Is 68 the new 65?
Some critical questions regarding the raising of the State Pension age in Ireland

Dr Joe Larragy

Maynooth University

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Adaptation of the pension system in Ireland

- Major changes in state pension age underway
  - State retirement/transition pension at 65 abolished 1 January 2014
  - State pension age rises from 66 to 67 years in 2021
  - State pension age rises from 67 to 68 in 2028
- Those affected in this age range must apply for jobseekers (benefit or entitlement) and must actively seek work
- The numbers affected by these changes will increase quite dramatically between now and 2028 (next slide)

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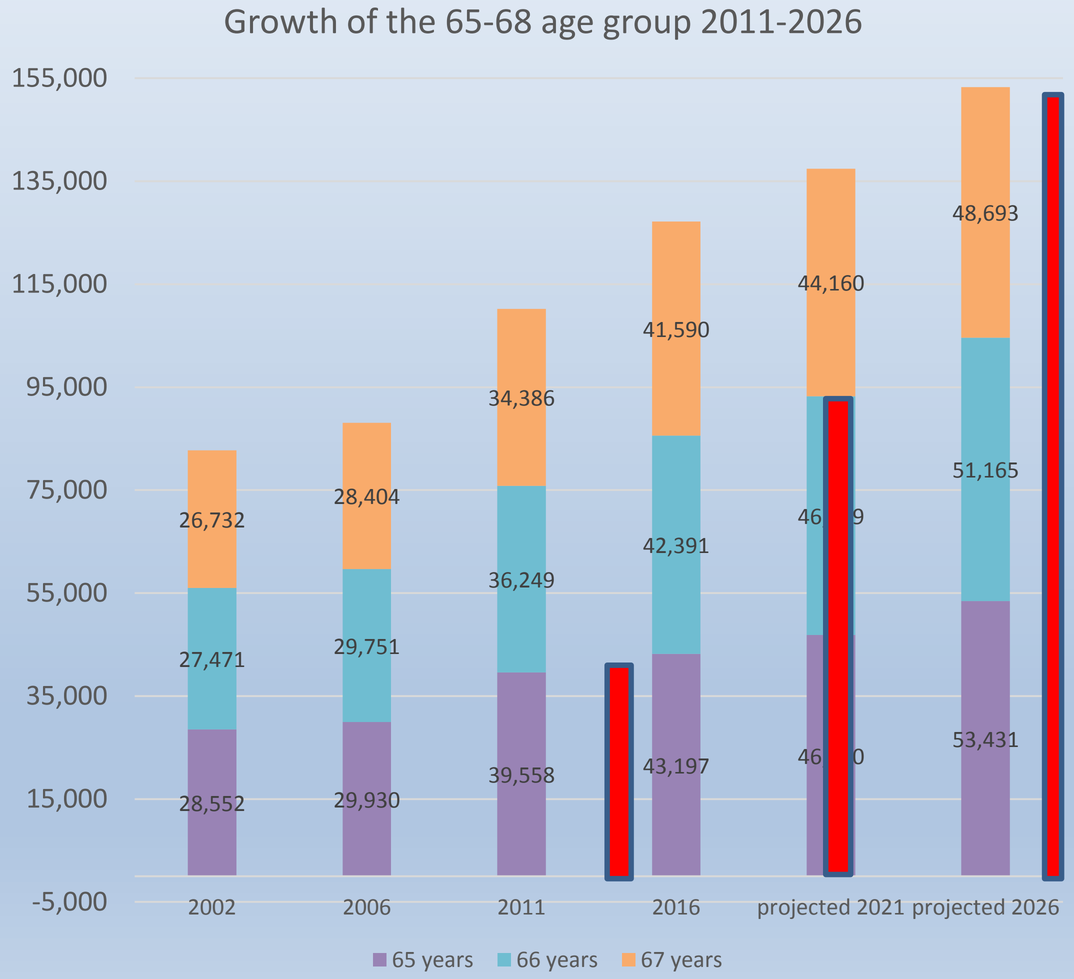
How many are potentially affected?
Over 153,000 in this age group by 2028



Persons	2011	2014 #	*2021	**2028
65 years	2011	2016	projected 2021	projected 2026
66 years	39,558	43,197	46,840	53,431
67 years	36,249	42,391	46,419	51,165
65-67	34,386	41,590	44,160	48,693
Number affected		**41,590**	**93,259**	**153,290**
		# census 2016	* Projected (2021)	**projected (2026)

