

Path for the Public Finances Conference

Irish Fiscal Advisory Council

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AGEING PRESSURE ON PUBLIC FINANCE

Hervé Boulhol
Pensions and Population Ageing
Directorate of Employment, Labour
and Social Affairs, OECD





Outline

Pace of ageing

Pension indicators

Demographic and effective dependency ratios

Pension expenditure projections

Employment rates and effective retirement ages



Scoreboard



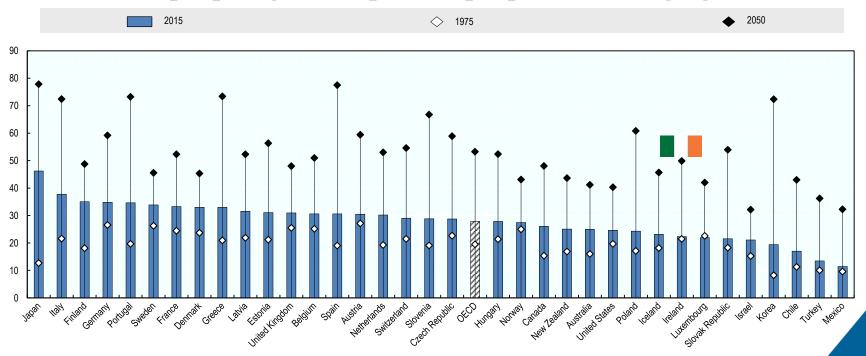
	Ireland	average	min	max	measure
Average income of 65+ % of average income of total population	89%	88%	67% (EST)	103% (FRA)	% of average income of total population
Relative old-age poverty rate less than 50% median income for total pop	6.8%	12.5%	3.2% (DNK)	` ,	less than 50% median income for total pop
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



Population ageing will accelerate in most countries and start in Ireland

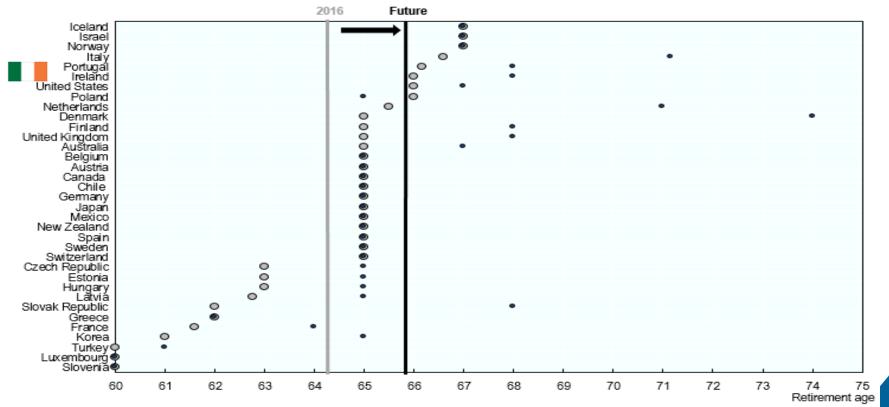
Number of people aged 65+ per 100 people of working-age (20-64)





Normal retirement age

full career from age 20 for men in the private sector

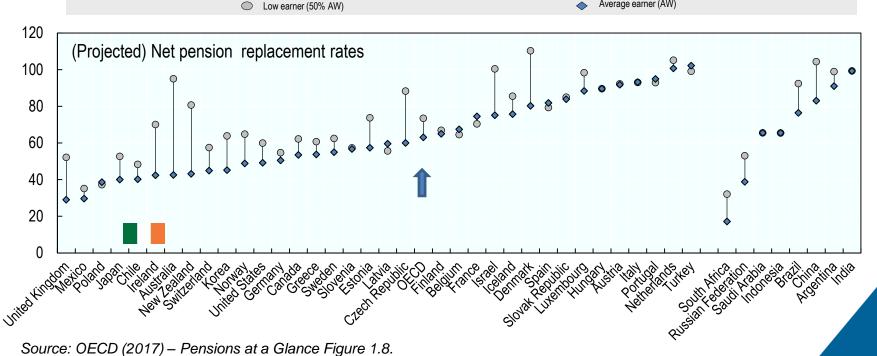


Source: OECD (2017) - Pensions at a Glance: OECD and G20 indicators.



