



Path for the Public Finances Conference
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AGEING PRESSURE ON PUBLIC FINANCE

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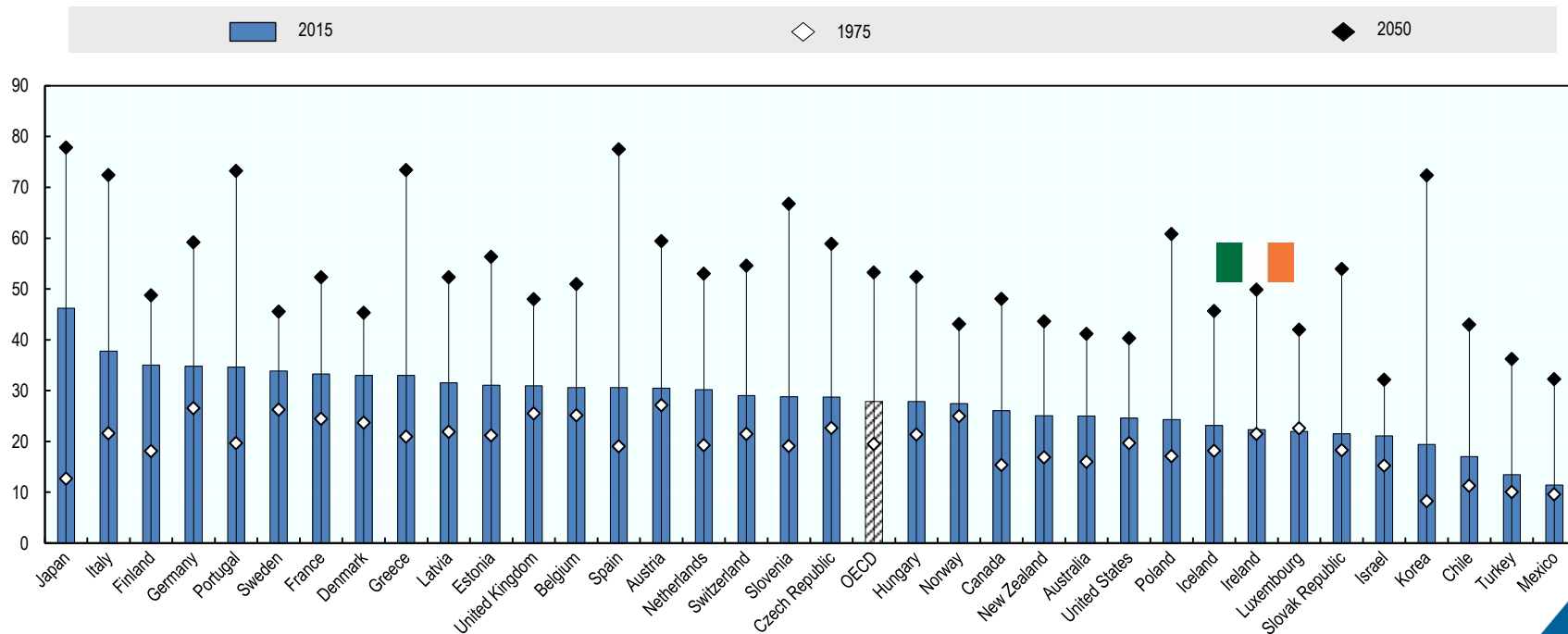
Outline

- Pace of ageing
- Pension indicators
- Demographic and effective dependency ratios
- Pension expenditure projections
- Employment rates and effective retirement ages



Population ageing will accelerate in most countries and start in Ireland

Number of people aged 65+ per 100 people of working-age (20-64)



Source: United Nations - World Population Prospects: The 2017 revision.



Scoreboard



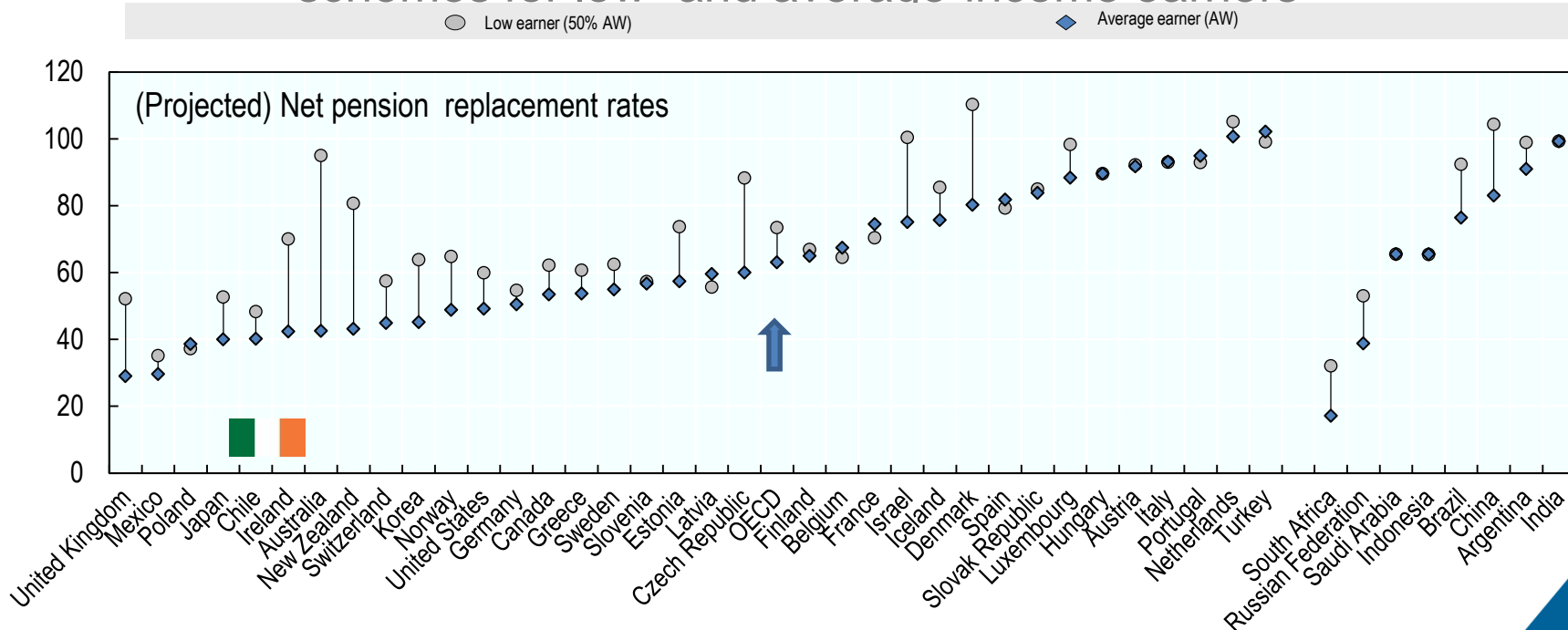
	<i>Ireland</i>	<i>average</i>	<i>min</i>	<i>max</i>	<i>measure</i>
Average income of 65+ % of average income of total population	89%	88%	67% (EST)	103% (FRA)	% of average income of total population
Relative old-age poverty rate less than 50% median income for total pop	6.8%	12.5%	3.2% (DNK)	46% (KOR)	less than 50% median income for total pop
Old-age safety-net level % average wage	32%	21%	5% (KOR)	40% (NZL)	% average wage
Current average old-age benefit ratio 2016	29%	45%	27% (LVA)	60% (ITA)	2016
Future average old-age benefit ratio 2070	28%	33%	13% (LVA)	56% (LUX)	2070
Future full-career average-wage net replacement rate cohort born in 1996	42%	66%	29% (GBR)	102% (TUR)	cohort born in 1996

Source: IDD database (OECD), Ageing Report, OECD pension model, Pensions at a Glance



Ireland: flat-rate mandatory pensions and replacement rates

Net projected pension replacement rates from mandatory schemes for low- and average-income earners