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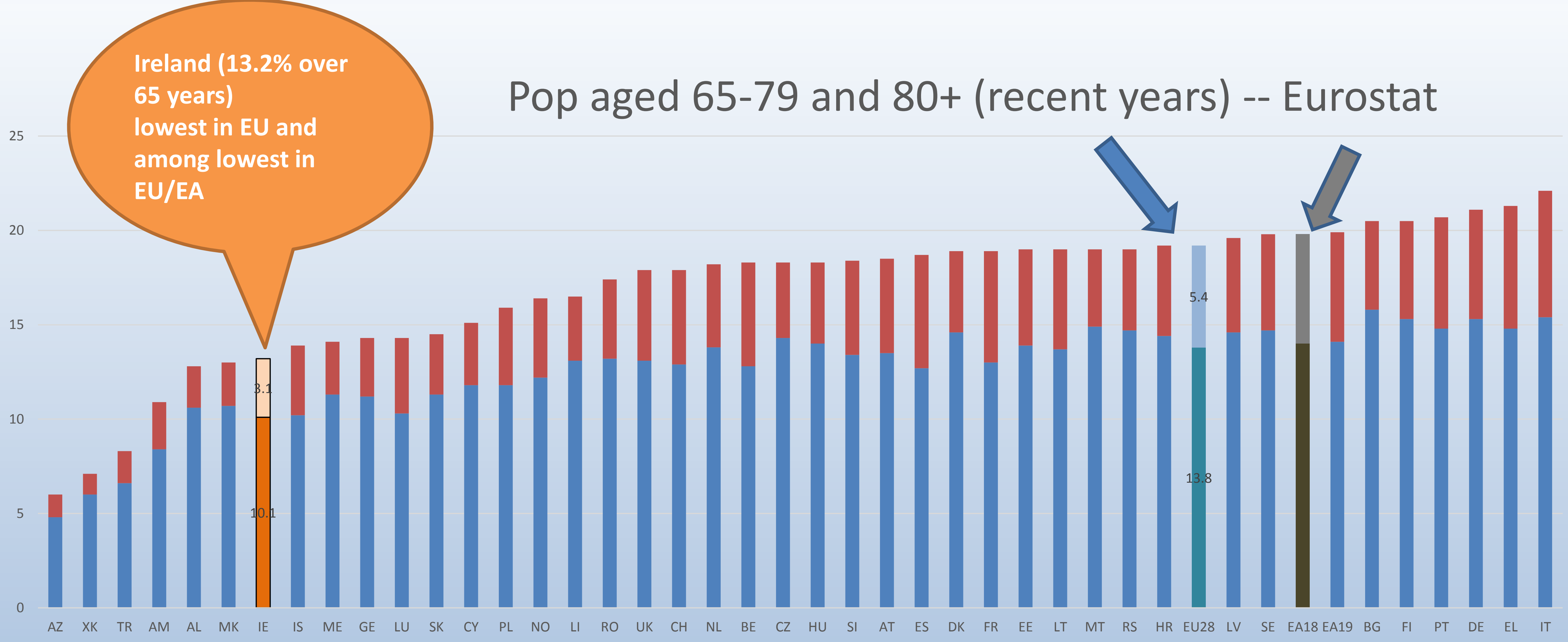
What was the rationale offered for the changes?

- Population ageing / unsustainability of pensions etc.
  - Very strong rhetoric on unsustainability of state pension – and private pensions – (e.g., McCarthy Report 2009) and calls for raising pension age
  - In reality, this approach was part of a response to the bank collapse and ensuing collapse of state finances rather than a response to demographics
  - The sustainability of the State pension was largely down to rising state debt post 2008 rather than population ageing
  - McCarthy played up the demographic argument
  - Little attempt to distinguish between private pension crisis and state pension issues

Some questions:
1. Is Ireland particularly vulnerable to demographic ageing?

- Not by international standards:
- Percentage over 65years is lowest in EU
- Old dependency ratio (65+/15-64) is lowest in EU, now
- and also projected to be lowest in 2060

Pop aged 65-79 and 80+ (recent years) -- Eurostat



Ireland's 65+ population is **13.2%,** compared to EU average of **19.2%** _(Eurostat)

http://ec.europa.eu/eurostat/statistics-explained/index.php/Population_structure_and_ageing

