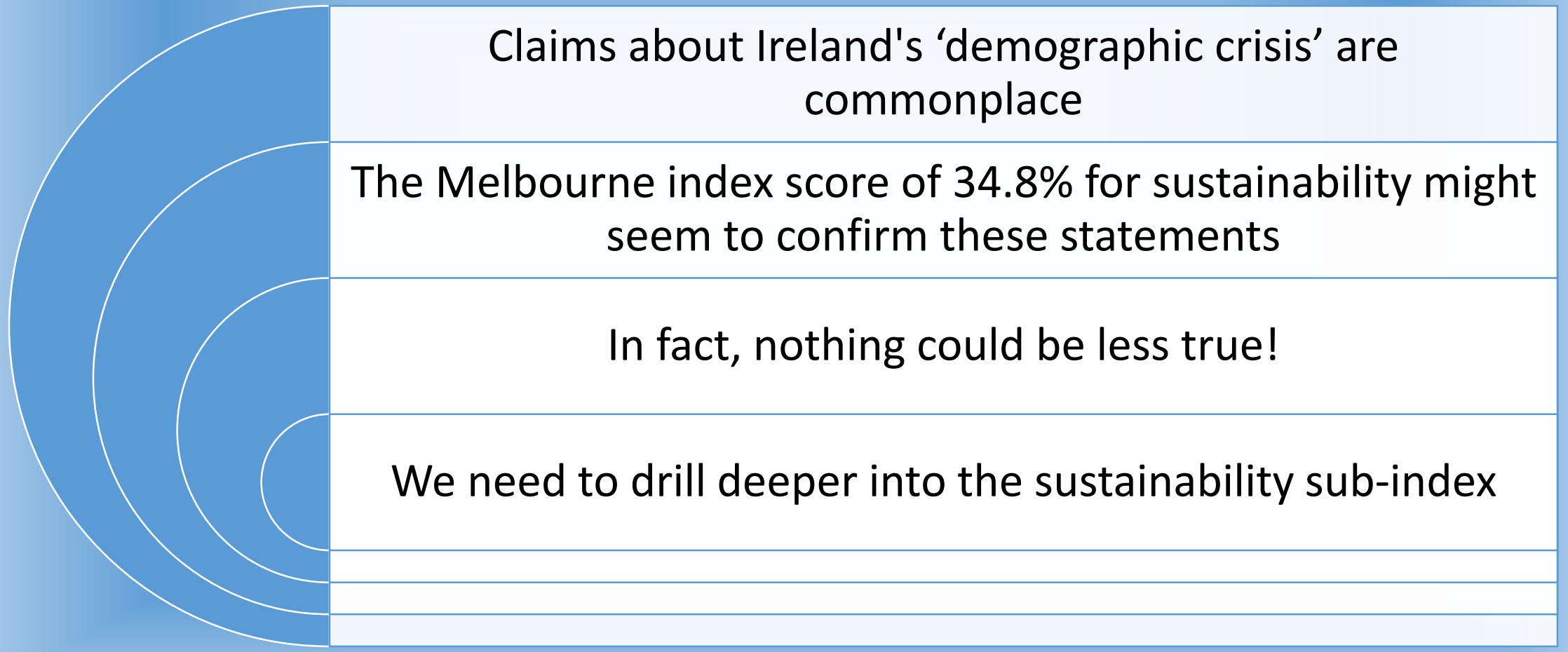
Country	Overall Index Value	Sub-Index Values		
		Adequacy	Sustainability	Integrity
Argentina	37.7	42.3	30.1	40.9
Australia	77.9	76.0	74.1	86.1
Austria	51.7	67.4	16.0	76.7
Brazil	55.1	67.9	29.2	70.7
Canada	66.4	68.0	58.8	74.5
Chile	66.4	56.5	68.4	79.6
China	45.2	58.2	29.7	46.0
Denmark	80.5	75.8	85.3	81.4
Finland	72.9	70.6	62.2	91.5
France	56.4	75.2	35.2	55.8
Germany	59.0	70.4	35.8	73.1
India	43.4	39.5	40.9	53.4
Indonesia	48.3	41.0	43.0	67.3
Ireland	62.0	76.2	34.8	77.3
Italy	49.5	65.5	13.5	74.4
Japan	43.2	48.5	24.4	60.9
Korea	46.0	46.5	43.9	48.1
Malaysia	55.7	40.3	57.1	78.3
Mexico	44.3	38.5	53.6	40.7
Netherlands	80.1	78.2	77.0	87.7
Poland	54.4	57.9	41.2	67.3
Singapore	67.0	61.4	66.8	76.1
South Africa	48.6	34.0	44.7	77.3
Sweden	71.4	67.6	69.5	80.3
Switzerland	68.6	60.5	67.4	83.5
UK	60.1	55.5	48.8	83.2
USA	56.4	53.5	57.1	59.9
Average	**58.1**	**59.0**	**48.5**	**70.1**