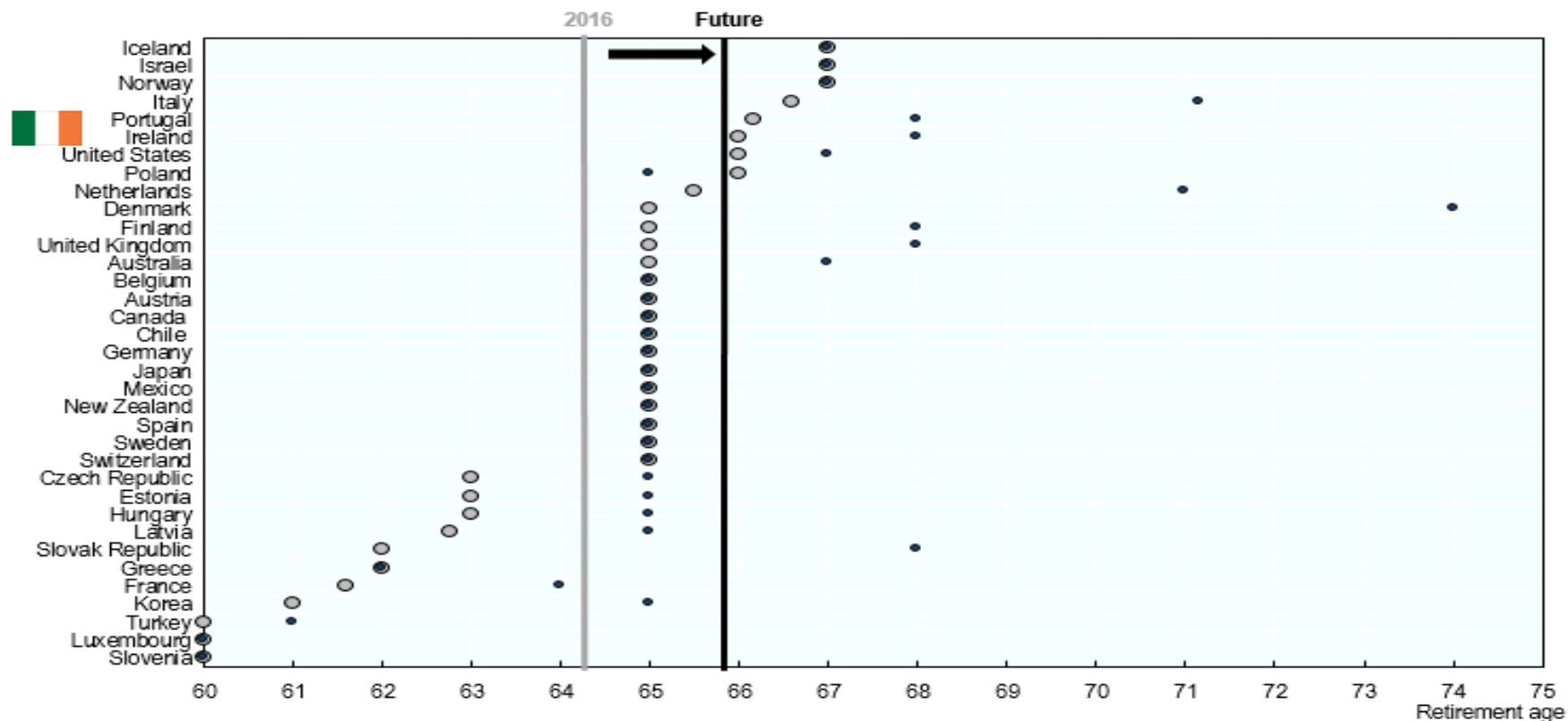


Source: OECD (2017) – Pensions at a Glance Figure 1.8.



Normal retirement age

full career from age 20 for men in the private sector

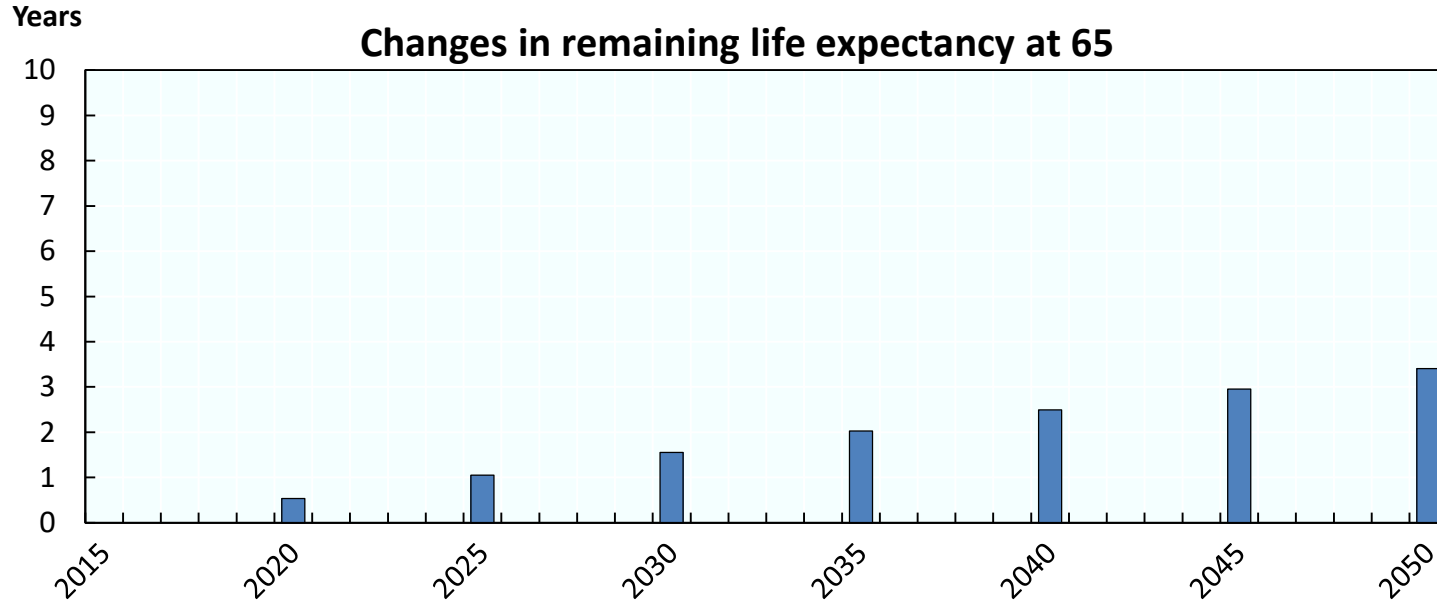


Source: OECD (2017) – Pensions at a Glance: OECD and G20 indicators.



Longevity is expected to keep increasing

OECD average

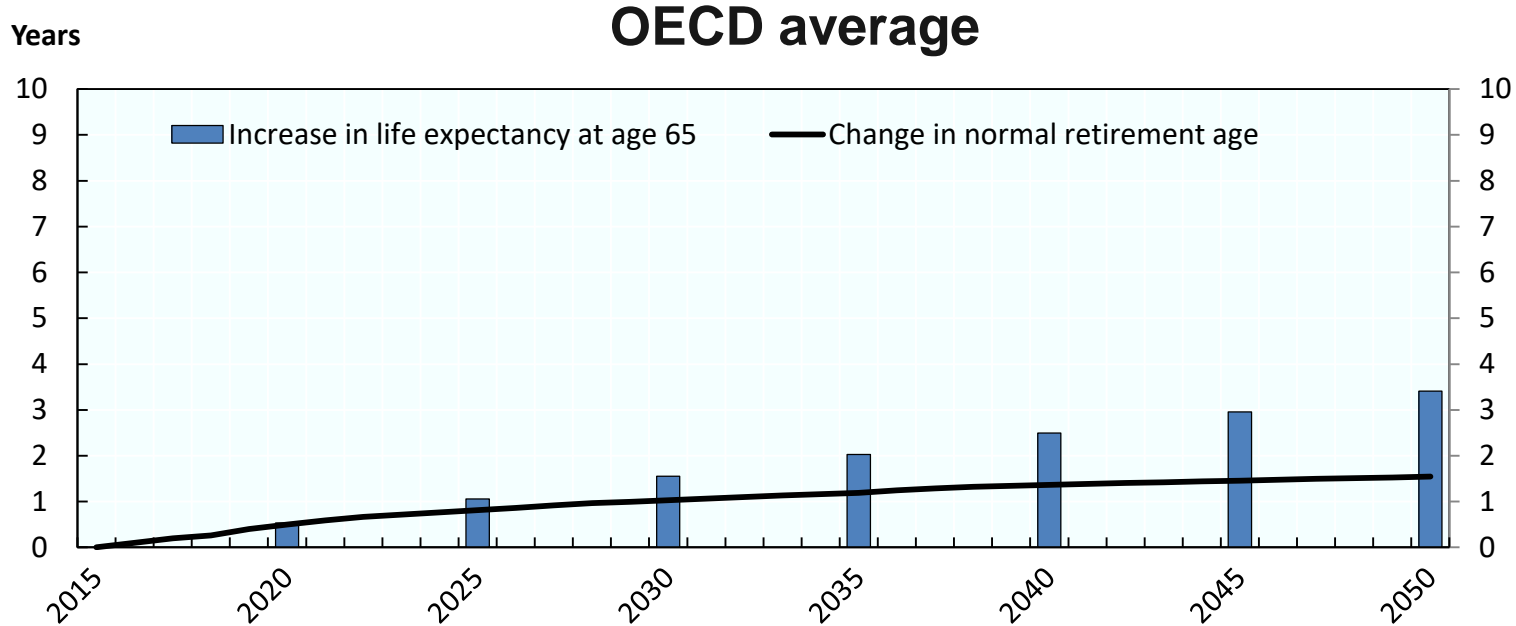


Note: Unweighted OECD country averages, 2015-2050, base year 2015. The normal retirement age is defined as the age at which a full-career worker entering the labour market at age 20 can receive a full pension, averaged across genders.

Source: Boulhol and Geppert (2018) - The effect of population ageing on pensions, www.voxeu.org.



