

Minutes
<b>What are the Fiscal and Social Sustainability Challenges?</b>
<b>Meeting of 2nd December 2020</b>

## Pensions Commission

### Minutes

*Meeting held on Webex – start time 9am.*

*In Attendance:*

James Hegarty (Central Statistics Office), Sebastian Barnes (Irish Fiscal Advisory Council (IFAC), Eddie Casey (IFAC), David Hughes (Department of Finance), Matthew McGann (Department of Finance)

**Commission Members:** Josephine Feehily (Chair), Ita Mangan, Roma Burke, Seamus Coffey, Aedín Doris, Jack Keyes, Ian Power, Anne Vaughan (apologies from 10:30), John McGrane, Ethel Buckley, Tony Donohue

**Secretariat:** Roshin Sen, Kasey Treadwell Shine, Louise Banable

**Observers:** Alan Flynn, DSP, Bredan O’Leary, DFIN, Ivana McGarr, DPER

#### 1. Secretariat: Key Issues and Questions

*Input: PC0241: Implications of Demographic and Sustainability Challenge (Secretariat paper)*

- The Secretariat gave a brief introduction and overview of the presentations by CSO, IFAC and Department of Finance
- A note was produced by the Secretariat in order to provide context, setting out key messages about demographic changes, population ageing and fiscal and social sustainability challenges. It then proposed conclusions about the implications of demographic changes and sustainability challenges in respect of maintaining current State Pension arrangements.

#### 2. Central Statistics Office Presentation

*Inputs: EPPN01.0: Ireland’s Demography*

*See also: relevant CSO publications on life expectancy, population projections and health*

- CSO Statistician James Hegarty delivered a presentation to the Commission Members entitled “Ireland’s Demography.”
- The presentation gave an overview of significant projected demographic trends in terms of population, population structural changes and population ageing. The CSO predict that there will be an increase in Ireland’s population of 1.3 million by 2051.

- The population of older age groups will increase, and this will have a significant impact on the ratio of working age people to pensioners. The CSO state that there are currently 5 working age people to every one person over the age of 65. By 2051 this will decrease to 2.3 people for every one person over 65.
- Ireland is still 'younger' than most European countries. This is a product of past demographic trends: in Ireland, of relatively recent drops in fertility rates (that are unlikely to reverse direction) and in Europe where falling fertility rates have occurred for some time.
- Going forward, Ireland is projected to converge toward EU averages in terms of the share of the older population to the total population, the numbers of older people and fewer people in the younger cohorts.
- To maintain the current ratio of 5 workers to 1 older person in 2051, it is estimated that an additional 4 million migrants would be needed.
- Projected demographic trends are significant in terms of sustainability implications. JH referenced the 2019 CSO Pensions Coverage survey which found 40% of respondents had no pension cover and of these 60% intended to rely on the State Pension.
- JH and members discussed that it is unlikely that net inward migration will reverse these trends given the scale required and even then some proportion of migrants would become pensioners. An additional 4 million migrants by 2051 would create significant challenges e.g. in terms of housing, transport, employment.
- Incentives to increase fertility rates are unlikely to be effective and would not reverse trends with or without projected net inward migration. Examples where these incentives are provided (Denmark, France) show their effects do not last long.
- A number of other indicators and areas of interest to Members were raised e.g. healthy life years, self-reported health, disaggregation by social class, mortality and life expectancy differentials, the influence of labour market, industry, employment and growth policies, the influence of rural/urban and other spatial characteristics.
- It was confirmed that the presentation is only based on Census population figures and projections of same; other data sources are available (e.g. Survey of Income and Living Conditions, Labour Force Survey) and there is an experimental estimation of mortality differentials (the link to the report had been given to members before the meeting). In respect of life expectancy differentials, healthy life years and breakdowns by social class, JH noted that the sample size of the surveys that capture these data are not large enough to allow reliable disaggregation.
- It was noted that self-reported health and healthy life years, overall, were very good in respect of older people. 66% of those aged over 65 reported being healthy. Several members noted the lost potential of older people and that working longer is more feasible if they are healthy. One member noted that working longer would cut into the length of healthy life years.
- One member noted that the old age dependency ratio (the proportion of older to younger people) is much lower than in other EU countries and queried whether Ireland needed to 'set the pace' in responding to demographic challenges. James Hegarty noted that Irish population projections post 2031 will 'catch up' with European projections, that the rate of change is the same as that of EU member states if not faster.
- Other members commented that the scale and scope of the demographic challenge is clear; that Ireland can benefit from latecomer advantage; and that it would make

sense to start now to address forthcoming challenges – Ireland is a world leader in caring for older people.

- One member commented that while it is useful to look to European countries for examples of policy reforms and initiatives, globally many countries are addressing these same issues (e.g. Japan). JH noted that the EU context is most similar to the Irish context.