Ireland: flat-rate mandatory pensions and replacement rates

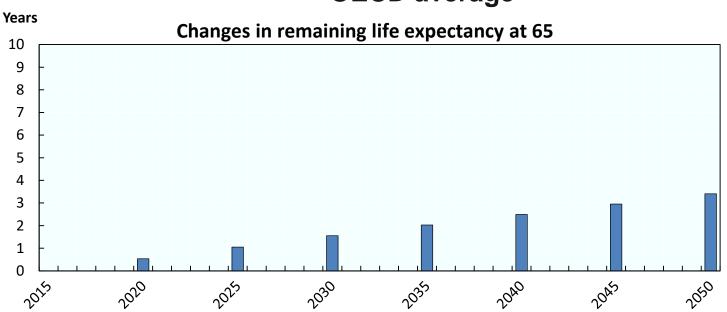
Net projected pension replacement rates from mandatory schemes for low- and average-income earners





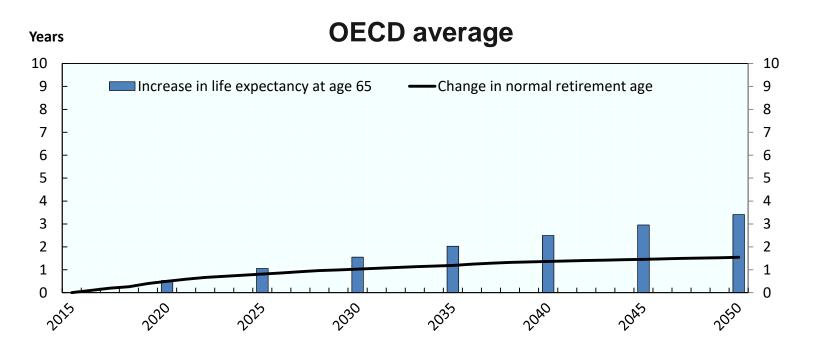
Longevity is expected to keep increasing







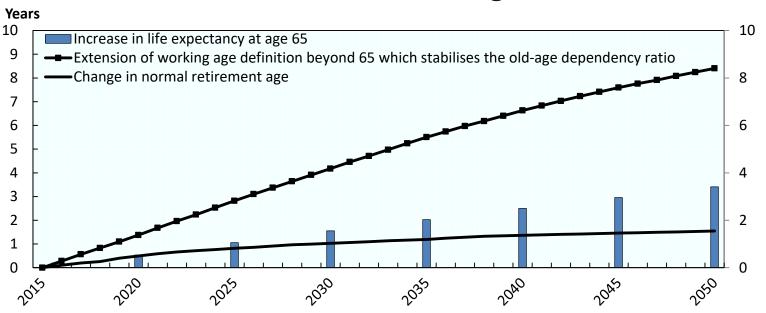
Legislated increases in retirement ages are lagging behind after 2030





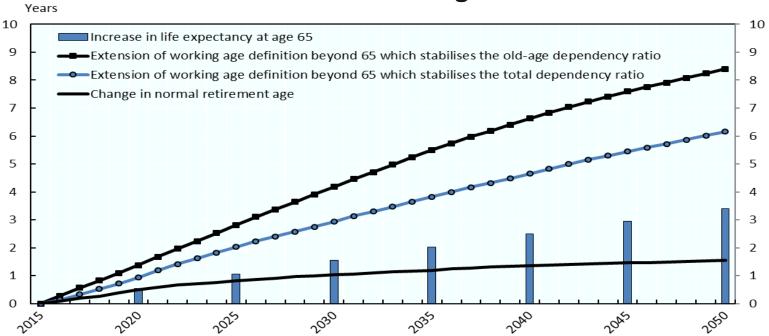
They will not be sufficient by far to prevent oldage dependency ratios from rising