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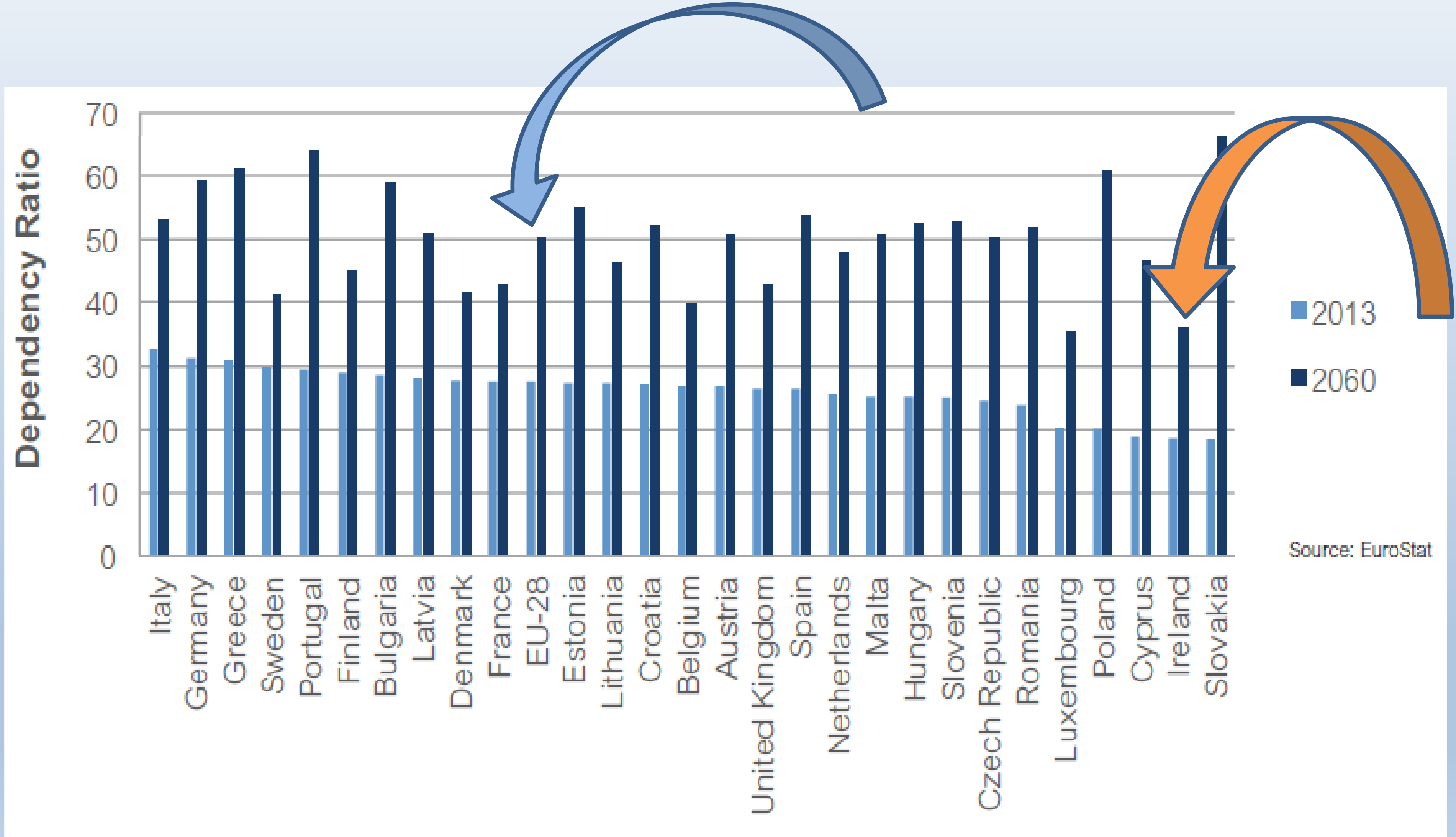
European dependency ratios in 2013 and 2060



- Ireland has lowest **old age dependency** now and projected to 2060 in EU28
- Old dependency ratio (65+/15-64)

Now:

- 20% in IE
- 29% in EU

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Was this in line with thinking before the 2008 crisis and recession?

- Before the crisis of 2008 the Government Green Paper on Pensions (2007) – a measured approach:
- Measures to encourage employers
- voluntary deferral of state pension
- Prohibition of mandatory retirement age

(see panel from Green paper)

Questions for Consideration

1. Should measures be put in place to encourage later retirement? Should measures be put in place to encourage employers to retain older workers? What form should such measures take?

2. Should a system allowing for voluntary deferral of the Social Welfare pension be introduced? How should this operate?

3. Should other incentives be introduced to encourage people to work beyond normal retirement age?

4. In order to encourage later retirement, should employers be prohibited from setting a retirement age below a certain age? Should they be prohibited from setting any retirement age?

5. In order to contain costs and reflect increased life expectancy, should a change be made to the retirement age for Social Welfare pensions? How should such a change be implemented?