Legislated increases in retirement ages are lagging behind after 2030



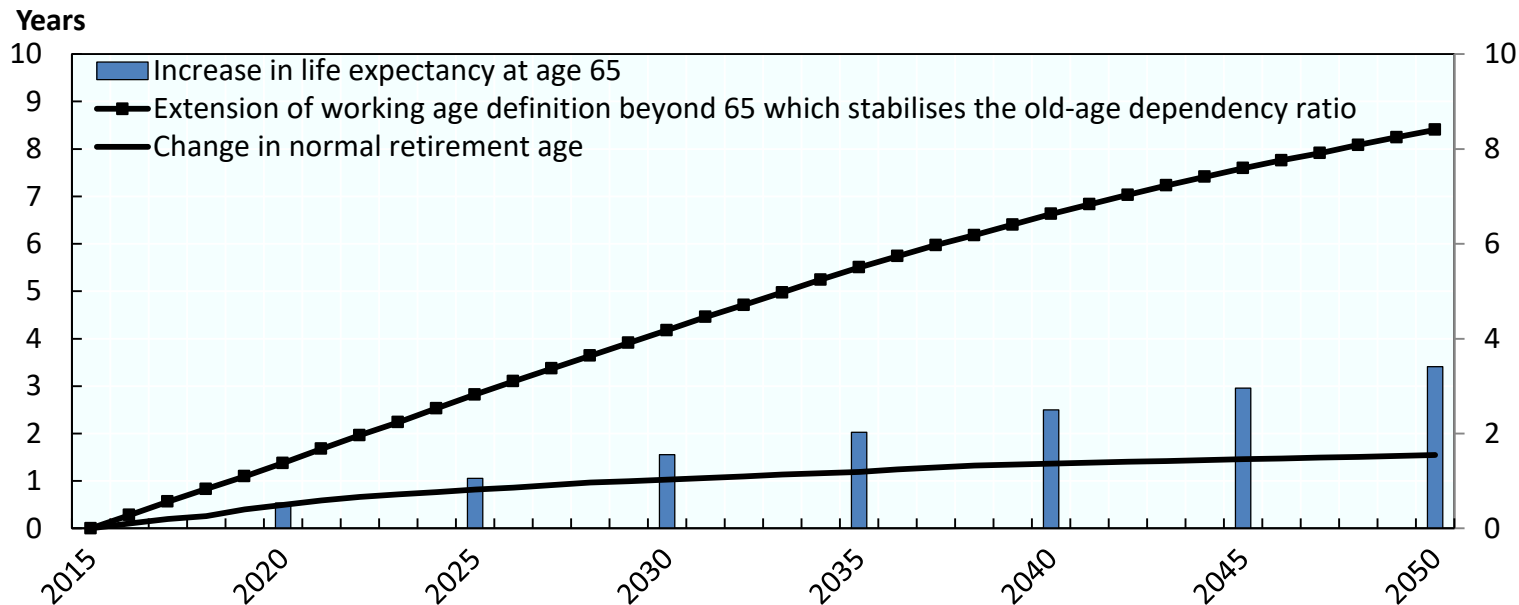
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Source: Boulhol and Geppert (2018) - The effect of population ageing on pensions, www.voxeu.org.



They will not be sufficient by far to prevent old-age dependency ratios from rising

OECD average

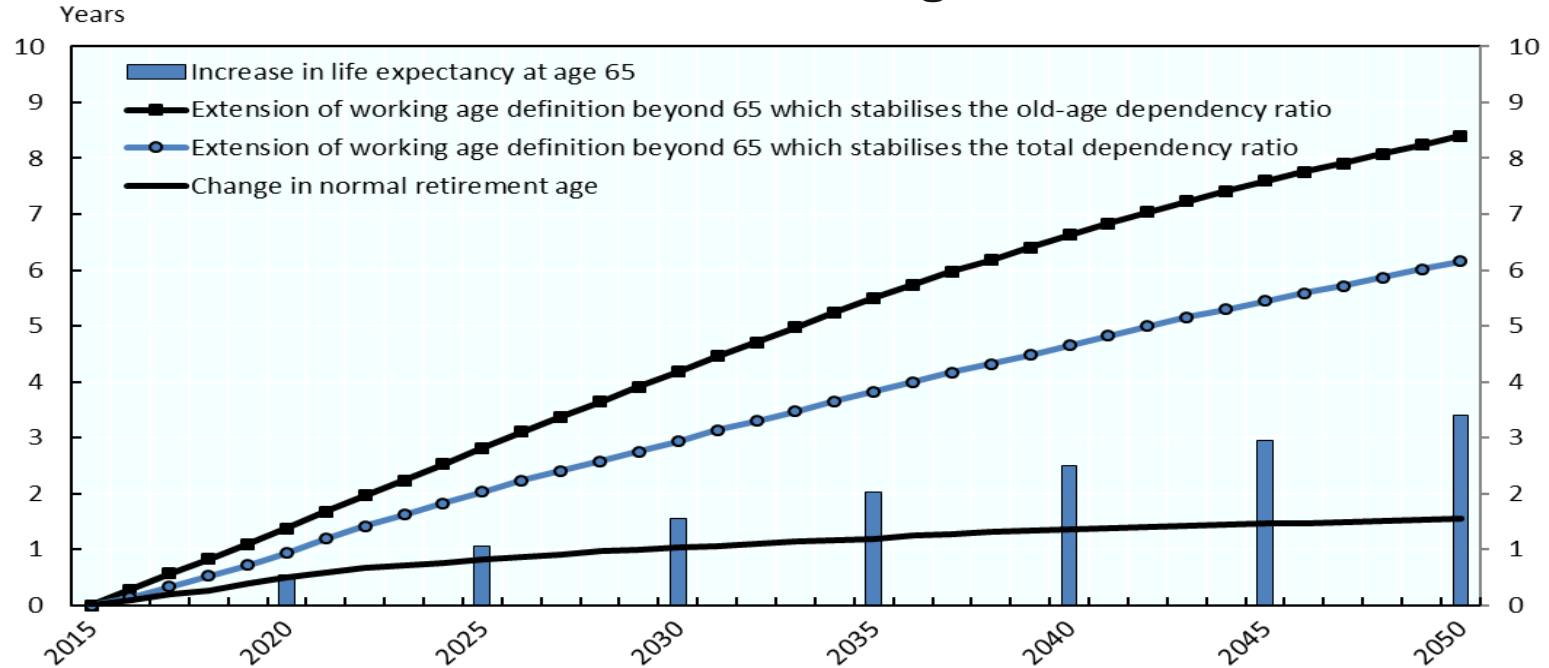


Note: Unweighted OECD country averages, 2015-2050, base year 2015. The normal retirement age is defined as the age at which a full-career worker entering the labour market at age 20 can receive a full pension, averaged across genders.

Source: Boulhol and Geppert (2018) - The effect of population ageing on pensions, www.voxeu.org.



Total dependency ratio and old-age dependency ratio OECD average

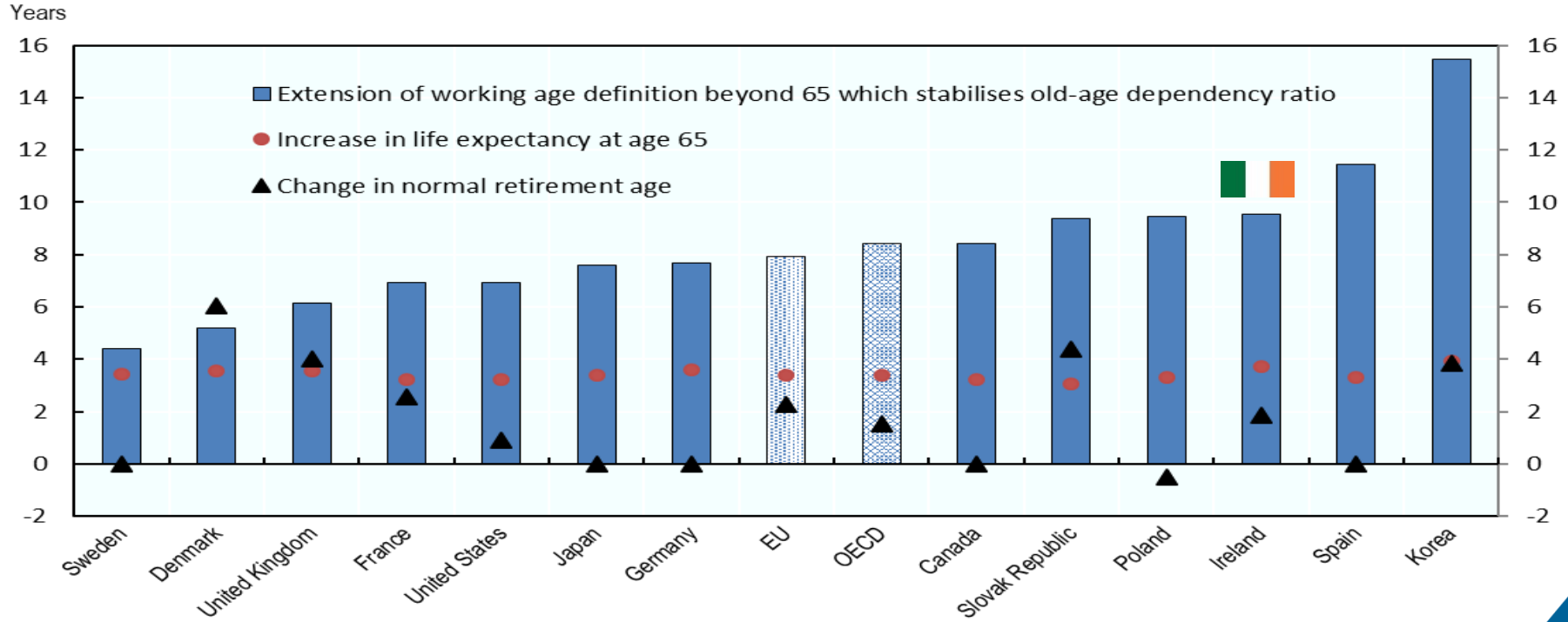


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Source: Boulhol and Geppert (2018) - The effect of population ageing on pensions, www.voxeu.org.



