# Mind the Gap!
# The divergence between age of retirement and age of entitlement in Ireland

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# Introduction

- Describes the changes being implemented in the state pension schemes,
- Asks what the circumstances were for the introduction of and the rationale for the changes.
- Sets out critical questions about the changes and suggestions in addressing the ‘disconnect’ in current policy.

# The changes

- January 2014, the transitional State pension – paid to those aged between 65 and 66 – ceased to exist,
- State pension qualification age are due to increase to 67 years in 2021 and to 68 years in 2028 (sections 6 and 7 of the *Social Welfare and Pensions Act 2011)*
- http://www.irishstatutebook.ie/eli/2011/act/9/enacted/en/pdf

# Origin of the changes

- Changes were agreed with the “Troika” (Dec 2010)
- The Troika acknowledged earlier 2010 the National Pension Framework (NPF)
- NPF mentioned the Green Paper consultation and McCarthy Group (2009) and the Commission on Taxation (2009)
- McCarthy:
  - “…an increase in the retirement age for all State pension schemes will have to be considered as an element of any policy proposals to address these problems…

# Rationale for the changes – critical exploration

- Shift in rhetoric from pre 2007 – Ireland's demographic dividend (*Green Paper on Pensions; NPPI, etc.)*
- The 2009-10 rhetoric centred on a demographic crisis and long term pension sustainability
- Real concern was the crisis of the public finances stemming from the financial crash of 2008

# Background – Irelands pension model

- Basic Beveridge model
- Rejection of SERPS in late 1970s
- Focus of state pension on poverty prevention
- Supplementary pension, via private schemes, supported  by tax relief
- Makes for sustainability
- Key issues adequacy, equity

# McCarthy (2009)

- “The Group considers that the State pension schemes now face a <u>funding crisis</u>. This is mirrored by <u>similar problems</u> in private sector schemes. The funding crisis is driven <u>in large part</u> by the <u>sharp rise</u> in longevity. <u>Poor investment returns</u> have also contributed to the problem. Changes in the demographic profile mean that <u>fewer workers are supporting</u> the payments for a growing number of pensioners.”

# Errors in the rhetoric

- no specific “funding” crisis in relation to the state pension
- Public pension challenge not similar to the crisis in private sector funding
- not true that “the funding crisis is driven in large part by the sharp rise in longevity.”
- nor that “fewer workers are supporting the payments for a growing number of pensioners”

# Trends favouring sustainability

- labour force participation rates in Ireland since the early 1990s mitigate crude age-dependency
- Increasing LFPR among women, among older “working age” groups, and among more highly educated cohorts, associated with increasing earnings
- sustainability of state – PAYG – pension expenditure hinges on the rise employment ratio, and rising productivity, or GDP per capita

# Misstating where the crisis is

- (McCarthy) overstates ageing and understates fiscal and redistributive issues
- Wrongly claims of sharp rise in longevity
- Ignores defining factors sharp fall in employment & rise in unemployment
- Criticises increase in basic pension rate 2001-2010
- plays down poverty – refers to “perceived problem of poverty”

# Effect of state pension changes

- Cut in weekly rate at age 65 years to JB/JA rate (€42 p/w)
- Policy will hit lower paid who rely more on state pension
- Changes to pension age are not changes to retirement age
- Voluntarism emphasised in employer behaviour
- Employees to retire, then seek employnment elsewhere

# Union demand and political response

- Beginning to register on radar of unions, who seek restoration of the difference if no offer of later retirement
- Acknowledgement of disconnect by Minister Howlin in November 2015

# Addressing the issue

- Ireland has higher average retirement age & higher LFPR participation rate in 55-64 age group
- Need to address flexible retirement and later retirement directly
- Economic dynamics and labour market patterns are interconnected with demographic changes
- Equity and social inclusion are interconnected with sustainability issues
- One size does not fit all – option to retire early or late is unequally available or feasible
- Labour market exit related to illness, home duties and caring

# Mechanism for making changes

- The best solution for a medium and long term approach to this societal challenge is not easy to come by.
- Time to re-examine assumptions and consider more carefully the best steps towards genuine improvements and higher labour force participation and later exit
- This time, bring together the relevant stakeholders in state and civil society
- take into account all the evidence relating to factors contributing to age of retirement and how best to facilitate and incentivise later exit from the labour market.
- A wider array of actions and modalities needs to be considered across regulatory, fiscal, contractual, welfare and health domains.