2. Was the Green Paper approach followed? No.

- No incentive for employers or employees on later retirement
- No provision for voluntary deferral of state pension
- No policy on imposition of retirement age
  - only later was this addressed – in the public sector
- Retirement & Jobseeker status imposed simultaneously
- Income drop when caught in the gap (despite allowing JB claim to continue until pension eligibility)
- Patch-ups via occupational pensions (of a voluntarist nature) added later

3. Is Ireland just doing the same thing as most countries (in raising retirement age)?

- Raising retirement is happening in many countries but there are different ways to approach this
- Ireland is forcing an accelerated increase, from comparatively high base (66 in 2014) to 68 over 14 years.
- The method appears simply to push up state pension age to a minimum age of 68 years, and deal with the fallout afterwards

Is Ireland just doing the same thing as most countries in raising retirement age?

- Ireland is using unemployment as the default status for people who are made to retire
- but other options exist Including
  - Part pension with part time work, which would allow for phased exit from full time work
  - Discounted pension upon earlier retirement
  - Increased pension upon later retirement
  - flexible retirement – over an age range (several examples exist: USA, Germany, Sweden, Norway)

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4. Live longer – work longer?
One size to fit all

- Average life expectancy is rising
- but the older population is heterogeneous
- Differences in life expectancy between men and women are well known
- But differences in life expectancy by social class are less well known
- Yet they are wide and possibly – getting wider (evidence from ONS longitudinal study)

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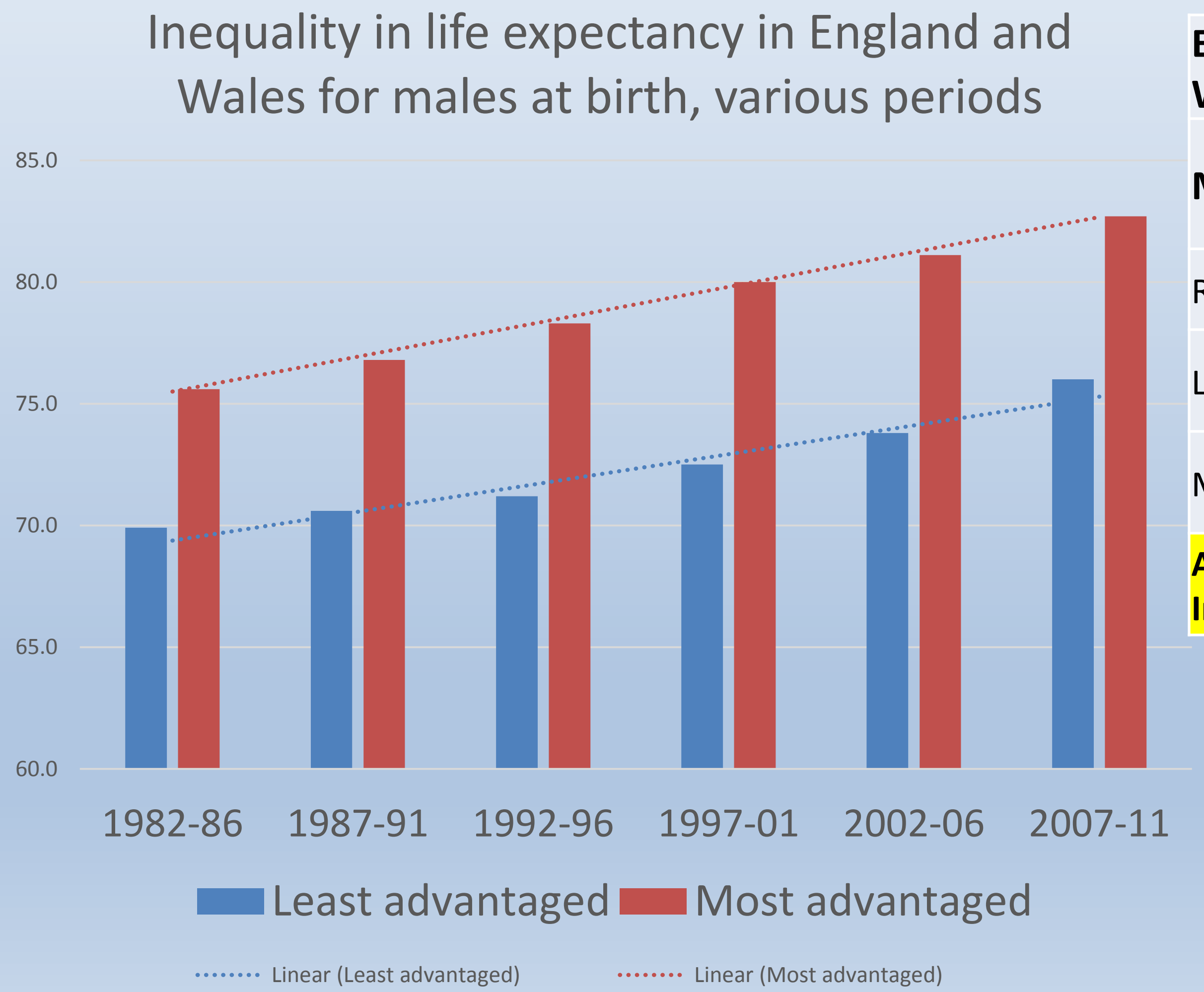
Live longer – work longer?

