



OECD review of Pensions in Ireland

PART 1

Assessment and evaluation

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Background to the Review

- An international perspective
- Evaluation and assessment presented at Farmleigh in September
- Part II on recommendations at the end of the year
- Key elements of the terms of reference:
 - long-term policy
 - taking account of existing debate: pensions *Green Paper, National Pensions Framework*
 - taking account of economic developments since these were published





Agenda

- Financial sustainability
 - definition; national and international evidence
- Adequacy of retirement incomes
 - current and prospective future situation
 - different analytical tools: system parameters, income-distribution data, simulations
- Coverage
 - how to enhance coverage of private pensions
- Modernity
 - longer working lives





Financial sustainability





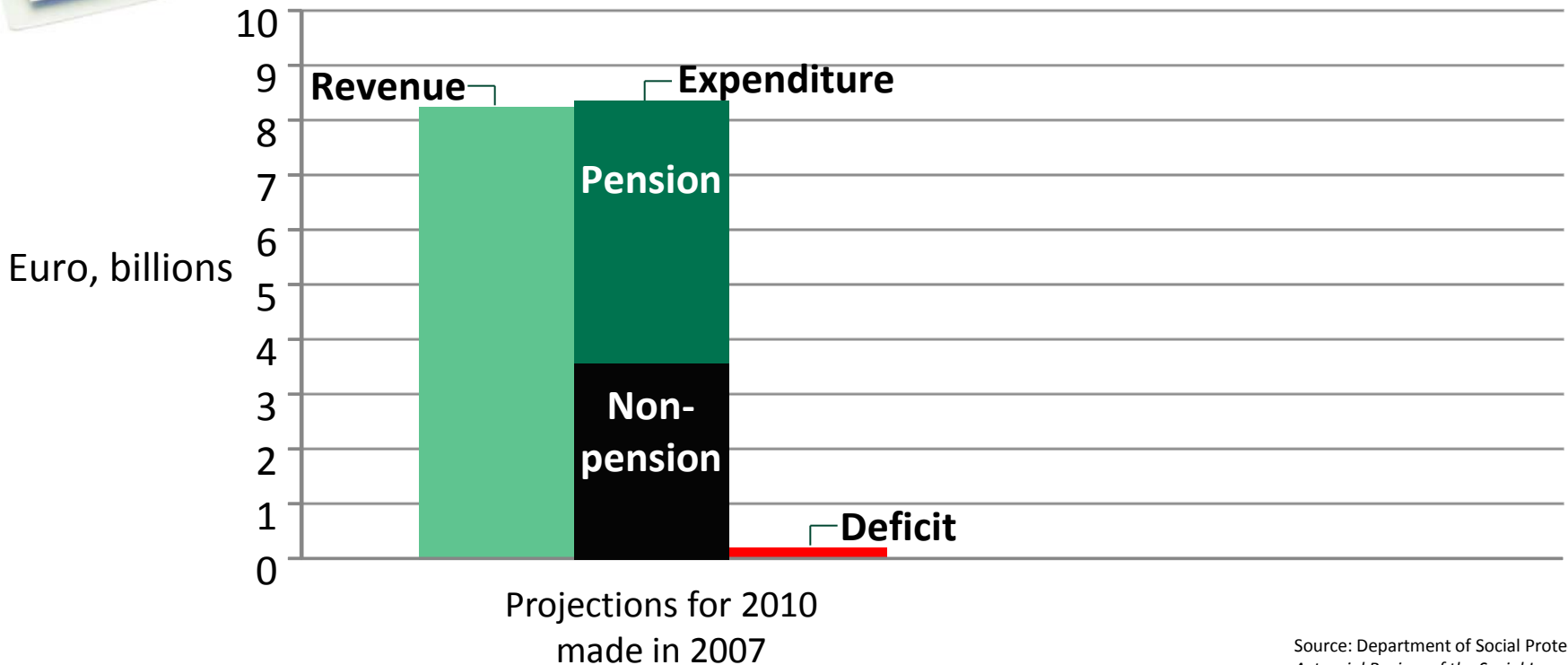
What is sustainable?