OECD average



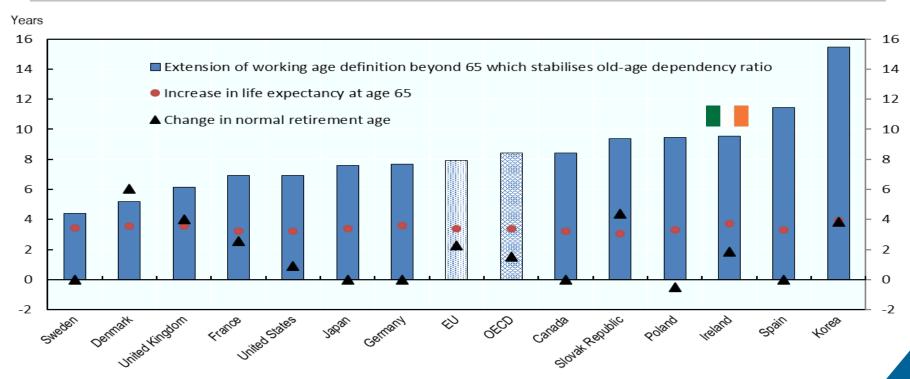


Total dependency ratio and old-age dependency ratio OECD average





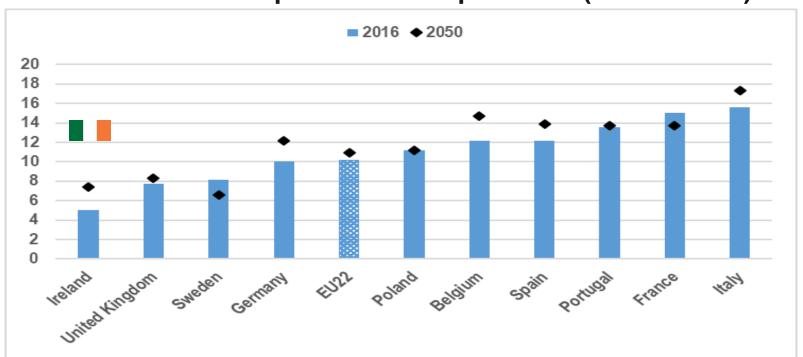
Huge differences across countries, 2015-2050





Ageing and projected pension expenditure

Public expenditures on pensions (in % of GDP)



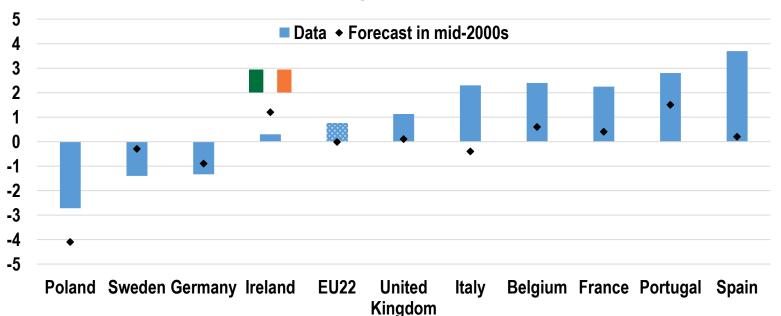
Note: Projections assume no further policy changes in the projection period.

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)



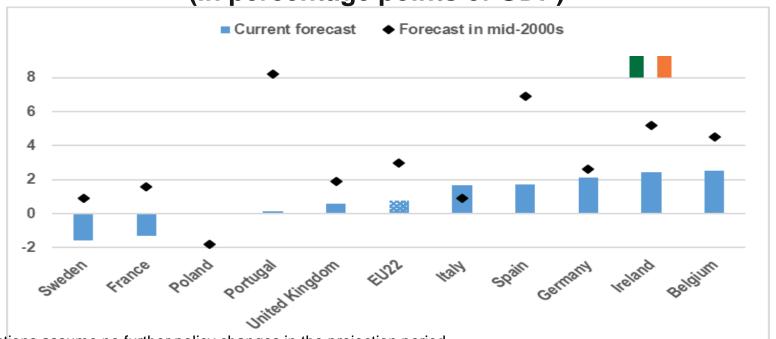
Note: Projections assume no further policy changes in the projection period.

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.



Simple arithmetic

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

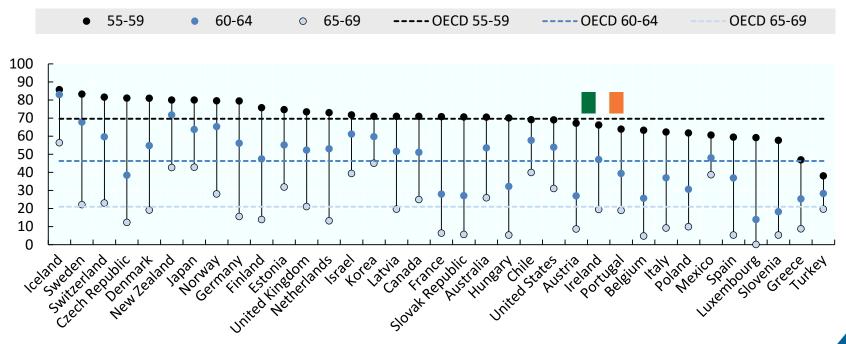
$$= \frac{p}{w} \frac{R}{65 + \frac{65 + 20 - 64}{20 - 64}} \frac{20 - 64}{L} s_L$$