Social class differences in LE, Males, at birth



England and Wales						
Males at birth	1982-86	1987-91	1992-96	1997-01	2002-06	2007-11
Relative Rank	LE	LE	LE	LE	LE	LE
Least advantaged	69.9	70.6	71.2	72.5	73.8	76.0
Most advantaged	75.6	76.8	78.3	80.0	81.1	82.7
Absolute Inequality	**5.6**	**6.2**	**7.1**	**7.5**	**7.4**	**6.7**

6.7 year difference in life expectancy at birth (see ONS 2015 longitudinal study)

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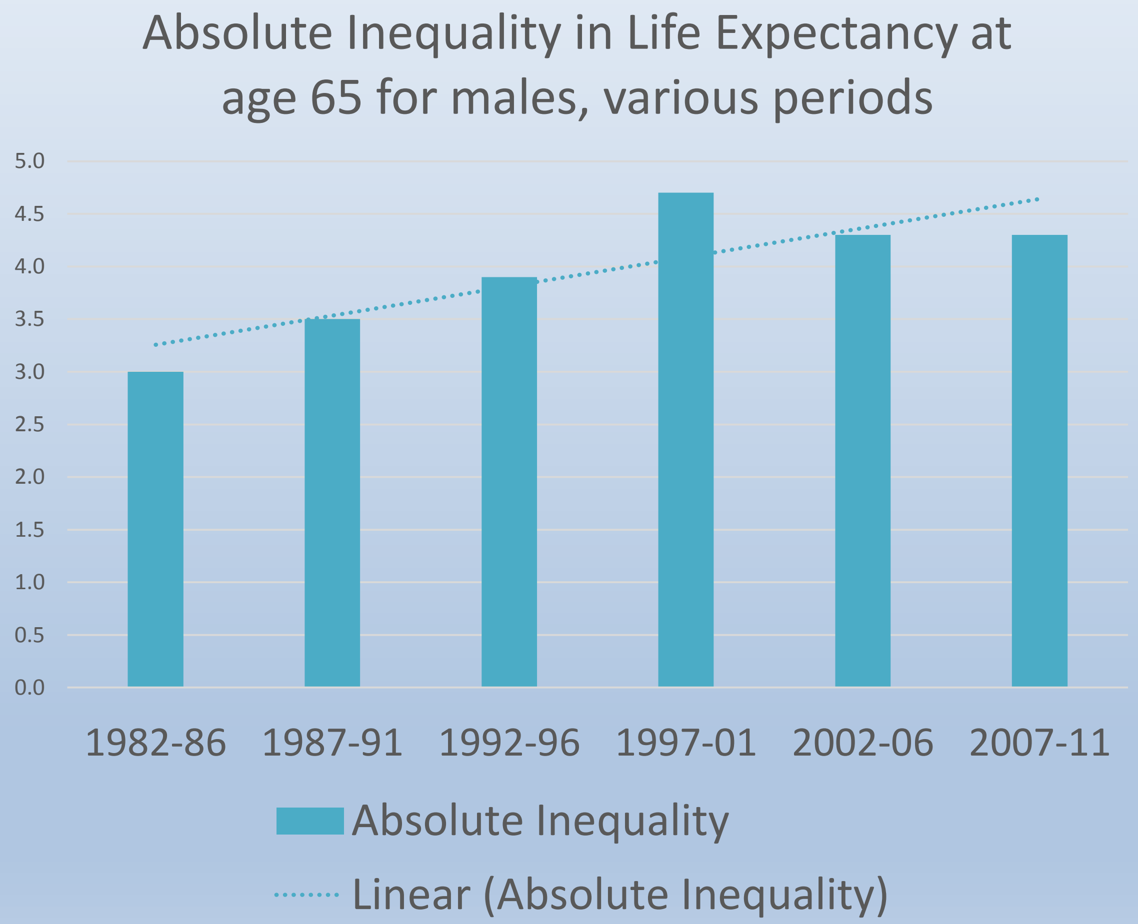
Live longer – work longer?