Comparative performance on sub-indices

- *Melbourne Mercer Global Pension Index* 2016



Sustainability? More than demographics



Indicators for sustainability sub-index score (IR)

Sustainability indicators	Weight	Score	verdict
Proportion of working age population in private pension plans	20%	23%	Poor
Pension assets (priv., + pub. res. fund) / (GDP)%	20%	31%	Poor
Mandatory ER/EE contributions (% of pay) set aside for (funded) retirement benefits (public/social security or private)	15%	0%	??/!!
LFPR, aged (55-64) and LFPR (65+)	10%	43%	Below av. (55)
Adjusted government debt /GDP%	10%	28%	Poor
Access of older workers to savings/pension? While continue working? Can continue to accrue benefits?	5%	60%	Good in parts
Demographic sub index	20%	70%	v. good

Demographic indicator includes

- The gap between life expectancy and state pension age
- Projected gap in ditto in 2035 (adjusted for expected fall in mortality)
- Projected old-age dependency ratio in 2035
- Total fertility rate, averaged over the past 7 years

Ireland in the Mercer global pension index

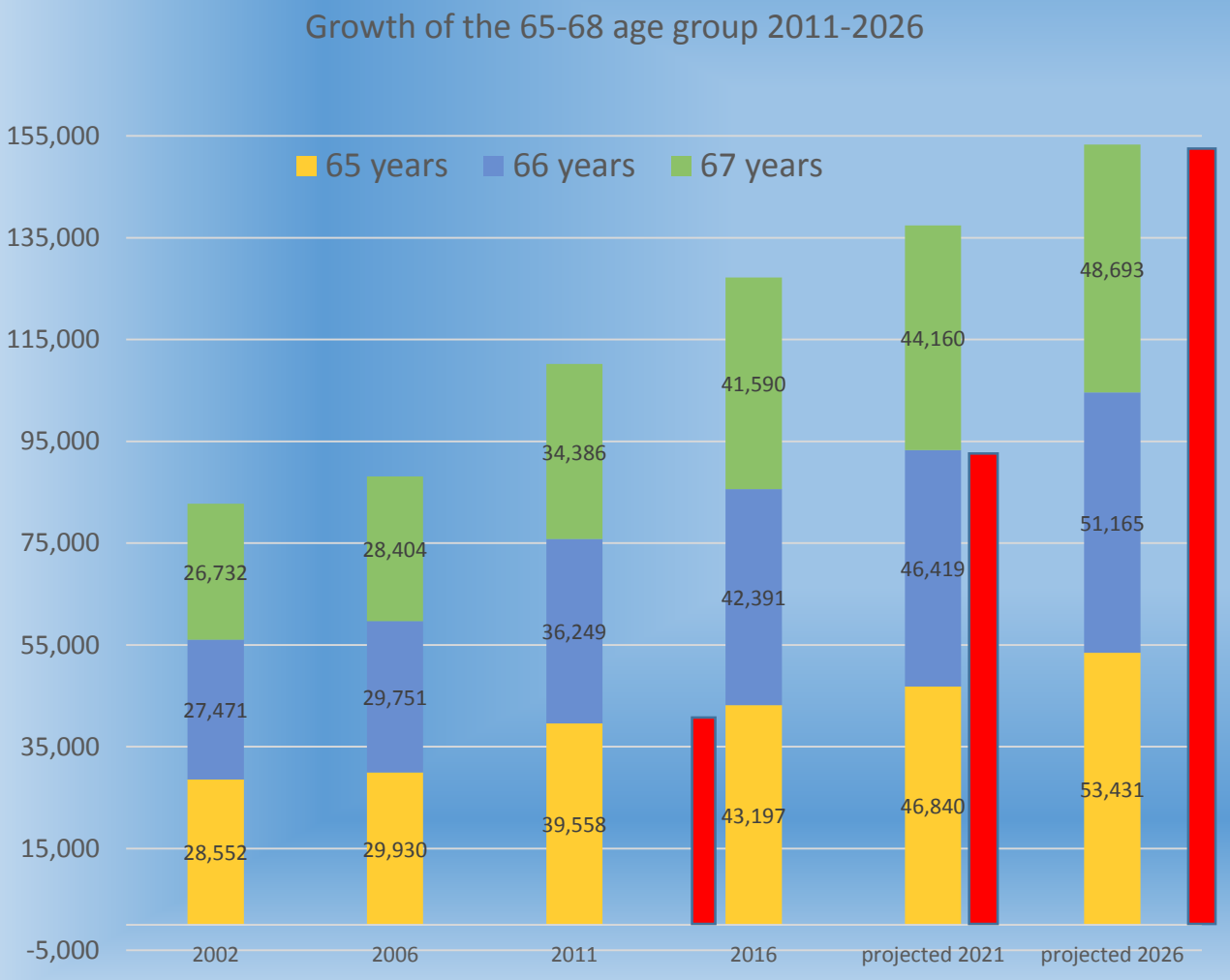
Factors negating sustainability of Irish pensions:

- Low participation in voluntary pension schemes
- Low value of pension assets as % of GDP
- No mandatory, funded (social security or private) future benefits
- High national debt / GDP ratio;

Adaptation of the pension system in Ireland

- Major changes in state pension age underway
  - State retirement/transition pension at 65 abolished 1 January 2014
  - SPA from 66 to 67 years in 2021
  - SPA to 68 in 2028
- Instead, Jobseekers benefit (JB) or allowance (JA)
- must actively seek work (but not as actively as others!)
- No obligation on Employers to raise default retirement age of 65

How many are potentially affected?
Over 153,000 in this age group by 2028



	2011	2014 #	*2021	**2028
Persons	**2011**	**2016**	projected 2021	projected 2026
65 years	39,558	43,197	46,840	53,431
66 years	36,249	42,391	46,419	51,165
67 years	34,386	41,590	44,160	48,693
Number affected		**41,590**	**93,259**	**153,290**
		# census 2016	* Projected (2021)	**projected (2026)

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What was the rationale offered for the changes? Population ageing

- Very strong rhetoric on unsustainable state pension – and private pensions – based on demographics – but no data provided (McCarthy Report 2009)
- In reality, this panicked approach was part of a response to the bank collapse and ensuing collapse of state finances rather than changed demographics
- The sustainability of the State pension was largely down to rising state debt post 2008 rather than population ageing
- Little attempt to distinguish between private pension crisis and state pension issues

Some questions:
1. Is Ireland particularly vulnerable to demographic ageing?

Not by international standards:

Percent > 65 lowest in EU

Age ratio (65+/15-64) lowest in EU

… now and projected for 2060

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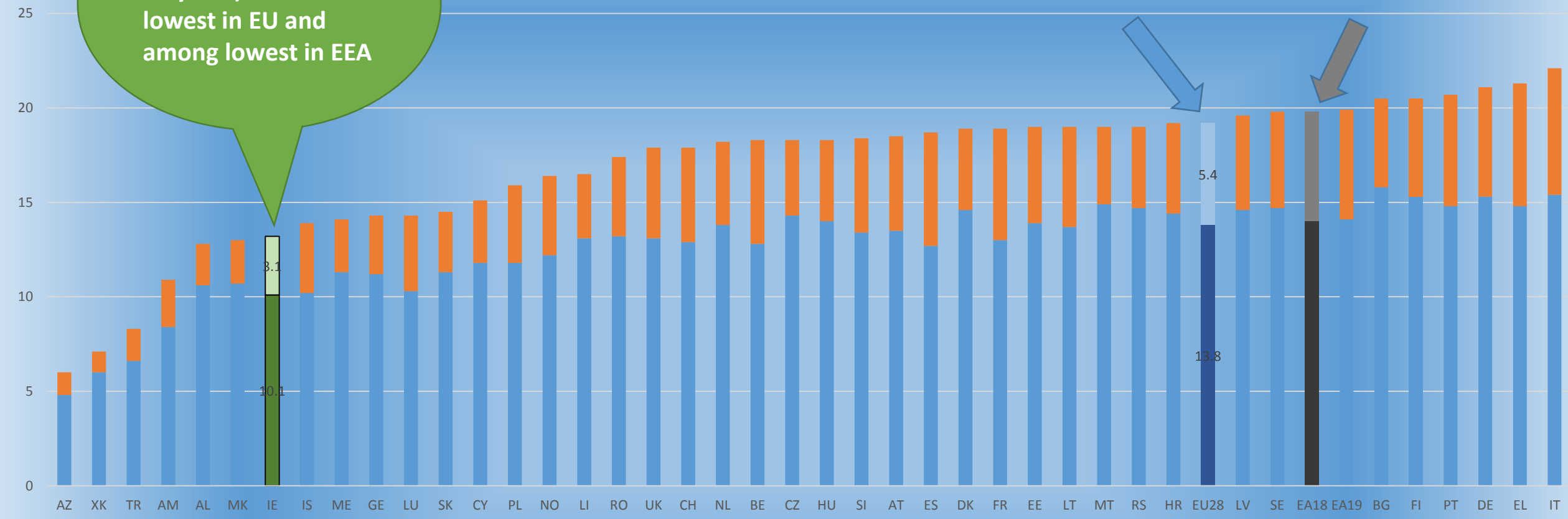
Pop aged 65-79 and 80+ (recent years) -- Eurostat

Ireland (13.2% over 65 years) lowest in EU and among lowest in EEA



Ireland's 65+ population is **13.2%,** compared to EU average of **19.2%** _(Eurostat)

http://ec.europa.eu/eurostat/statistics-explained/index.php/Population_structure_and_ageing