- Pensions are a long-term commitment
 - promises to pay benefits span many decades
- Capacity to meet these promises is important
- What is sustainable varies between countries
- Two main concepts:
 - pay-as-you-go equilibrium: balance in short periods
 - actuarial equilibrium: balance over the long term





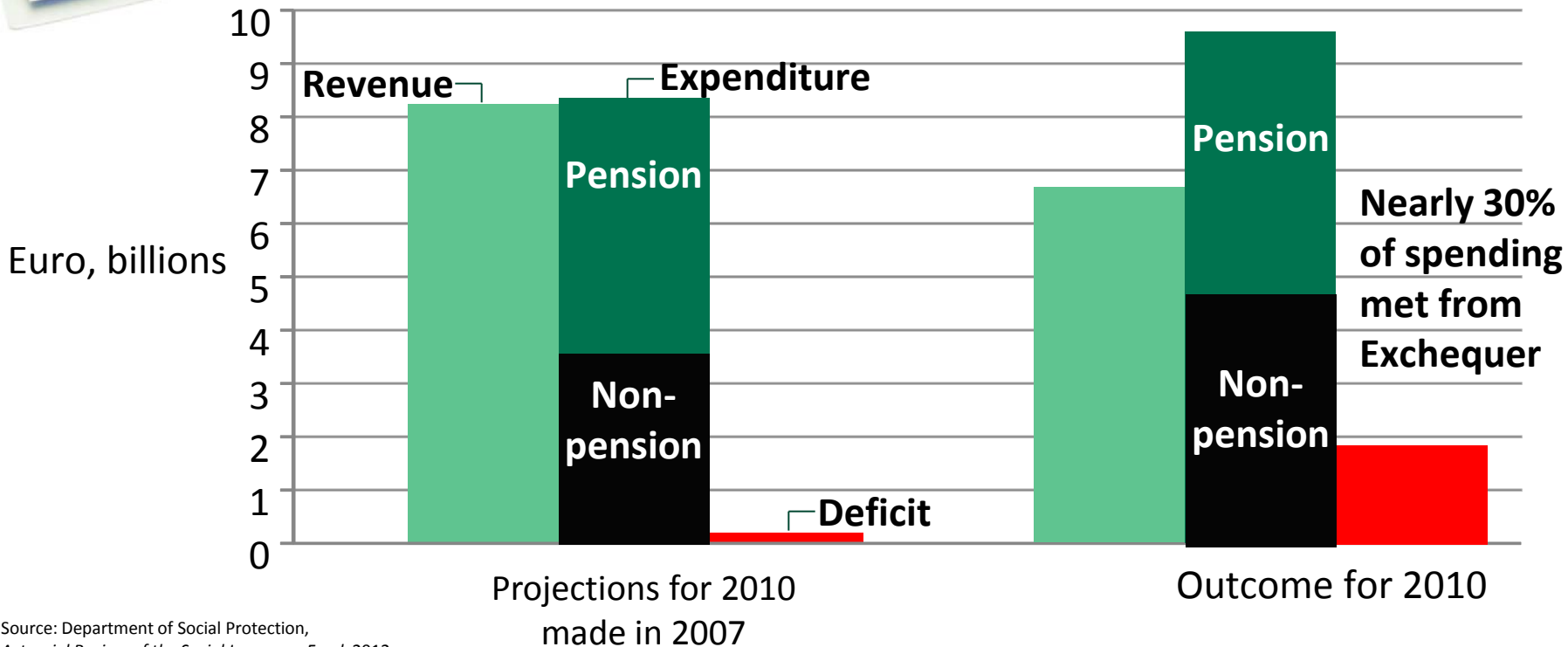
Recent developments



Source: Department of Social Protection, Actuarial Review of the Social Insurance Fund, 2012