Social class differences in LE, Males, at 65 years



England and Wales						
Males at age 65	1982-86	1987-91	1992-96	1997-01	2002-06	2007-11
Relative Rank	LE	LE	LE	LE	LE	LE
Least advantaged	12.3	12.6	13.2	13.7	14.8	16.1
Most advantaged	15.3	16.1	17.1	18.5	19.2	20.5
Absolute Inequality	**3.0**	**3.5**	**3.9**	**4.7**	**4.3**	**4.3**

(see ONS 2015 longitudinal study)

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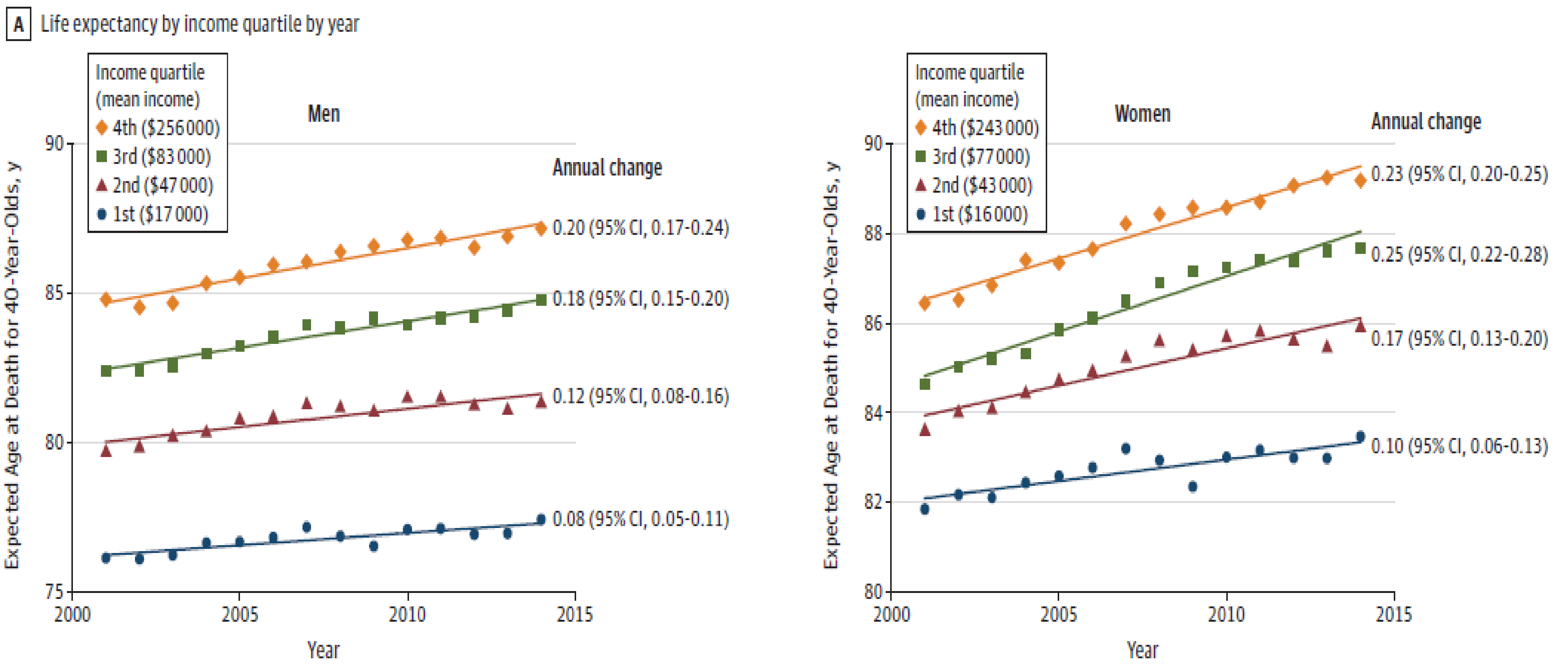
Live longer – work longer?

life expectancy differences by income quartile in the USA for 40 year old males and females (Chetty et al. 2017)



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Social class implies major differences in life expectancy, at birth and at 65 years

- Later retirement may be more preferable to occupational groups in the medium and higher managerial and professional groups, who can expect to enjoy greater longevity
  - Ballpark 5 more years (20 years as compared to 15 years)
- Fixed, higher retirement age implies that people from routine clerical and manual occupations will face a shorter life expectancy at 65
  - by as much as four years for males, assuming they reach 65 (which also has a lower probability, given the 6 to 7 year difference in life expectancy at birth for males)
- The data for females are only slightly less unequal

3. What is wrong with the current approach?

- The new policy is all stick and no carrot.
- Disincentive to work: Jobseekers benefit is subject to withdrawal per day worked, it is a disincentive to employment
- No flexibility of pension age: The pension age is set rigidly for all, without provision for either deferral or partial retirement