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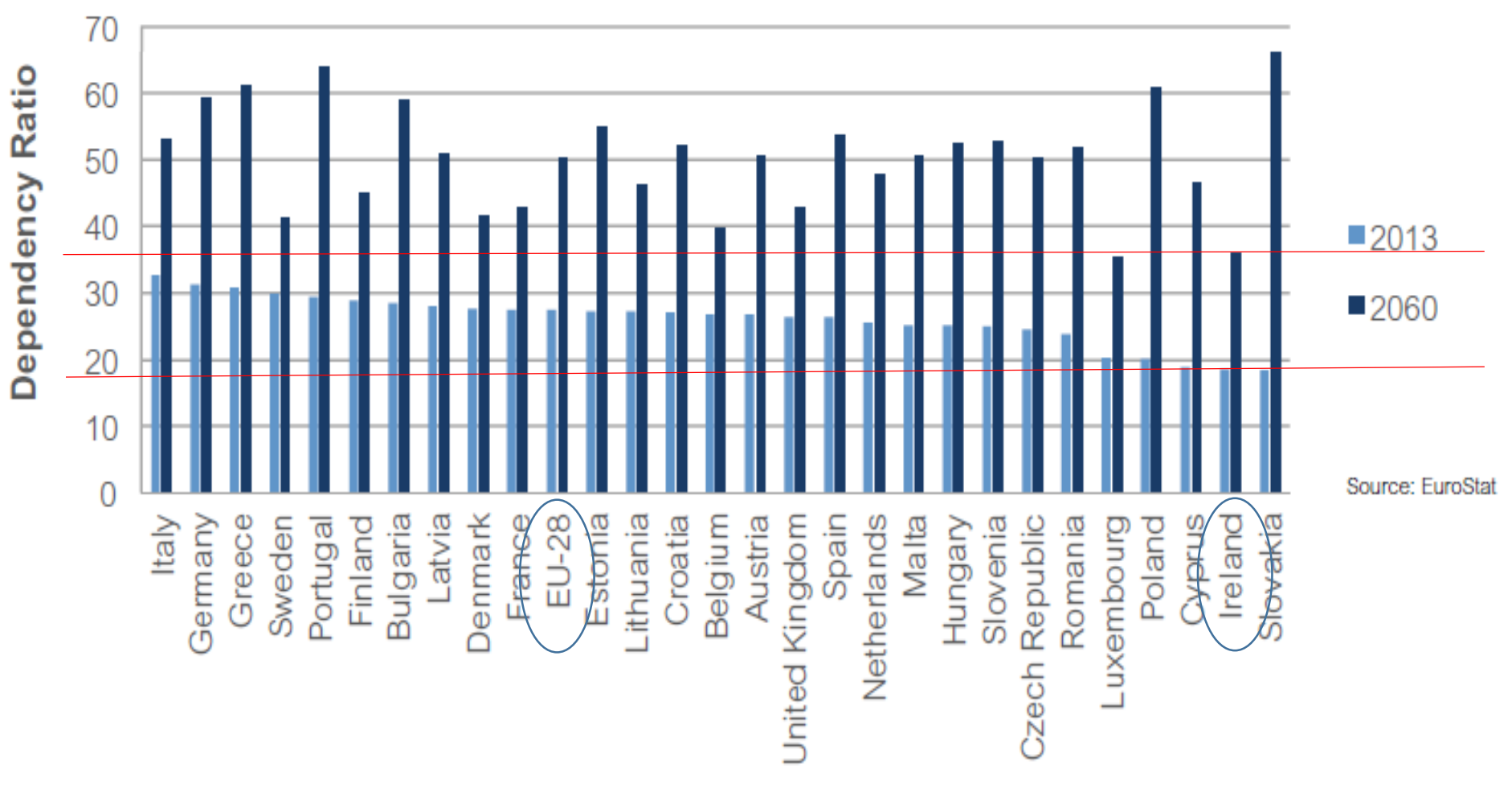
European dependency ratios in 2013 and 2060 (EU28)



- Ireland has lowest **old age dependency** now and projected to 2060 in EU28
- Old dependency ratio (65+/15-64)

Now:

- 20% in IE
- 29% in EU

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Is Ireland just doing the same as most countries?

- Raising retirement is happening in many countries but there are different ways to approach this
- Ireland is forcing an accelerated increase, from comparatively high base (66 in 2014) to 68 over 14 years.
- The method - push up state pension age to 68 years, and deal with the fallout afterwards

Disincentives in the current approach

Ireland makes Jobseekers Benefit / Allowance (JB/JA) the default from 65 to SP age

Disincentive to work: Jobseekers benefit is subject to withdrawal per day worked, it is a disincentive to employment

The new policy is all stick and no carrot.

Poverty increases under the current approach

SW Benefit	Single person (€)	Couple adult dep >66 (€)	Couple adult dep <66 (€)
Jobseekers Benefit	193	321.1	321.1
At risk of Poverty line (2016 est.) *	218.06	361.99	361.99
State (C) Pension	238.3	451.8	397.1
Weekly cut	45.3	130.7	76
Annual cut	2,356	6,796	3,952

* Social Justice Ireland Policy Briefing July 2016

More flexible retirement age is just as important as later exit from employment

Making it easier for those who can, and removing the obligation from those who cannot, work longer, makes sense

Large variations in life expectancy by social class are good predictors of ability to work longer