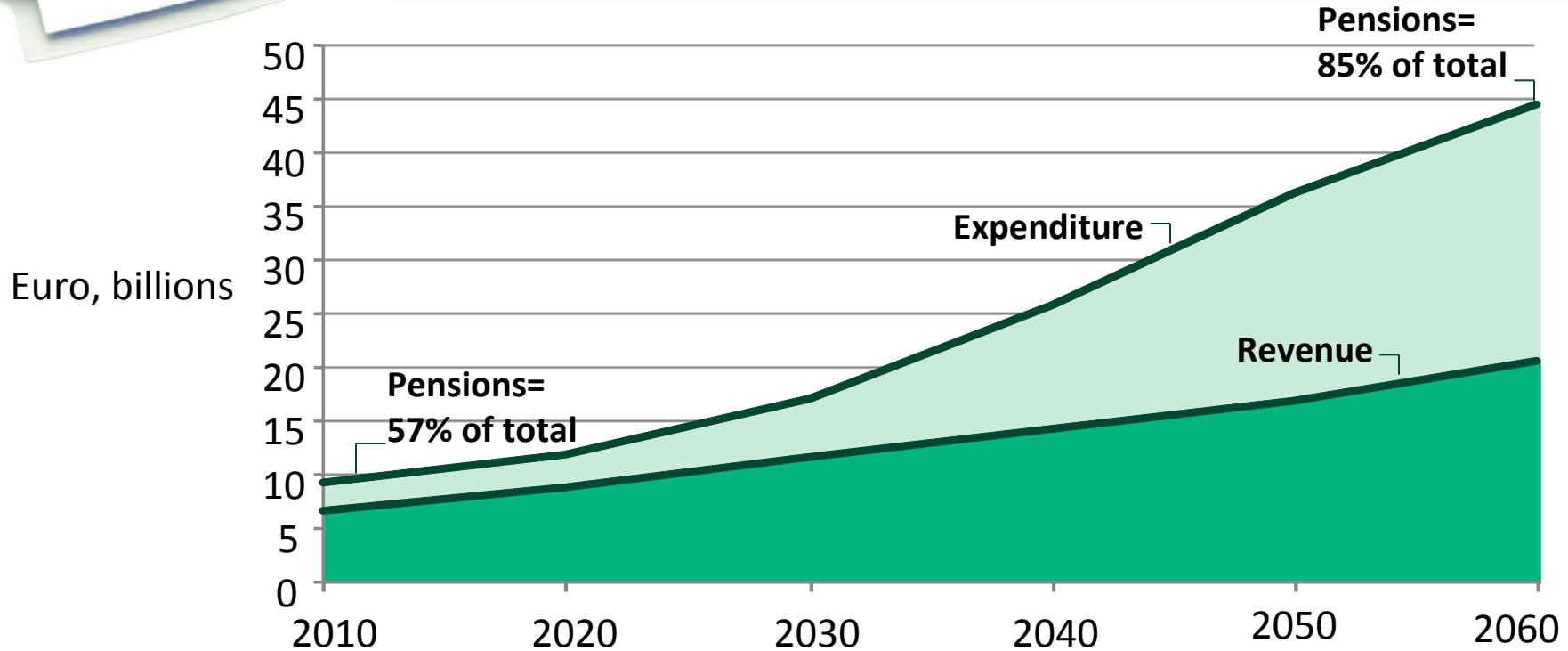
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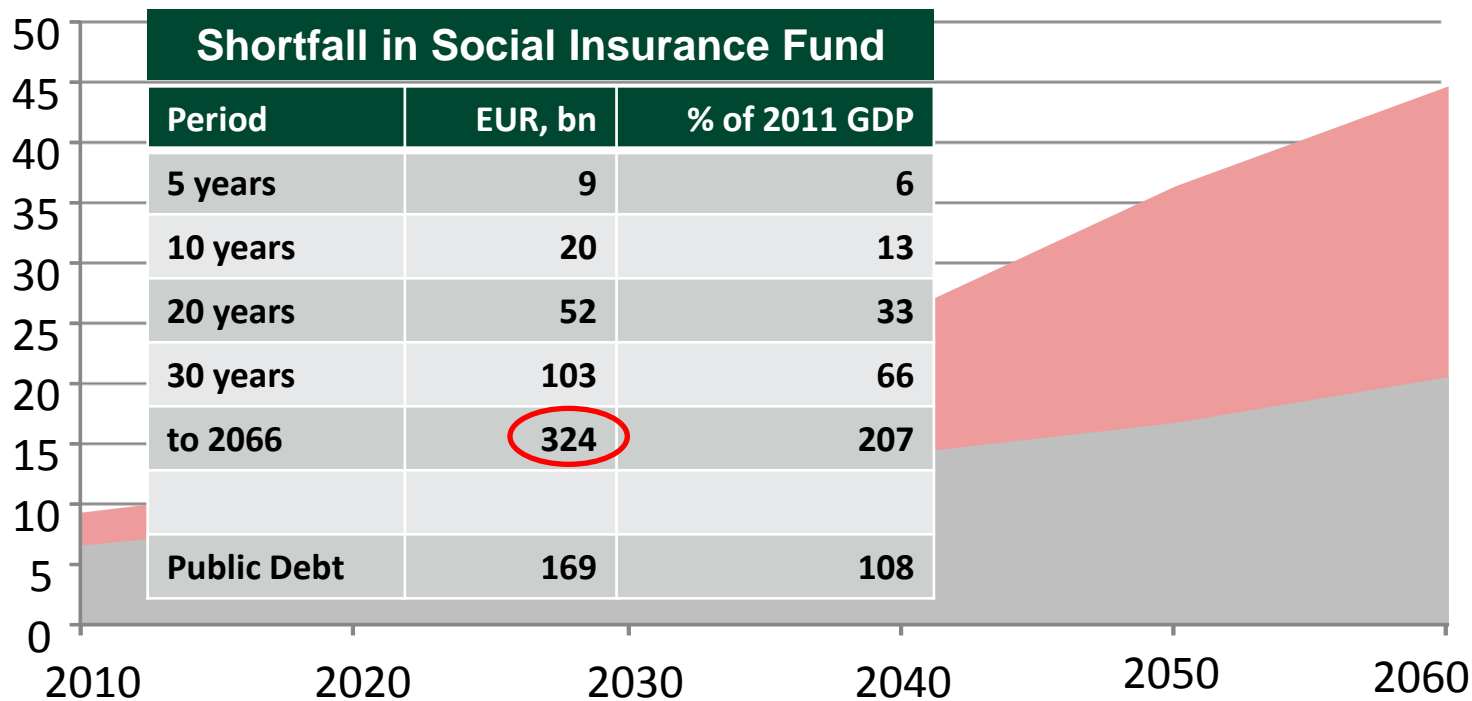
Long-term finances