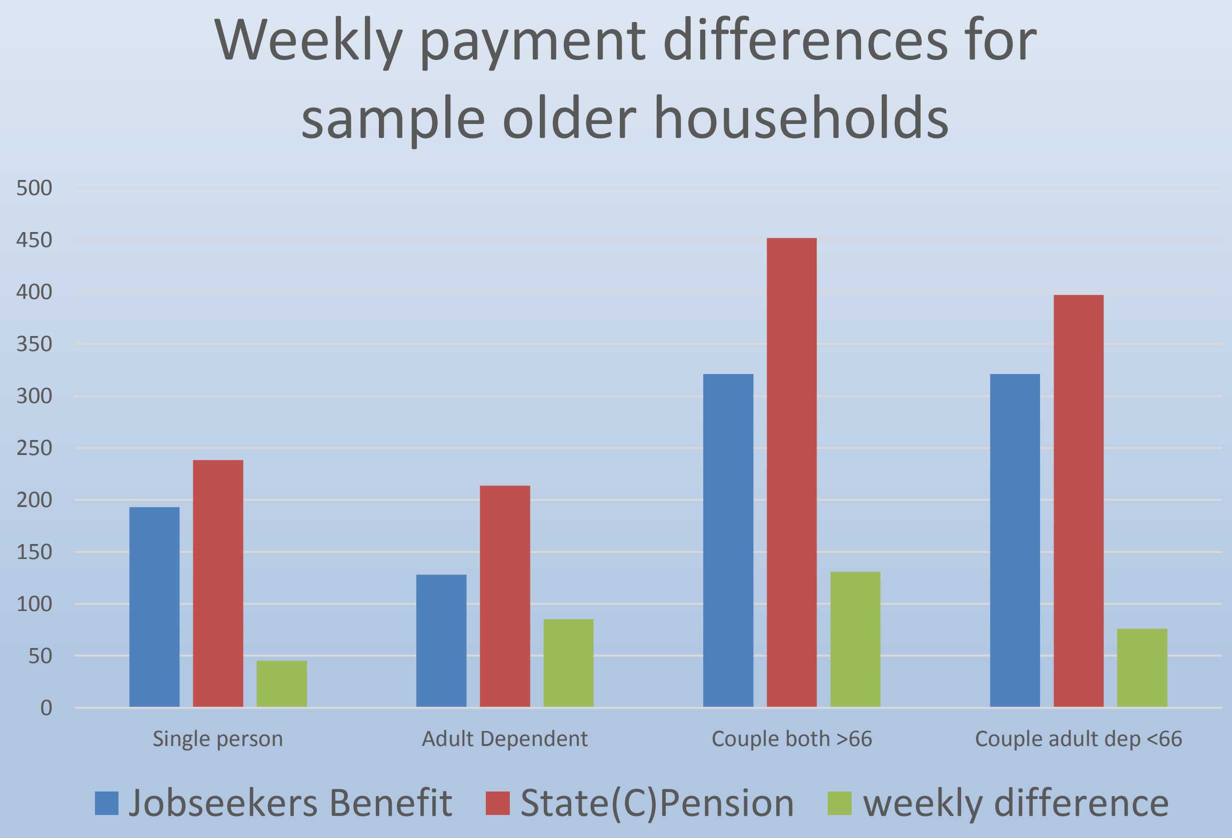
3. What is wrong with the current approach?

- Poverty risk:
- Income is substantially below pension even though finding paid work may be very difficult
- This will increase the poverty rate among older people

SW Benefit	Single person (€)	Adult Dependent (€)	Couple both >66 (€)	Couple adult dep <66 (€)
Jobseekers Benefit	193	128.1	321.1	321.1
State (C) Pension	238.3	213.5	451.8	397.1
weekly difference	45.3	85.4	130.7	76
Annual difference	**2,356**	**4,441**	**6,796**	**3,952**