- Some evidence on these variations follows in next slide

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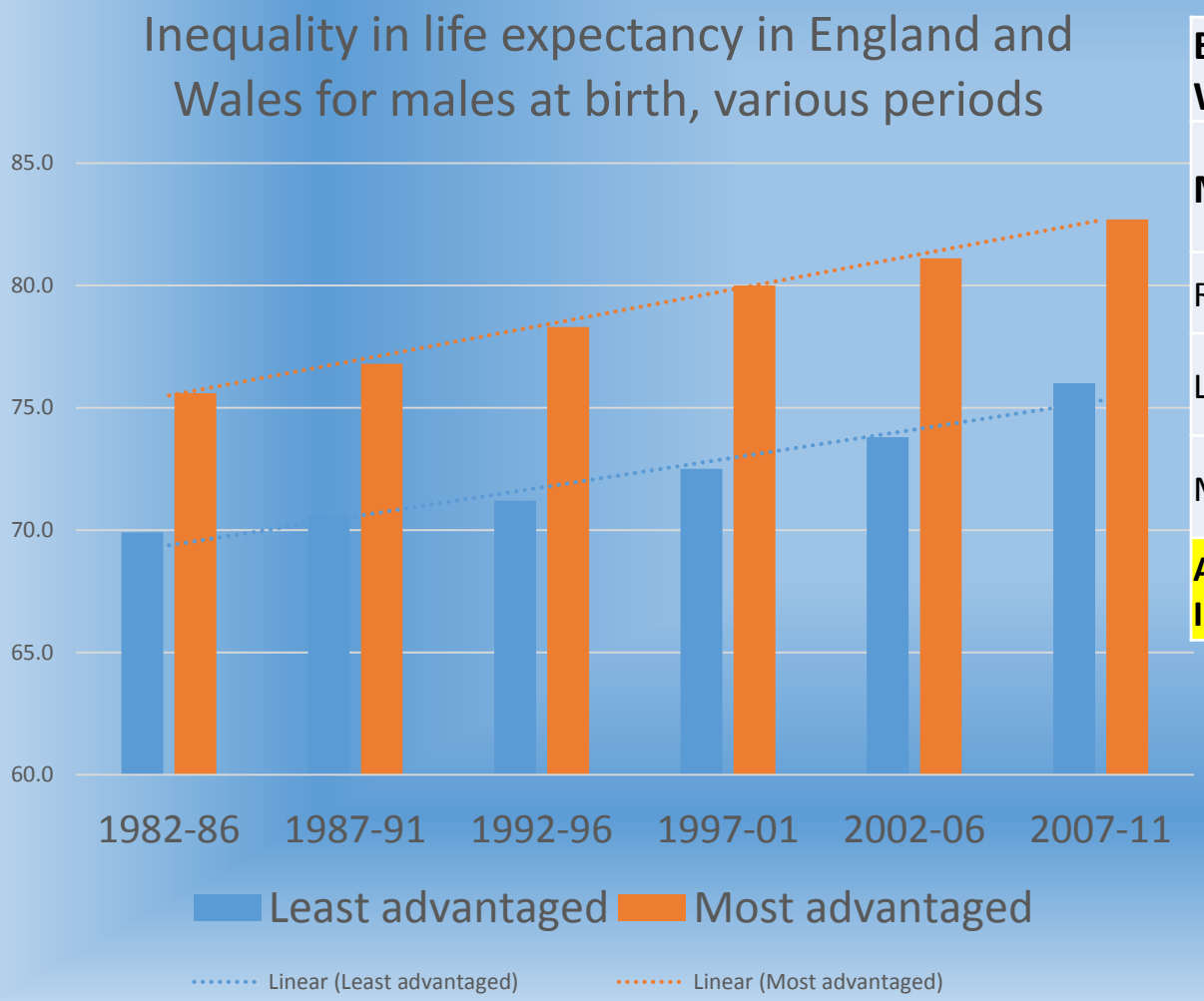
Variations in Life expectancy (m) by social class at birth



England and Wales						
Males at birth	1982-86	1987-91	1992-96	1997-01	2002-06	2007-11
Relative Rank	LE	LE	LE	LE	LE	LE
Least advantaged	69.9	70.6	71.2	72.5	73.8	76.0
Most advantaged	75.6	76.8	78.3	80.0	81.1	82.7
Absolute Inequality	**5.6**	**6.2**	**7.1**	**7.5**	**7.4**	**6.7**

6.7 year difference in life expectancy at birth (see ONS 2015 longitudinal study)