Source: Department of Social Protection, *Actuarial Review of the Social Insurance Fund, 2012*



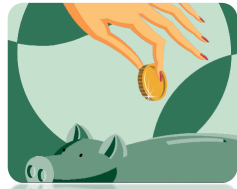
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Source: Department of Social Protection, *Actuarial Review of the Social Insurance Fund, 2012*

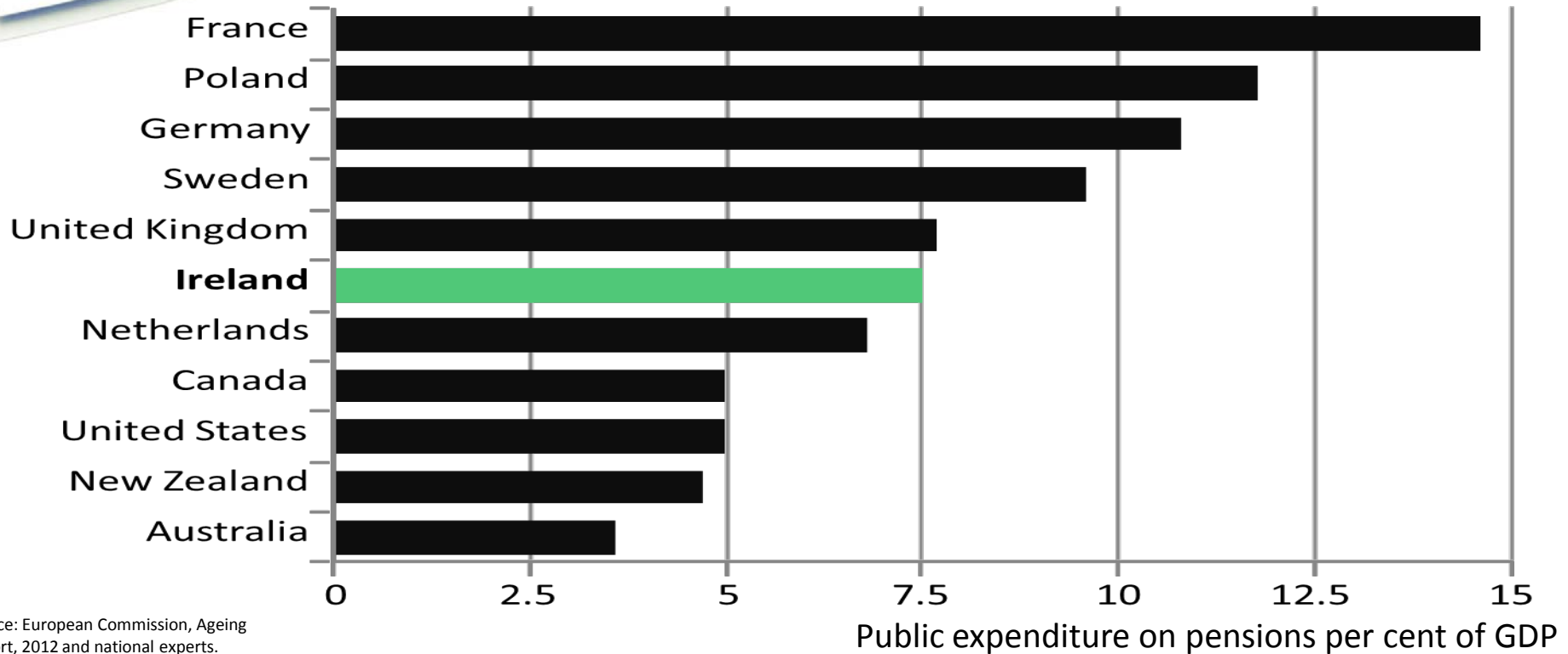


Financial sustainability: International perspective





International comparisons: 2010

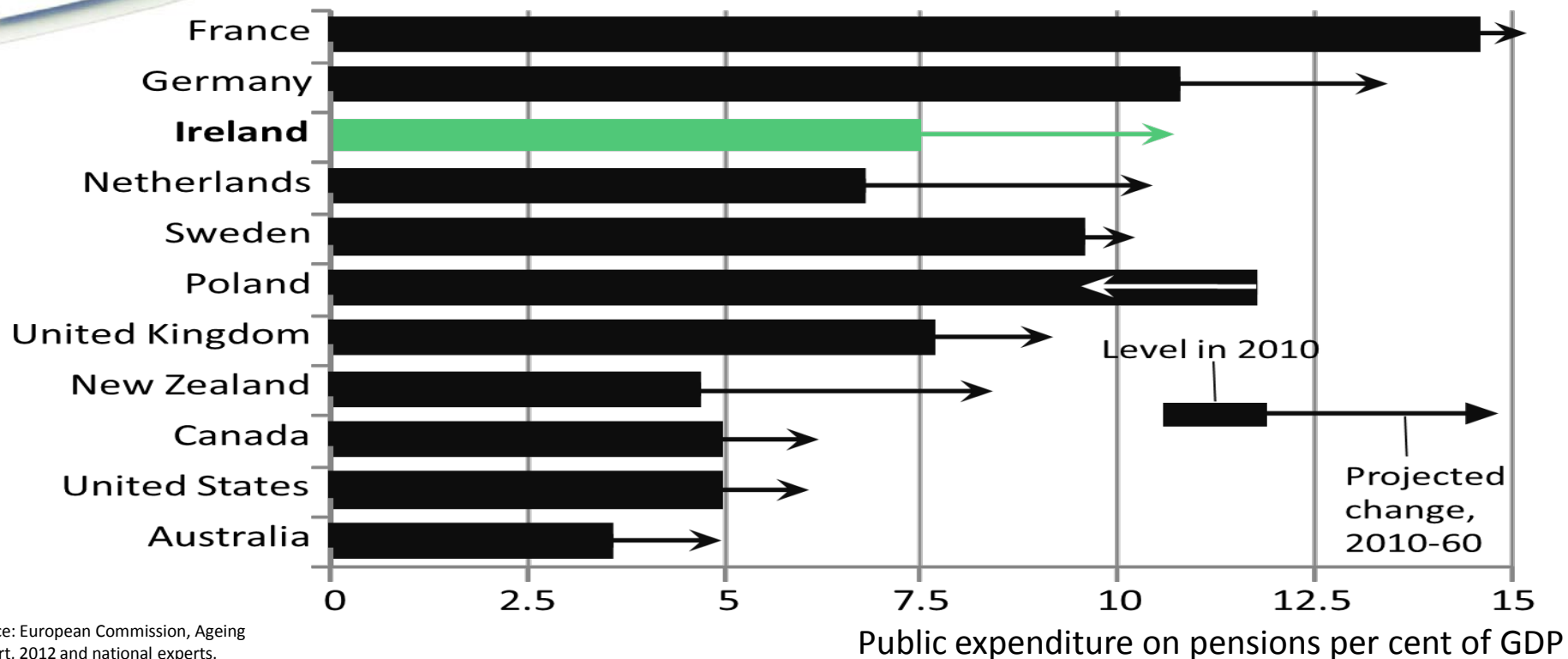


Source: European Commission, Ageing Report, 2012 and national experts.