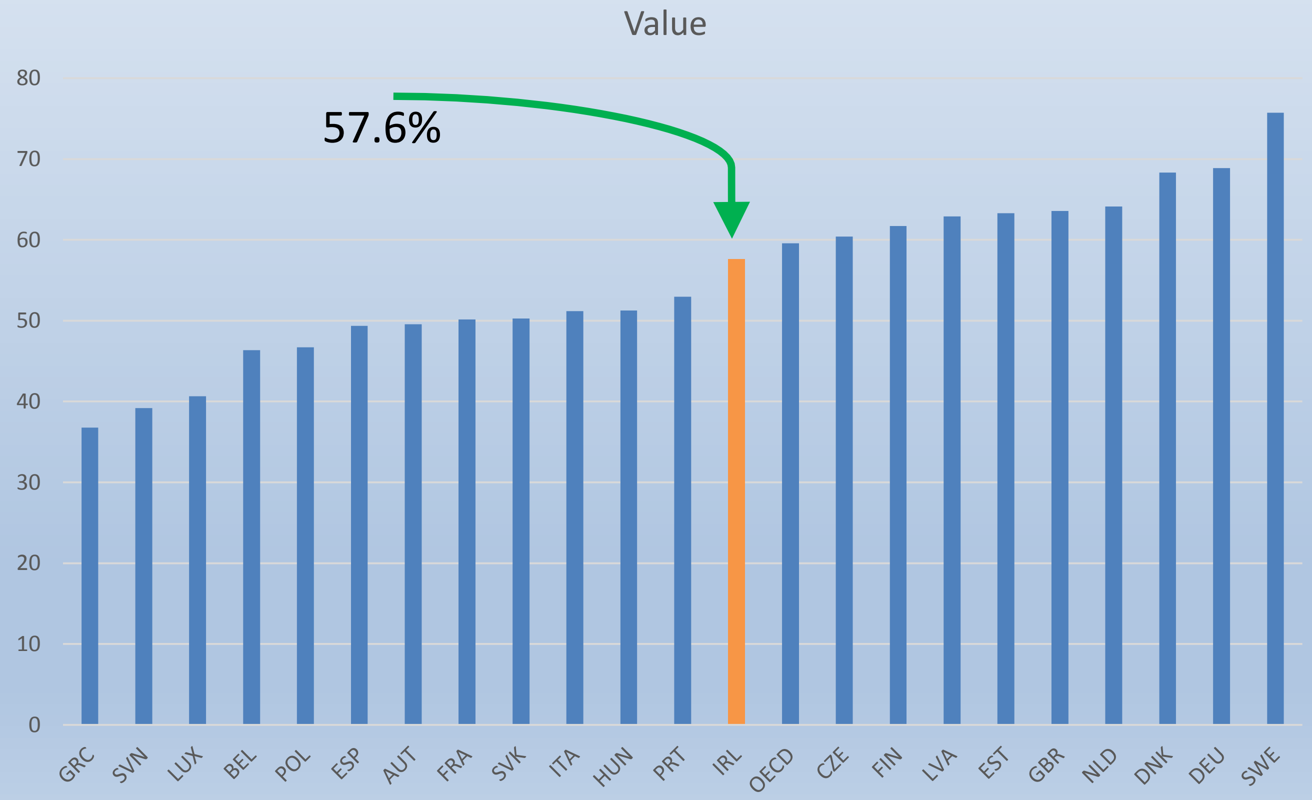
3. What is wrong with the current approach?

- Poverty risk:
- Income from Jobseekers Benefit is substantially below state pension
- This will increase the poverty rate among older people
- Finding paid work may be very difficult – and the JB clawback may be counter-productive



4. Will it contribute to people working longer?

Employment rate by age group 55-64 year-olds, % in same age group, Q4 2016



- **Difficult to separate cause and effect**
- Irish employment rate at 55-64 years (58%) in 2016
- Up 10 points on 2001
- Increased female employment is a factor
- This is a larger source of employment growth than the over 65s

5. How will it affect people?

- **We don't know what has been the *experience of people* in the gap year so far but we should be finding out**
- Their status is confused
  - In theory they are seeking work but not required to comply with DSP "activation" regime and not be liable for sanctions such as temporary withdrawal of benefit
  - In time, we do not know whether this exemption will be removed
- Psychologically, there may be issues related to being labelled unemployed for 1-3 years
- The withdrawal of JB for each day means that in the gap year(s) there is less incentive to take up employment than when pension age is reached
  - It will probably discourage part time employment
- Early exit from labour force due to disability means that many simply will not be able to work after 65: is it fair to cut their pension?

Implications of ageing for working longer & retirement

- Ageing is not a homogeneous experience
- Living longer may mean being healthy for longer – but not for all
  - Women live longer than men but have more chronic conditions
- Some people <u>are</u> able to work longer, but they <u>may not need</u> to do so
  - Due to having personal of occupational pension arrangements or control of their opportunities to do suitable work
- Some people <u>need</u> to work longer for financial reasons, but <u>may not be able</u> to do so
  - Due to disability unavailability of suitable work

But Ireland scores poorly on sustainability

- Sustainability sub index in Melbourne Mercer includes
- more than demographic data
- Incudes coverage of mandatory retirement
- Includes government debt

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Could it become a political banana skin?

- Possibly, older people are high turnout voters
- Mobilisations by older people on the Medical Card took place in 2010
- It will take time but as more older people experience this policy they may be influenced
- There is some working age / trade union support for reform

Other social class dimensions

- Ability to work past 65 years is related to occupational class
- Ability to afford earlier retirement is related to earnings - lower income groups tend not to have private/occupational pensions
- The thinking in the Green Paper of 2007 could be revisited

Inequalities in life expectancy are widening

- Differences between life expectancy of women and men are known
- But there are increasing differences in life expectancy between income & occupational class groups (US and UK evidence)