Huge differences across countries, 2015-2050



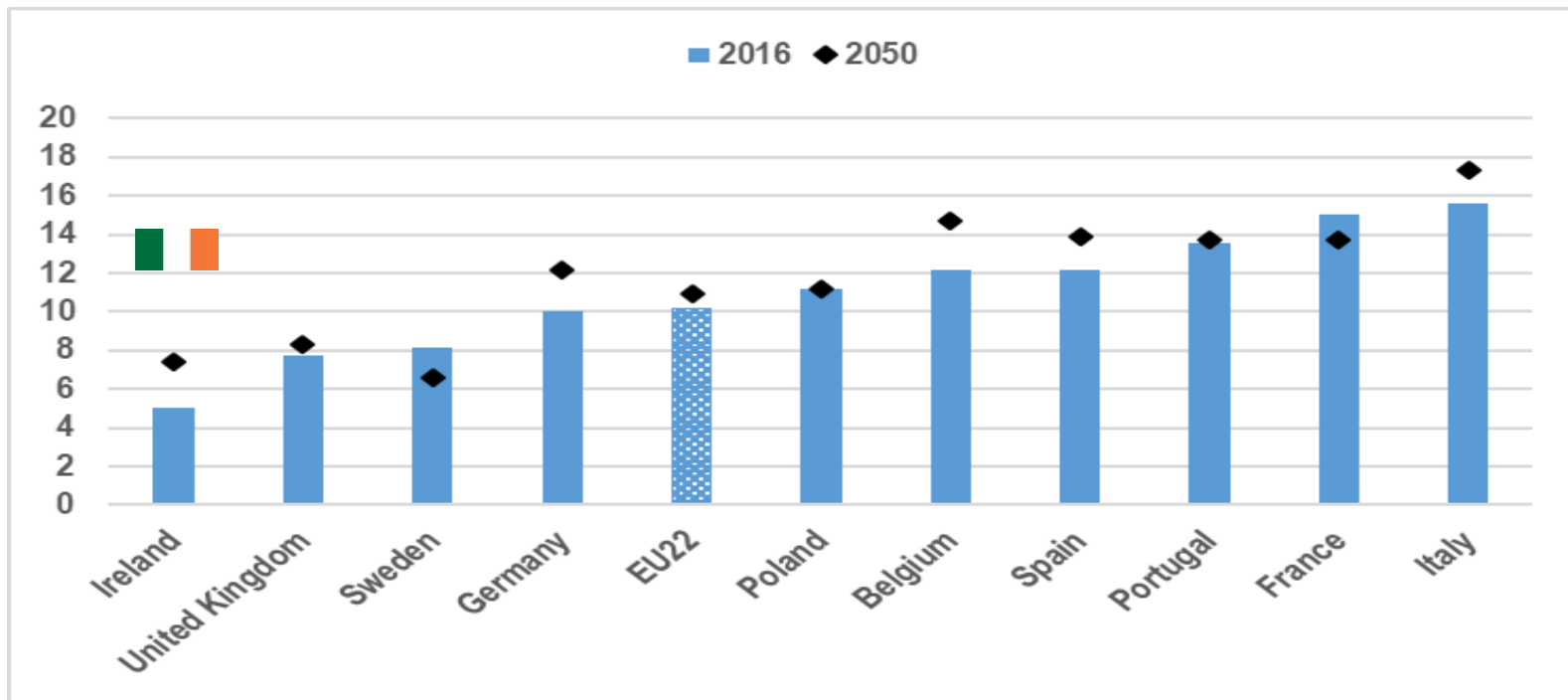
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Source: Boulhol and Geppert (2018) - The effect of population ageing on pensions, www.voxeu.org.



Ageing and projected pension expenditure

Public expenditures on pensions (in % of GDP)



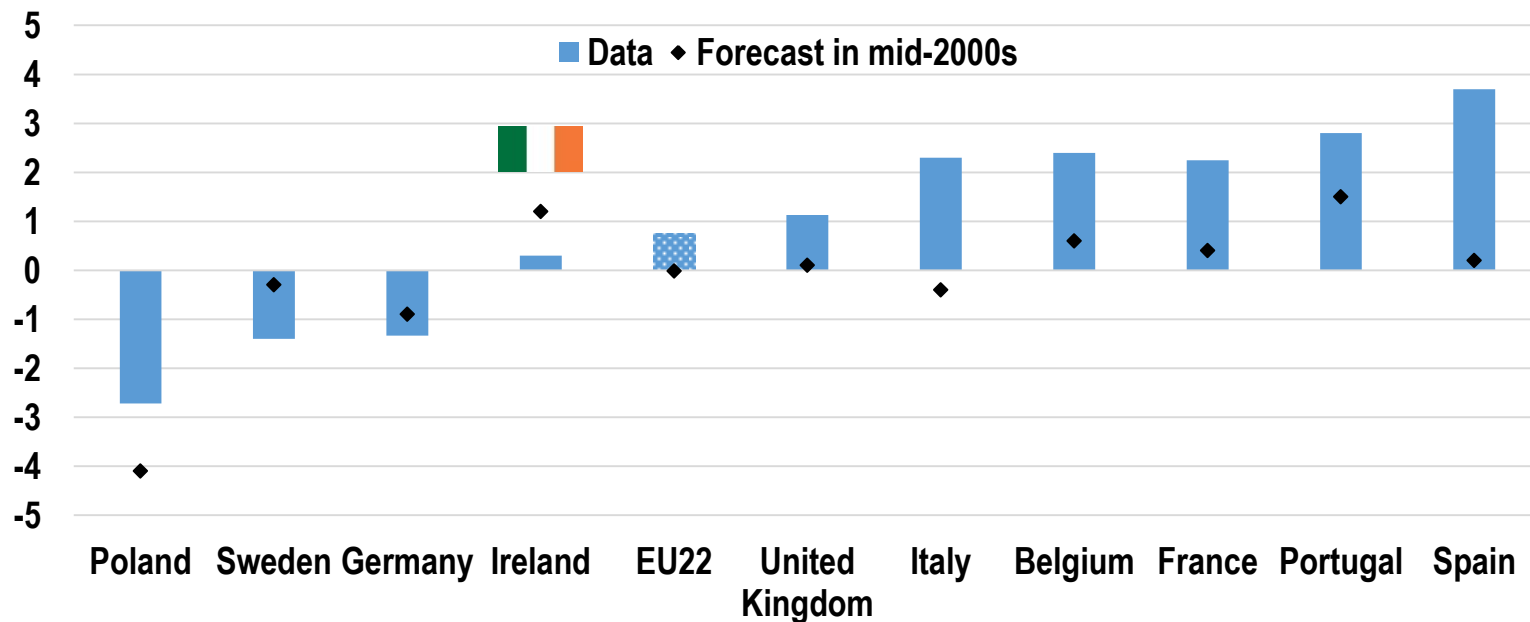
Note: Projections assume no further policy changes in the projection period.

Source: European Commission – Ageing Report 2018.



Past projections were too optimistic among countries which spend more

Increase in public expenditures since the mid-2000s
(in percentage points of GDP)