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



The fall of employment rates with age differs substantially across countries

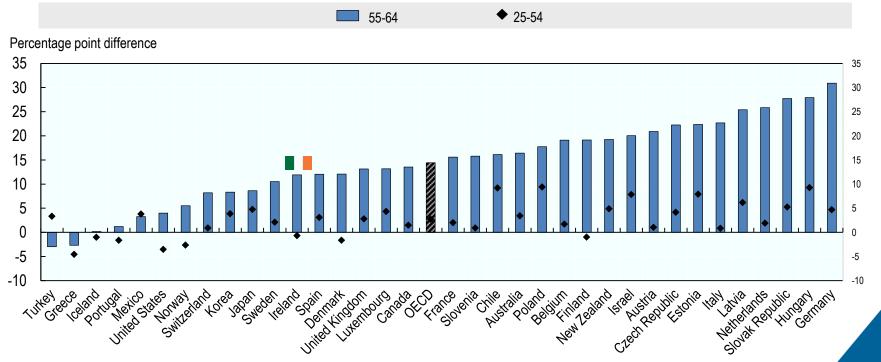
Employment rates of workers aged 55-59, 60-64 and 65-69, 2016





Employment growth was strong for older age groups in recent decades

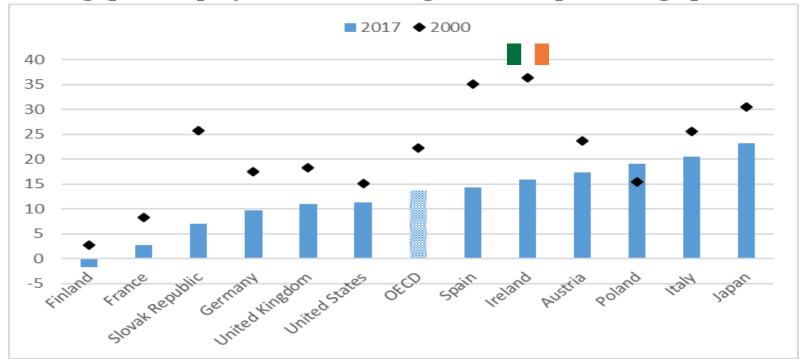
Change in employment rates, 2000-2016, percentage points





...in particular for women

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

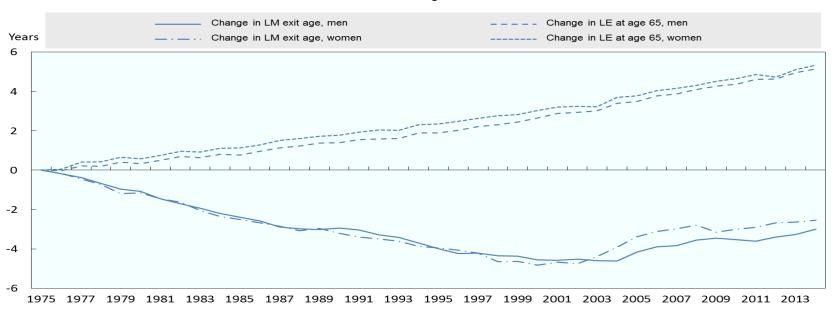


18



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

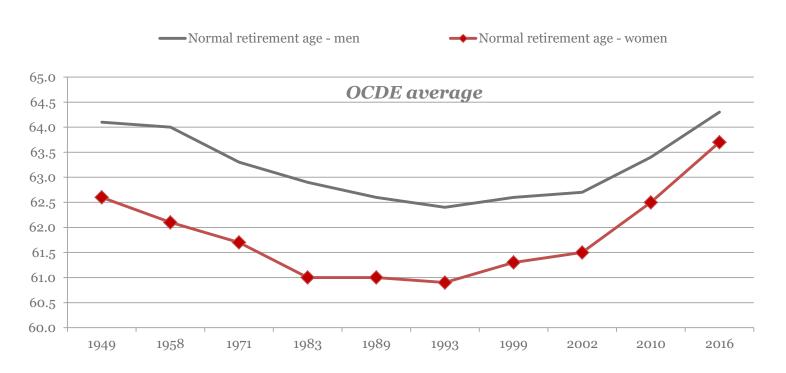
Changes in life expectancy at age 65 and in the average age of labour market exit since 1975, in years, OECD average



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.



