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Presentation to
Ageing Globally Ageing Locally
International Conference

Croke Park Dublin 2/3 November 2011

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Introduction

- Appeals to population "crises" are not new
- Ageing of societies provides a contemporary context for new expressions of a dystopian discourse
- The hyping of the demographic imperative (DI), e.g. the pensions "time bomb", is questionable in its promise to address the needs of ageing populations in an effective, far-sighted and sustainable way.
- Much of the policy discourse it drives – primarily about shifting resources away from the distribution mechanisms of the state (via PAYG) to the market (through privatised funded provision) can be related to relatively narrow and short-sighted thinking
- While privatised, funded and "financialised" provision is increasingly touted as the key to a sustainable welfare state, there is good reason to question such claims
- Ireland has a young population which will age gradually over several decades and provides a focus for reflection on drivers of policy change

Demographic Imperative

- Many writers and some intergovernmental agencies have presented ageing in dramatic terms
- World Bank 1994 - *Averting the Old Age Crisis*
- Peterson 1999 – "Grey Dawn – The Global Aging Crisis" ranks ageing above nuclear proliferation as risk
- Kotlikoff and Burns (2004) – *The Coming Generational Storm*, views US Medicare and social security as unaffordable

Overnight disappearance of Ireland's Demographic Dividend

- DI rhetoric in policy circles in Ireland has been hyped up rather suddenly
- In 2007, (e.g. the *Green Paper on Pensions*) reference continued to be made to a demographic **dividend**
- This discourse changed by 2010, in the Policy document *National Pensions Framework*
- In the interim, the 2009 *McCarthy report* appealed to a demographic **crisis** in calling for urgent increases in pension age and other pension cuts
- The aim of the cuts is to reduce state liabilities for social insurance pensions & public service pensions
- DI rhetoric increased in the midst of the financial sector meltdown – but was not grounded in significant demographic change

(Comparatively) Young Ireland

- 1951-2006:
  - proportion aged 65+ hovered between 10.7% and 11.4%, (11% in 2006) – very low by internationals standards
- Old Dependency ratio had actually declined marginally
  - between 1961 and 2006 to 16% (6.25:1)
- Projected old age dependency ratio
  - to rise to 25% in 2021 (4:1)
  - beyond 2021, with caution, to rise to 37% by 2041 (2.7:1)
- Overall dependency ratio (young + old) in 2041 60%
  - similar to the average line from 1951 to 2041,
  - much below peak levels (1940s-mid 1990s)
- Current and projected comparatively young Ireland

If not ageing then what?

- What underlies Irish pensions policy direction?
- The seeds lie in the 1970s, not in an ageing crisis, but in a fiscal crisis of the state
  - 1976 – Green Paper on ***National Income Related Pension Scheme***
  - last effort at advancing a supplementary pension policy by statutory means
  - Retreat from this by 1980/81 (unpublished White Paper)
  - Instead promotion of privately funded pensions propped up by tax expenditure, Pensions Board to regulate occupational pensions, Central Bank others

Part of a wider policy direction

- Policy in the 1980s and 1990s was driven by an imperative of reducing deficits and the Debt to GDP ratio
- Fiscal correction, fear of taxation & spending were the new orthodoxy of the 1980s
- Pension policy was one part of this approach affecting older people negatively
- A hallmark of the period was the growth in tax expenditures in many areas of social policy
- This policy direction continued in the booming 1990s and 2000s
  - E.g. home ownership gained as social housing provision was cut back.
- Order or priority in public policy followed social class lines:
  - Tax breaks and low capital taxes first,
  - followed by tax rate cuts in employment,
  - belatedly followed by a rise in social spending

Consequences for pension policy

- State / Old Age pensions lagged behind earnings until the mid-2000s
- Tax spending on private pensions just about equalled social spending on state pensions for all (2006):
  - €3.1bn on tax expenditure (on pension contributions, investment profits and lump sum payments) favouring the better off
  - €3.3bn on flat rate Social Welfare pensions
- Skewed benefits of supplementary pensions favoured the better off and the super-rich disproportionately
  - Top quintile of older people in 2007 got average of €315 p/w in private pensions
  - Bottom quintile got €6 p/w, in private pensions
  - middle quintile got €27 p/w (Hughes 2007 / DSF 2007)
  - In 2011, over 1,200 people declared pension **pots in excess of €2.3m**, accumulated with the support of tax relief at the top rate (*Relate* 2011 October)

Current concerns about Ireland's pensions policy

- Poor performance
  - about 1% per annum over past 10 years (inflation was 28%)
- Insolvency of a majority of defined benefit schemes
- High / hidden fees and charges to fund managers and brokers
- Massive loss in value of funds since the crisis began in 2007
- Tax relief the only real source of gain for many

Questions we raise

- To what end are we financialising Ireland's pensions policy?
  - Not to provide in a predictable way for an ageing population as a whole
  - Greater benefits for those with more funds to put by and who may benefit from early retirement, while the majority must retire later
- Does financialising policy make for sustainability at individual level ?
  - Very questionable– risk of collapse, fees for brokers & fund managers, interest is short term, transparency and control;
  - Risk borne by the individual: while Irish funds as a whole lost in the range of 35% in recent years, some individuals lost 70%
- Why, under the NPF, are the state, employers and employees to pay even more towards financialising pensions via auto-enrolment in 2014, given performance of last 10 years?
- Is the state no longer at risk when provision is devolved ?

Is the state no longer at risk?

- The claim of the demographic imperative is
  - that greater funding of pensions and devolution of cost from the state to the market and financial system is essential to sustainability
  - i.e. that the state will be able to carry on, albeit a leaner, more efficient state
- However, apart from the issues already laid out regarding pensions, the evidence for this claim is hard to find
  - The experience of Ireland's shift to fiscal narrowness in the aftermath of the 1970s, to a reduced tax base, lower social spending and more tax expenditure did not firewall it against the mounting debt of private individuals and the collapse of the banks and housing bubble
- There would seem to be no guarantee that the state will escape the consequences of a possible collapse in the private pensions sector

Conclusion

- Ageing is gradual and needs a graded multi-dimensional and integrated strategic policy response
- The risks to the state from devolving welfare to the individual, and market, are possibly greater than the risks associated with a larger direct role for the state in shaping distribution directly through taxation and spending
- We need to consider alternatives to privatising , liberalising and financialising pensions
- The same applies to other areas of social provision
- We need to re-examine the fundamentals of **macro-economic theory** in devising fiscal policy and social provision policies
- We need to **look again at the appropriate way for policy to evolve** to provide for an ageing population

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