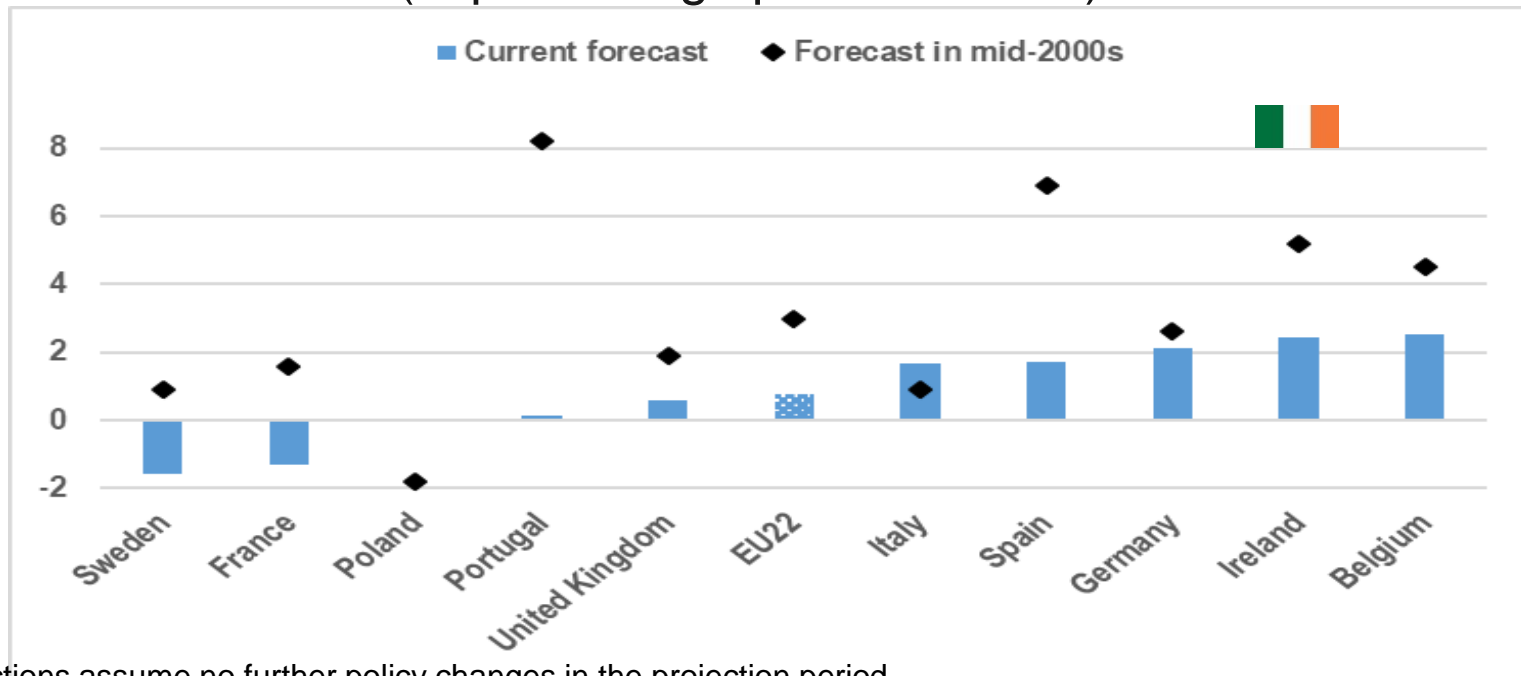
Note: Projections assume no further policy changes in the projection period.

Source: European Commission – Ageing Report 2018 and special report 1/2006 of DG for Economic and Financial Affairs.



Future projections have been revised down: Impact of reforms or persistent optimism?

Increase in public expenditures in 2016-2050
(in percentage points of GDP)



Note: Projections assume no further policy changes in the projection period.

Source: European Commission – Ageing Report 2018 and special report 1/2006 of DG for Economic and Financial Affairs.



Simple arithmetic

$$\frac{\text{pension expenditure}}{GDP} = \frac{p}{w} \frac{R}{L} = \frac{p}{w} \frac{R}{L} * \frac{wL}{GDP} = \frac{p}{w} \frac{R}{L} S_L$$

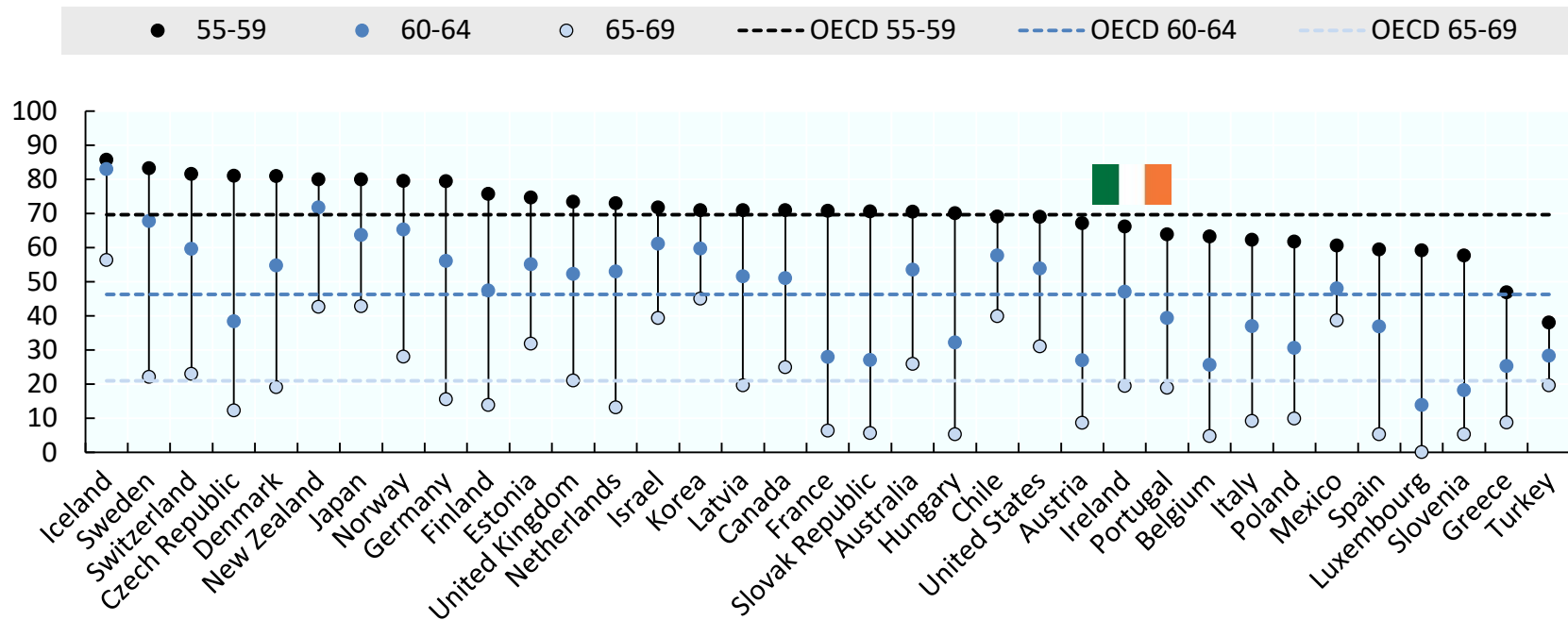
$$= \frac{p}{w} \frac{R}{65+} \frac{65+}{20-64} \frac{20-64}{L} S_L$$

$$= \text{average benefit ratio} * \frac{R}{65+} * OADR * \frac{20-64}{L} * S_L$$



The fall of employment rates with age differs substantially across countries

Employment rates of workers aged 55-59, 60-64 and 65-69, 2016

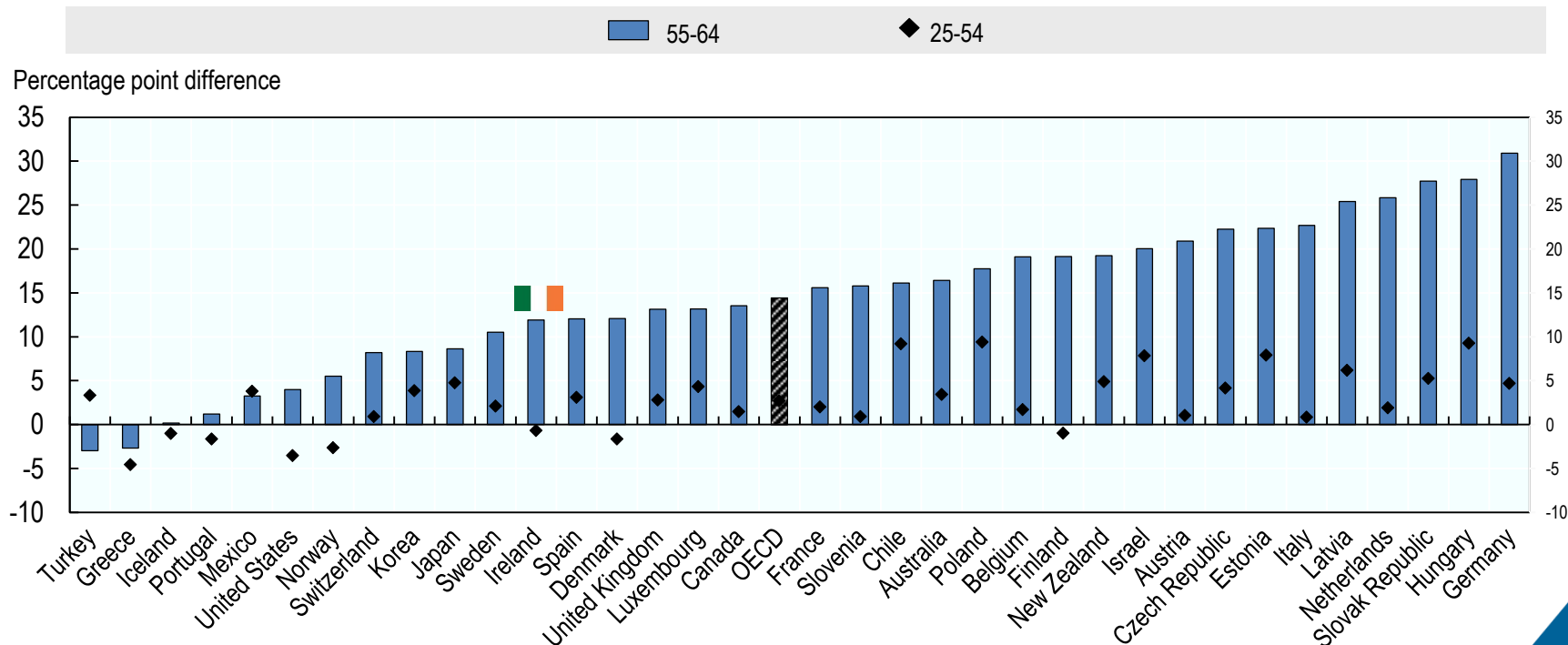


Source: OECD (2017) – OECD Employment Outlook 2017.



