Pension age hike needed to soften demographic blow, says Finance

MARTIN FRAWLEY

Without any policy intervention to mitigate the inevitable implications of ageing demographics, "the public finances will be on an unsustainable trajectory", according to the Department of Finance's submission to the Pensions Commission.

The Commission is essentially reviewing whether the state pension age should be increased from the current age 66, to 67 this year and on to 68 in 2028, as originally proposed back in 2013.

In Budget 2021 last October, the Government agreed to suspend the increase in the state pension age to 67 this year, pending a review by the Pensions Commission.

The Commission's remit is to examine sustainability and eligibility issues with the State pension and the Social Insurance Fund. The Commission is also to consider retirement ages in employment contracts and how the pension system can further accommodate carers.

Finance points out what is essentially a double-bind with regard to the cost of ageing. It says that while Ireland's demographic structure is relatively stable at present, it is set to increase rapidly over the next 30 years.

The country's old age dependency ratio will increase from 24% at present to 47% by 2050. This will involve, says Finance, increased outlays in "demographically sensitive expenditure", such as pensions and healthcare.

It says that annual age-related expenditure is set to increase by eight percentage points of Gross National Income in the next 30 years. "By 2050 the annual cost of age-related expenditure is set to be €17 billion higher, in today's terms, than in 2019."

"Revenue increases will not be sufficient to fund all of these additional costs. This is because growth in the productive capacity of the Irish economy is set to slow significantly, as demographic trends weigh on additional labour supply. As public revenue evolves in line with economic growth, slower revenue growth will make it more difficult for the public finances to absorb the increase in age-related spending", according to the submission.

DEBT BURDEN

It argues that if there are no further policy changes, population ageing will increase the debt-to-GNI ratio of the order of 90 percentage points by 2070.

"Analysis by the Department shows that maintaining the State Pension Age at 66, compared with proceeding with previously legislated increases, could result in additional costs of approximately €50 billion over the long-term. Policy reforms such as linking the State Pension Age to life expectancy could significantly reduce the cost burden", the Finance submission concludes.

Finance also points out that the above projections on cost of ageing do not include the Covid-19 pandemic. It adds that, as such, risks to the projections are, if anything, “to the downside”.