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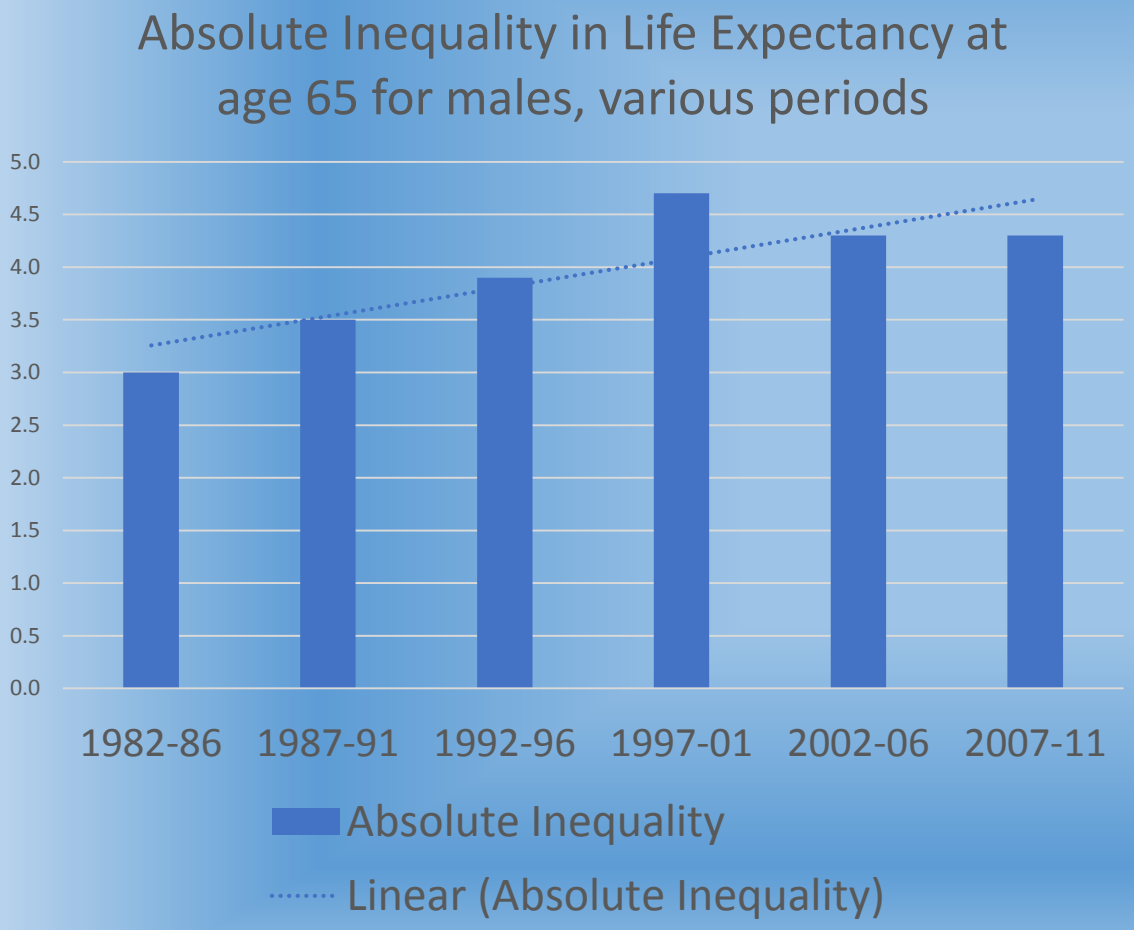
Variations in Life expectancy (m) by social class at 65 years



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Relative Rank	LE	LE	LE	LE	LE	LE
Least advantaged	12.3	12.6	13.2	13.7	14.8	16.1
Most advantaged	15.3	16.1	17.1	18.5	19.2	20.5
Absolute Inequality	**3.0**	**3.5**	**3.9**	**4.7**	**4.3**	**4.3**

(see ONS 2015 longitudinal study)