Employment growth was strong for older age groups in recent decades

Change in employment rates, 2000-2016, percentage points

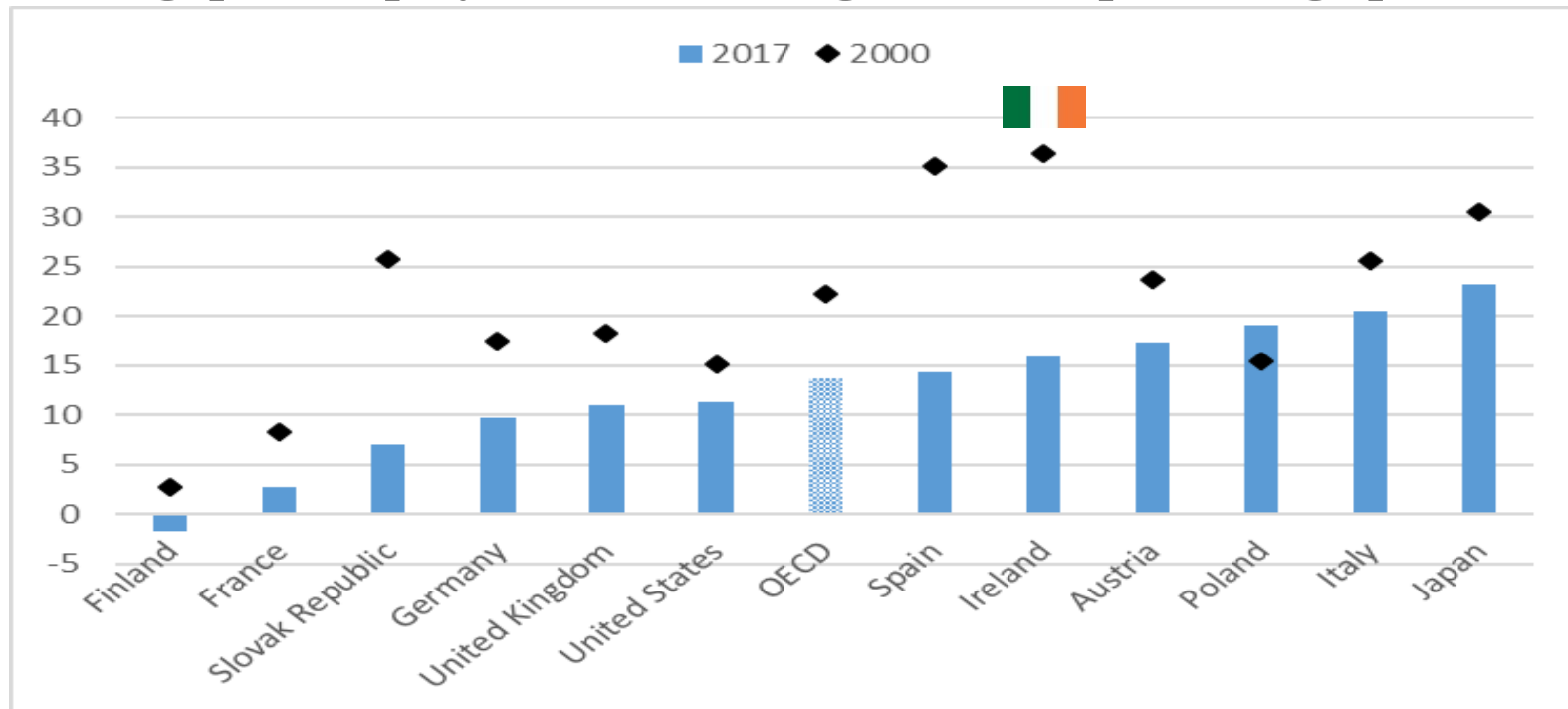


Source: OECD (2017) - Preventing Ageing Unequally [see [Figure 1.13](#)] based on OECD Education Database.



... in particular for women

Gender gap in employment rates at ages 55-64, percentage points

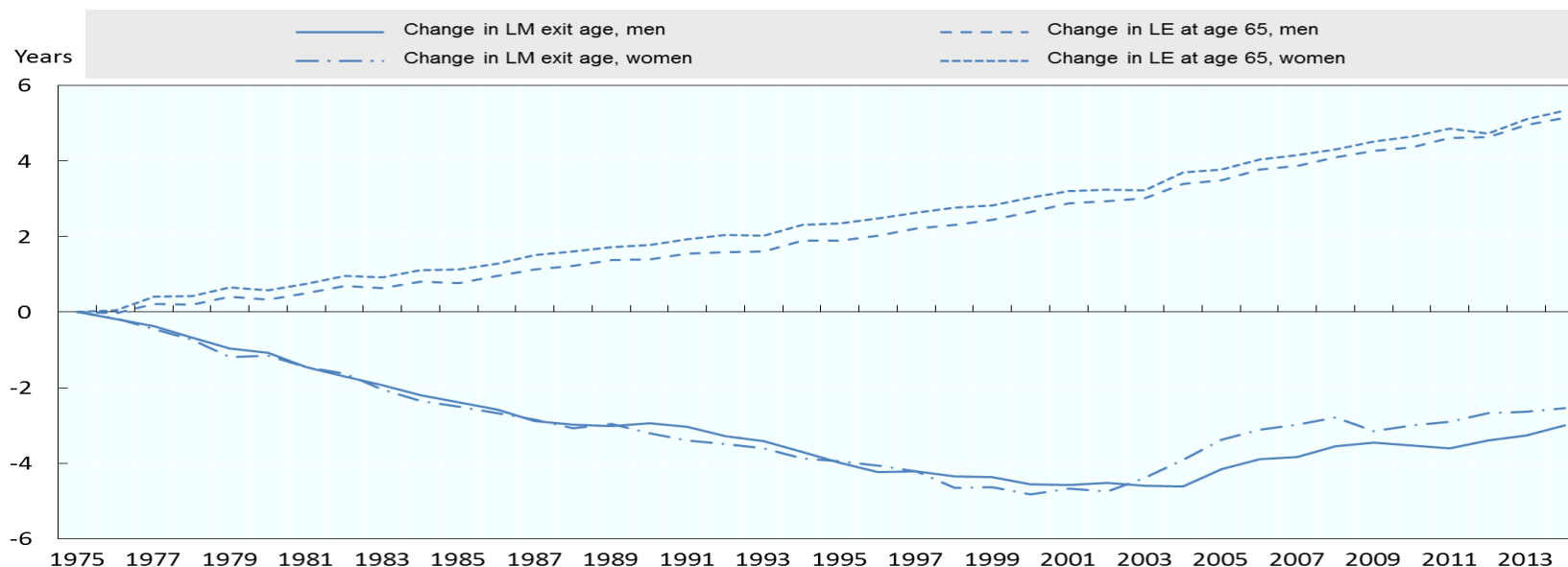


Source: OECD (2017) - Preventing Ageing Unequally [see [Figure 1.13](#)] based on OECD Education Database.



Longer retirement periods but labour market exit ages stopped declining 20 years ago

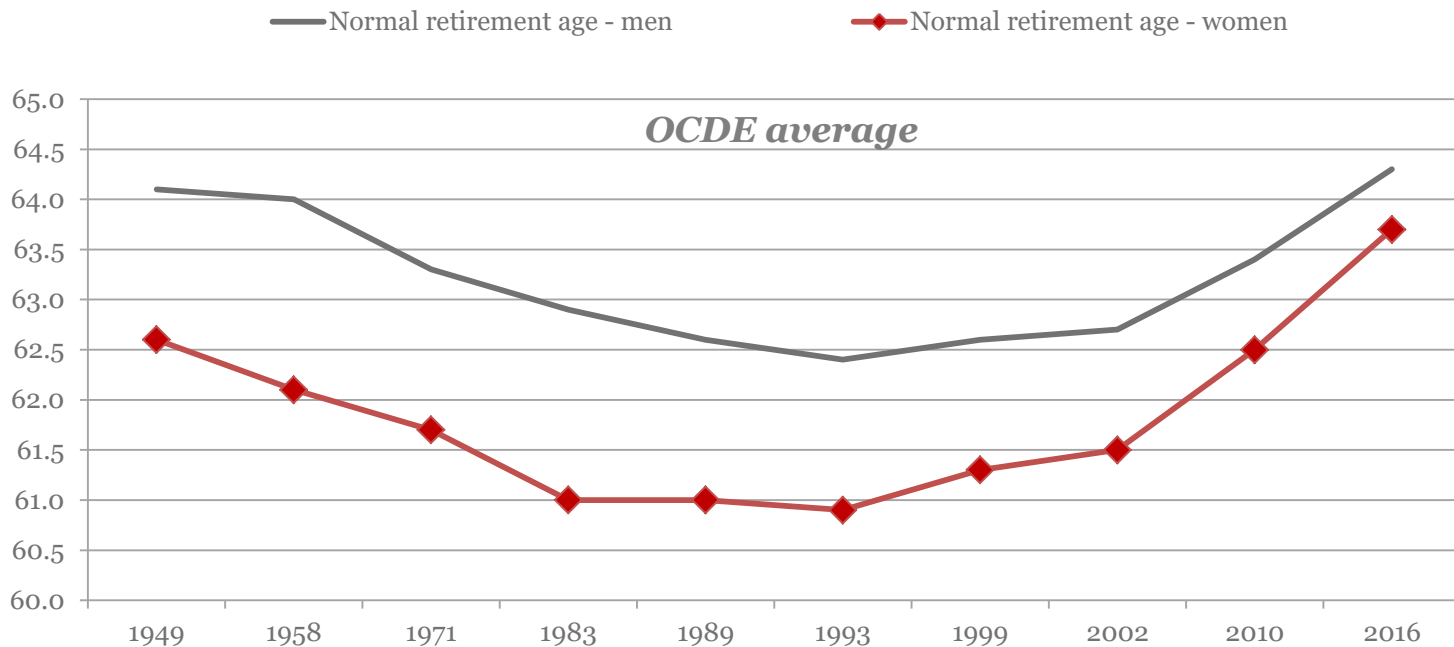
Changes in life expectancy at age 65 and in the average age of labour market exit since 1975, in years, OECD average



Source: OECD calculations. Labour market exit age data are based on the results of national labour force surveys, the European Union Labour Force Survey and, for earlier years in some countries, national censuses. Life expectancy data stem from OECD Health Statistics and are based on Eurostat data and national sources.