### **3. Irish Fiscal Advisory Council Presentation**

*Inputs: EPPN02.0: Long Term Sustainability Report: Fiscal Challenges and Risk 2025 – 2050*

*See also: Long Term Sustainability Report: Fiscal Challenges and Risk 2025 – 2050*

- The Irish Fiscal Advisory Council delivered a presentation on the Long-Term Sustainability Report: Fiscal Challenges and Risk 2025 – 2050 (LTSR) to members of the Commission.
- The LTSR looks at the Budget situation beyond 2025 and projects that:
  - growth may slow
  - the number of older people will rapidly increase
  - Under current policies, spending growth would outstrip revenue
  - Pension and health costs will rise
  - A large deficit would build up, particularly from 2040
  - Without policy action, debt would fall more slowly to around 90% GNI\* and then begin to rise sharply to reach 110% GNI\* by 2050
- Currently 850 m per annum is needed to cover pensions, and costs will grow substantially. It is anticipated that expenditure will outstrip revenue by 2025, largely due to increasing costs for pensions and long-term care.
- Population ageing in Ireland is running faster than the EU. Ireland will be a lot older than any other EU country in a generation.
- FAC Chair Sebastian Barnes noted the ‘political economy’ of acting now – before population ageing has had a large impact. It will be much harder to reform a system with a lot more pensioners.
- Population ageing impacts fiscal sustainability in two ways: 1) rising life expectancy; 2) a larger population of pensioners.
- It is clear that all projections show a fiscal sustainability challenge in the not too distant future.
- In order to achieve fiscal sustainability, the LTSR concludes that tax and spending will need to adjust over time. Increasing the pension age to follow rising life expectancy would support the sustainability objective. There are significant implementation challenges, however, and tax increases/cost saving measures could have unintended consequences.
- There is also substantial uncertainty, particularly around COVID-19, interest rates, climate change, corporation tax and health costs
- SB noted interest rates as a central issue and a key variable in long term fiscal sustainability.
- Following the presentation, one member noted that it is important to look holistically at the sustainability of pensions and take note of economic interdependencies. Another member commented that, while Ireland receives a large foreign direct investment, the

majority of the jobs that contribute to fiscal sustainability are in the indigenous Irish economy. The interactions between growth (in productivity v. wages), living costs and pensions adequacy were also referenced.

#### 4. Department of Finance Presentation

*Input: EPPN03.0: 2021 Ageing Report: Irish Pension Expenditure Projections 2019-2070*  
*See also: Population Ageing and the Public Finances in Ireland (September 2018)*

- The Department of Finance delivered a presentation on the Ageing Report: Irish Pension Expenditure projection 2019 – 2070. These are technical projections produced as part of the forthcoming 2021 Ageing Report.
- The Ageing report projections are a work in progress and are currently undergoing an endorsement process with the European Commission. The Ageing Report is due to be published in Q2 2021.
- As this is part of ongoing work, these projections are treated in a confidential manner.

#### 5. Discussion

- Members recognised the informative nature of the presentations and agreed the speakers had provided an important overview of the nature, scope and scale of sustainability challenges for pensions arising from demographic change.
- Members noted that a range of data sources and outputs are needed to contextualise their work, recognising that many other policy areas impact upon pensions policy, provision and concerns. However the policy levers for adjusting the State Pension system are relatively confined, as per the Programme for Government commitments and the Terms of Reference.
- It may be possible to identify these wider issues and give them as an input into the Commission on Welfare and Taxation.
- The Chair noted that these presentations and reports were foundational and would be revisited over the course of the Commission’s deliberations.
- The Chair noted that the key target groups impacted by reforms will be upcoming pensioners and younger workers – those in receipt of State Pension will not be affected.

#### 6. Specific Action Points

No.	Action	Lead	Deadline	Status
1.1	Circulate papers and agenda for next meeting	Secretariat	COB, Friday 27 Nov	Closed
1.2	Commission website to be published	Secretariat	January 2021	In progress
1.3	Contact DFIN on Commission on Welfare and Taxation	Secretariat	02/12/20	Contact established
1.4	Generate note of Pensions-related Programme for Government commitments	Secretariat	Wednesday 2 Dec (Meeting 2)	Closed
1.5	Generate note of Media coverage, recent developments and items of interest	Secretariat	Meeting 2 and each meeting thereafter	Meeting 2 update circulated
1.6	Edit Schedule of Meetings to: include a Meeting 4 input on labour market; reflect the importance	Secretariat	Meeting 2	Edited

	of social sustainability in the work programme; and reference international examples			
1.7	Draft a proposal for two-staged consultation design, implementation and delivery based on agreed process and objectives	Secretariat	Meeting 2	Circulated
1.8	Draft an outline of the Pensions Commission's possible report structure	Secretariat	Meeting 2	Circulated
1.9	Add 'checkpoints' at meeting 4 and periodically thereafter to sense-check if work and deliberations are interlinking issues systematically. Reframe meeting schedule as needed.	Chair with Secretariat	Meeting 4 Then TBD	Not started
1.10	Establish whether the Widow/er's and Surviving Civil Partner's Pension is within the remit of the Commission's work	Secretariat	Meeting 3	See PQ circulated, Mtg 3
1.11	Draft a review paper on international examples relevant to the Irish context, learnings from international reform efforts	Secretariat	Meeting 3	Circulated
1.12	Consider, as part of labour market input in Meeting 4, a summary note on the prevalence of private contracts specifying a retirement age <66; produce descriptive statistics etc. position of 65-year-olds	DETE/ Secretariat	Meeting 4	In progress
1.13	Liaise with DETE colleagues to determine if there is a need for research around retirement age, the gap to pension age and issues arising	Secretariat	Meeting 6	In progress
1.14	Liaise with DFIN to determine the current position with respect to proposals to amalgamate USC and PRSI	Secretariat	Meeting 9	Not started
1.15	Executive summary and actions required to be included on Secretariat papers	Secretariat	Ongoing	Noted
1.16	Provide age-breakdowns of those with no pensions cover from CSO Pension Coverage Survey	Secretariat	For information	Not started