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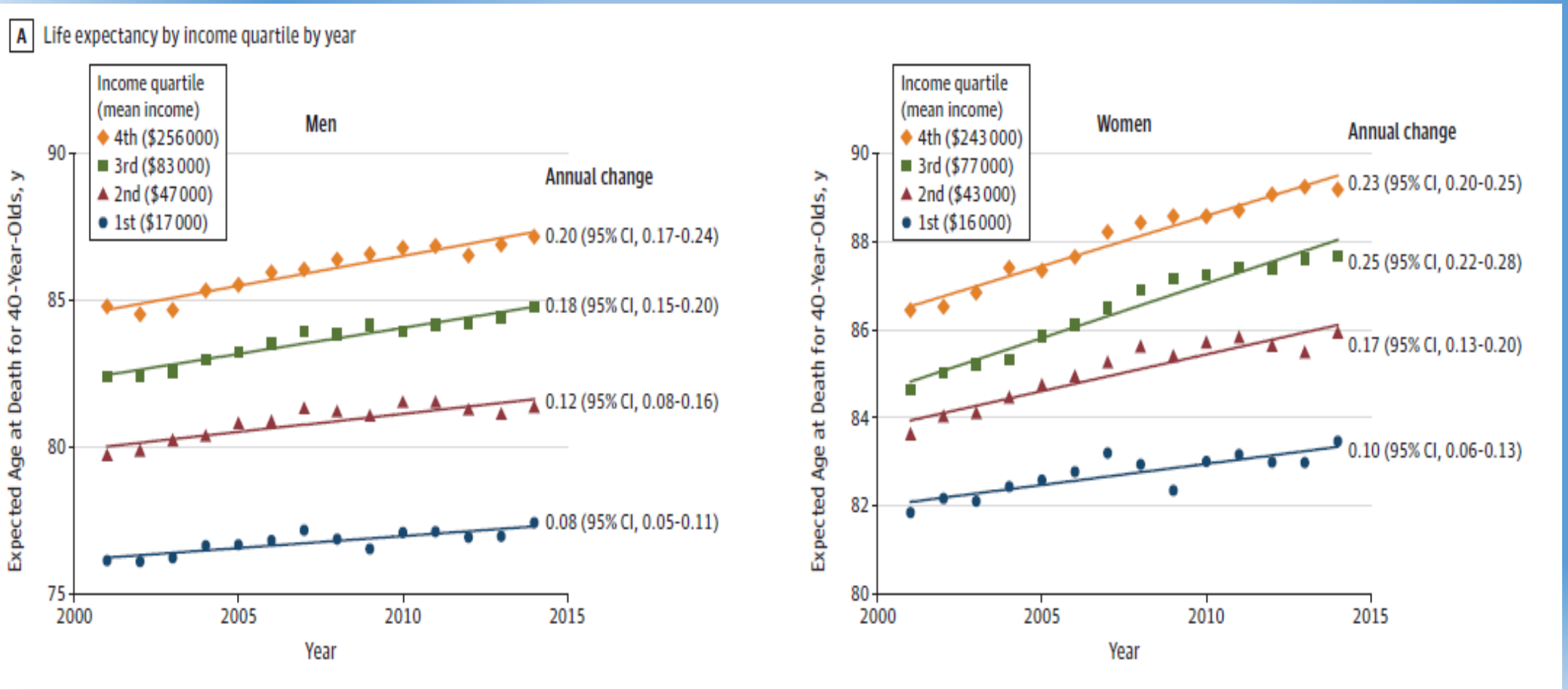
Life expectancy differences by income quartile in the USA for 40 year old males and females

(Chetty et al. 2017)



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Social class implies major differences in life expectancy, and implicitly in the ability to work longer

Fixed, higher retirement age implies that people from routine and manual occupations will face a shorter life expectancy at 65

If life expectancy is a predictor for disability-free life expectancy and working longer life then…

Later retirement may be preferable among medium and higher managerial and professional groups.

These groups can be more confident of a longer period of retirement

Earlier retirement may be unavoidable, e.g., on health grounds in physically demanding occupations, or where the financial rewards are limited

Conclusion: why not consider measures to incentivise employment beyond 65 years?

- Remove JB/JA as default
  - Because it penalises take up of employment
- Set a rate (over the poverty line) for early take-up SP until SP age
  - Restores incentive to take up paid work that JB/JA remove
- Enhanced pension if retiring beyond SPA
  - Creates incentive to work beyond SPA
- Incentivise employers offering flexible retirement
  - Win-win for jobs and welfare

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