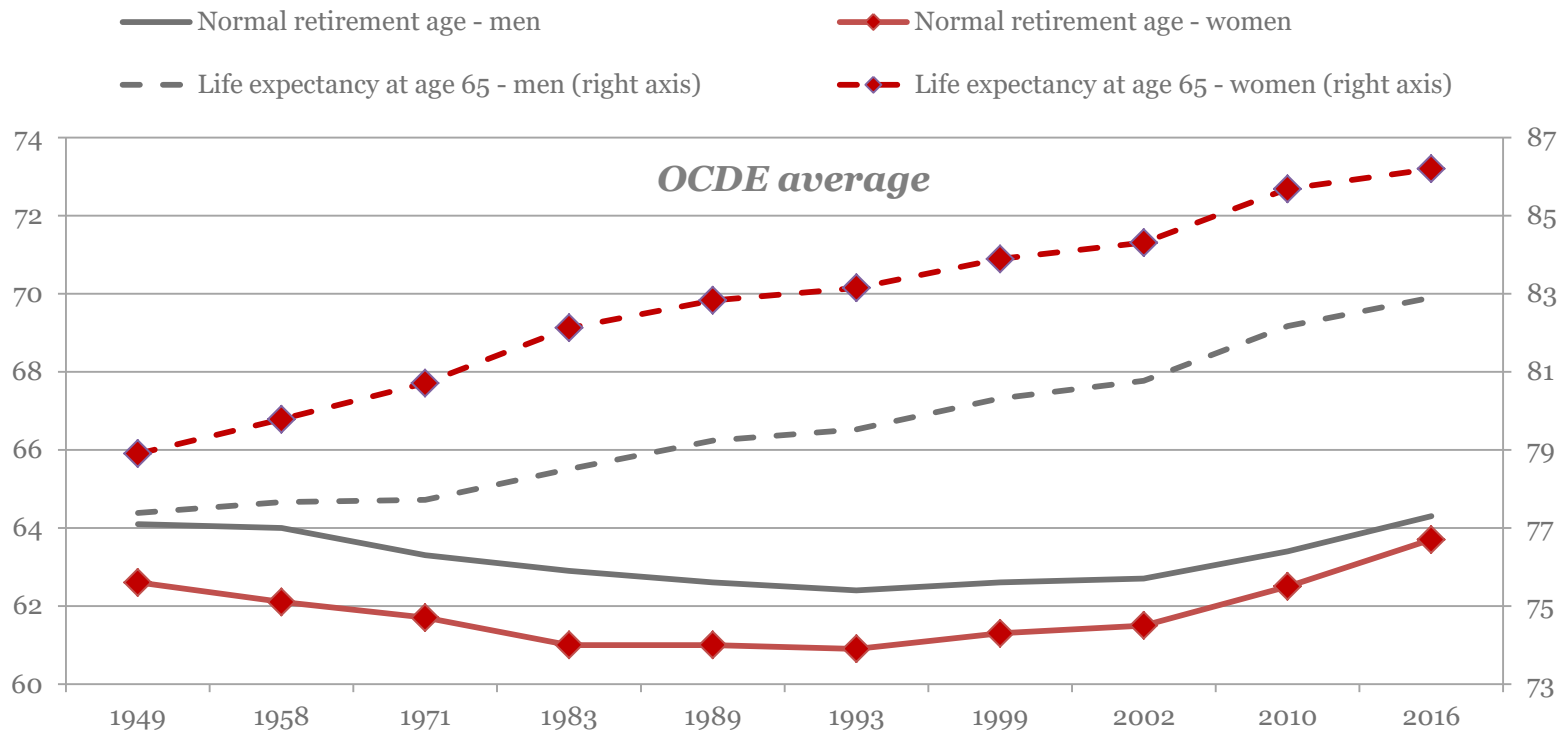
On average, the normal retirement age (men) is back at its 1950 level ...



Source: OECD - Pensions at a Glance 2005-2017.



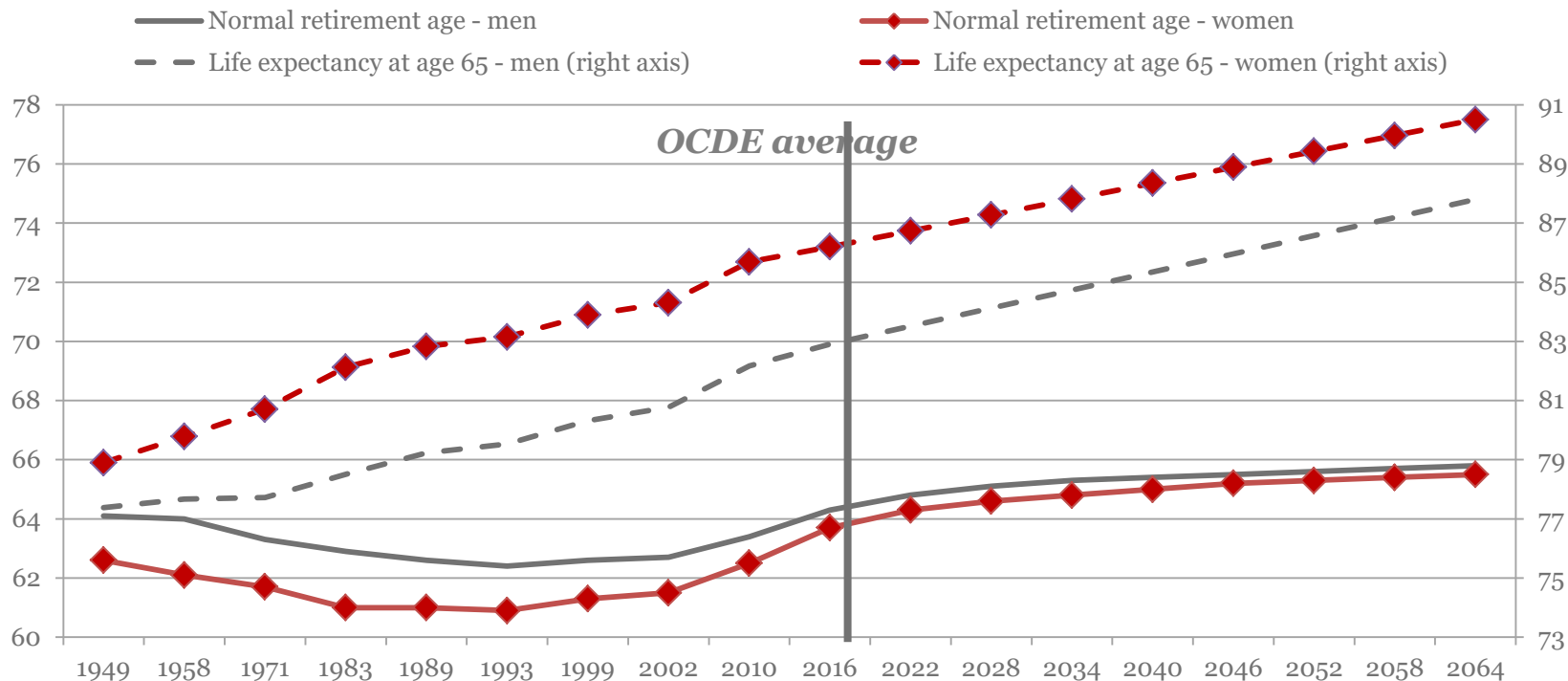
... but life expectancy at age 65 increased by 6 - 7 years



Source: United Nations (2017) - World Population Prospects, and OECD - Pensions at a Glance 2005-2017.



Expected gains in life expectancy and legislated change in normal retirement ages



Source: United Nations (2017) - World Population Prospects, and OECD - Pensions at a Glance 2005-2017.