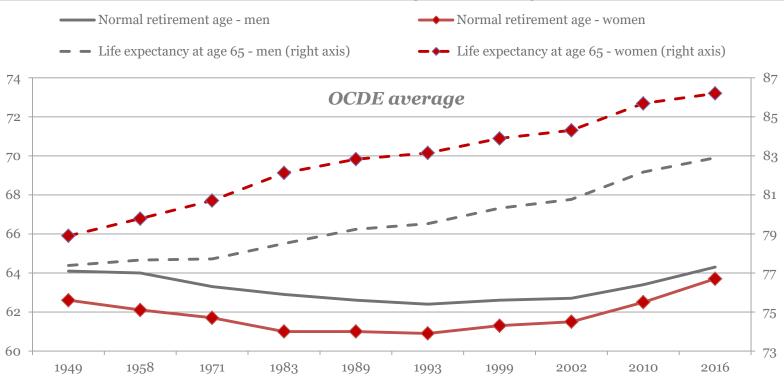
On average, the normal retirement age (men) is back at its 1950 level ...



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



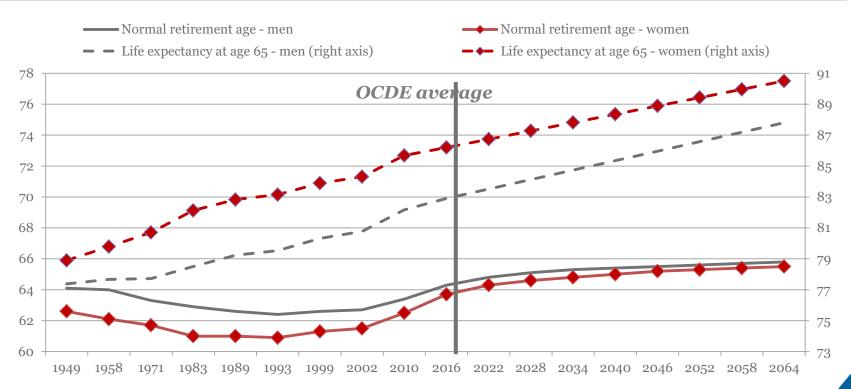
... but life expectancy at age 65 increased by 6 - 7 years



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





Preventing Ageing Unequally



2017



herve.boulhol@oecd.org
web pages:
http://oe.cd/pag
http://oe.cd/pau2017
Twitter: @OECD_Social





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

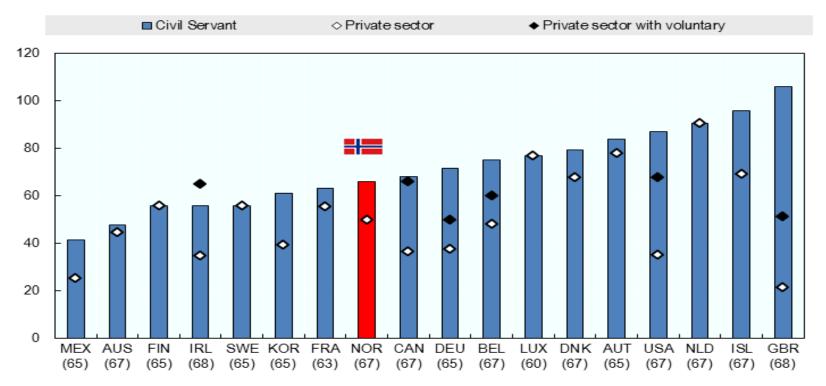
Fully integrated	Separate but similar benefits	Fully integrated with top-up	Entirely separate
Chile (1981)	Finland (1995)	Australia	Belgium
Czech Republic	Luxembourg (1999)	Austria (2004, 2009)	France
Estonia	Netherlands	Canada	Germany
Greece (2011)	Sweden	Denmark	Korea
Hungary		Iceland	
Israel (2002)		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)			

25



Long-term gross replacement rates for civil service and private sector average earners,

full career from age 20 in 2014, %



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 pensions