Conclusion

- Population ageing will start at a fast pace in Ireland
- Effective dependency ratios will rise, driving up pension expenditures
- Fiscal space and political choice
- Raising legal retirement ages is important but not enough
- Improving employment is crucial

**Pensions at a Glance
Pensions at a Glance
2013**

OECD AND G20 INDICATORS

Pensions at a Glance 2015

OECD AND G20 INDICATORS

Pensions at a Glance 2017

OECD AND G20 INDICATORS



Preventing Ageing Unequally



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web pages:


<http://oe.cd/pag>

<http://oe.cd/pau2017>

Twitter: [@OECD_Social](https://twitter.com/OECD_Social)

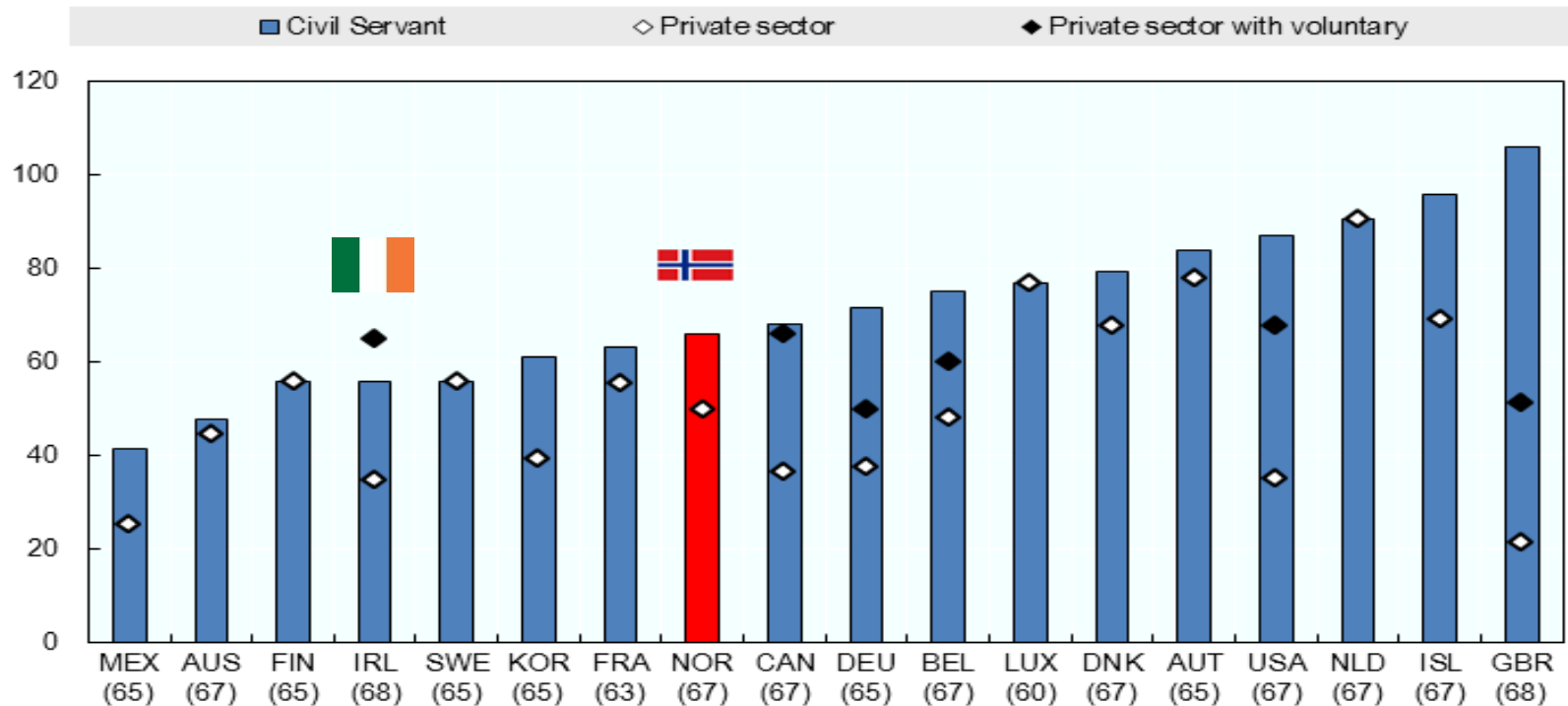


Civil-servants have a top-up component beyond the mandatory scheme for private-sector workers in Ireland

Fully integrated	Separate but similar benefits	Fully integrated with top-up	Entirely separate
Chile (1981)	Finland (1995)	Australia	Belgium
Czech Republic	Luxembourg (1999)	Austria (2004, 2009)	France
Estonia	Netherlands	Canada	Germany
Greece (2011)	Sweden	Denmark	Korea
Hungary		Iceland	
Israel (2002)		Ireland (1995) 	
Italy (1995/2008)		Mexico (2007)	
Japan (2015)		Norway	
Latvia		United Kingdom	
New Zealand (2007)		United States (1984)	
Poland			
Portugal (2006)			
Slovak Republic			
Slovenia			
Spain (2011)			
Switzerland			
Turkey (2006)			



Long-term gross replacement rates for civil service and private-sector average earners, *full career from age 20 in 2014, %*



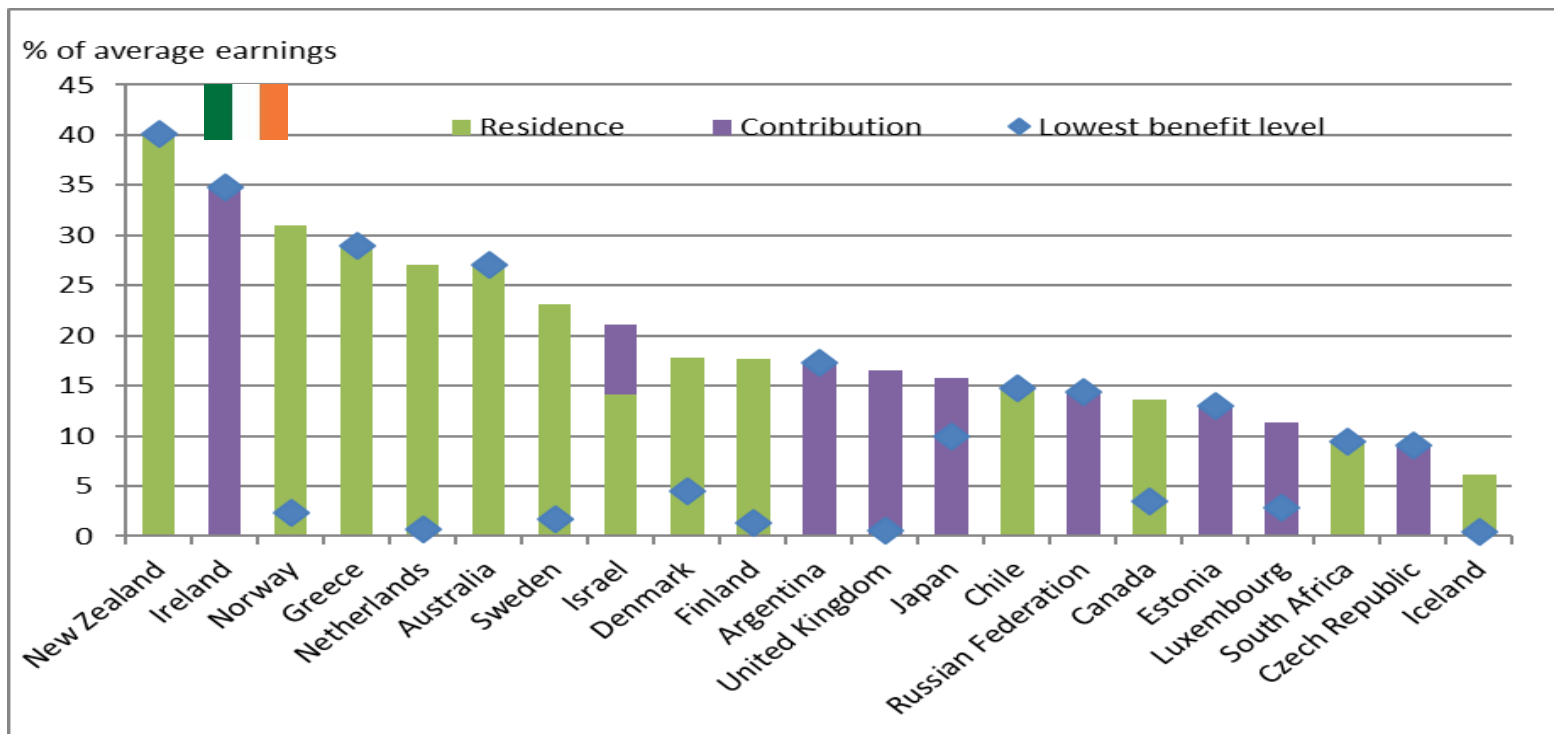
Source: OECD (2016) – Pensions Outlook, Figure 6.2.

Pension reforms in the OECD over the last two years

- Reforms were fewer and less widespread than before
- Canada, Finland, Greece, Poland and the Czech Republic : large repercussions, move backwards in certain cases
- Age:
 - increase: Denmark, Finland, Netherlands
 - cancellation of the planned increase: Canada and Czech Rep.
 - decrease: Poland
- Change in contributions: one-third of OECD countries
- Change in benefit levels: one-third of countries
- Minimum pension and safety net: one-fifth of countries



Basic pension levels



Source: OECD (2015) – Pensions at a Glance Figure 2.3.