Public expenditure on pensions per cent of GDP



International comparisons: 2010 - 60



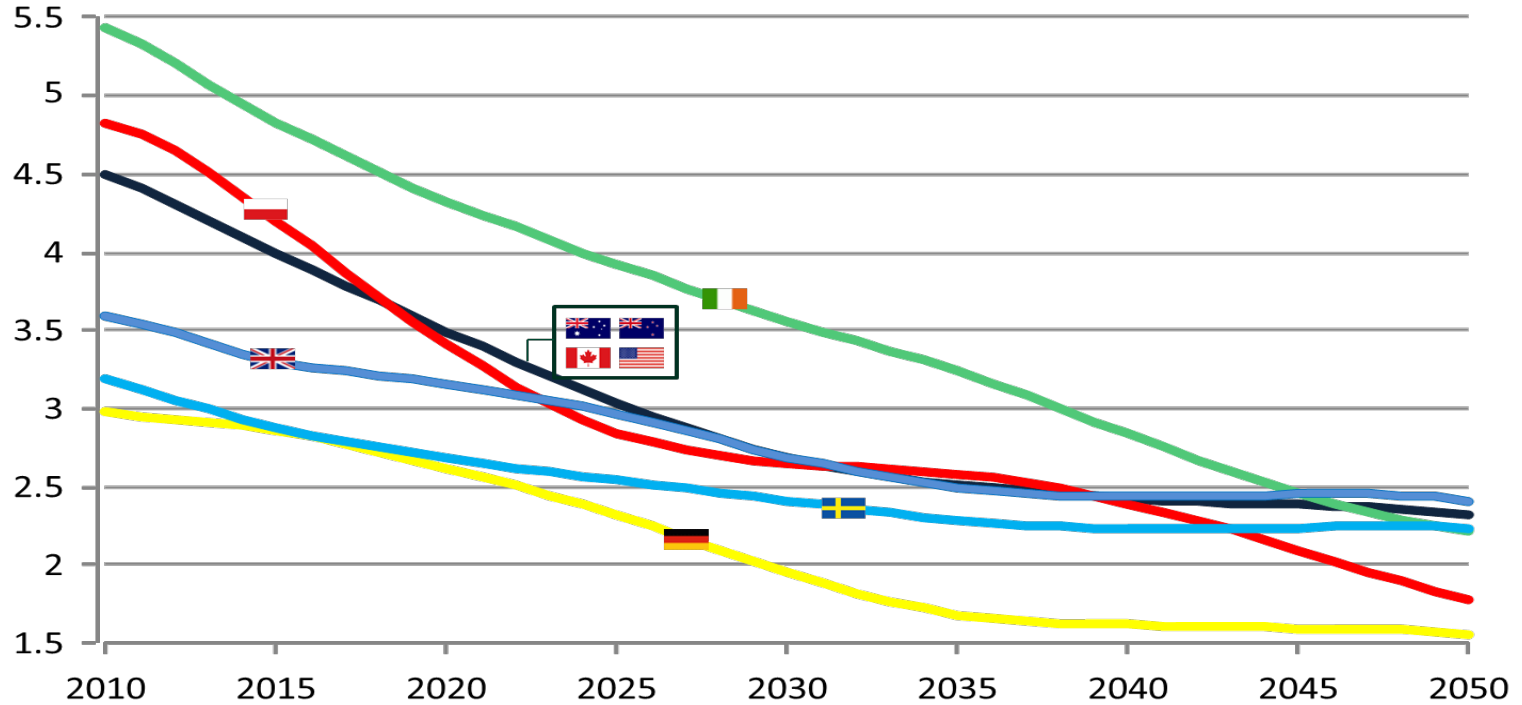
Source: European Commission, Ageing Report, 2012 and national experts.

Public expenditure on pensions per cent of GDP



Demographic developments

People of working age/
people of pension age



Source: OECD, *Pensions at a Glance*, 2011 and European Commission, *Ageing Report*, 2012.



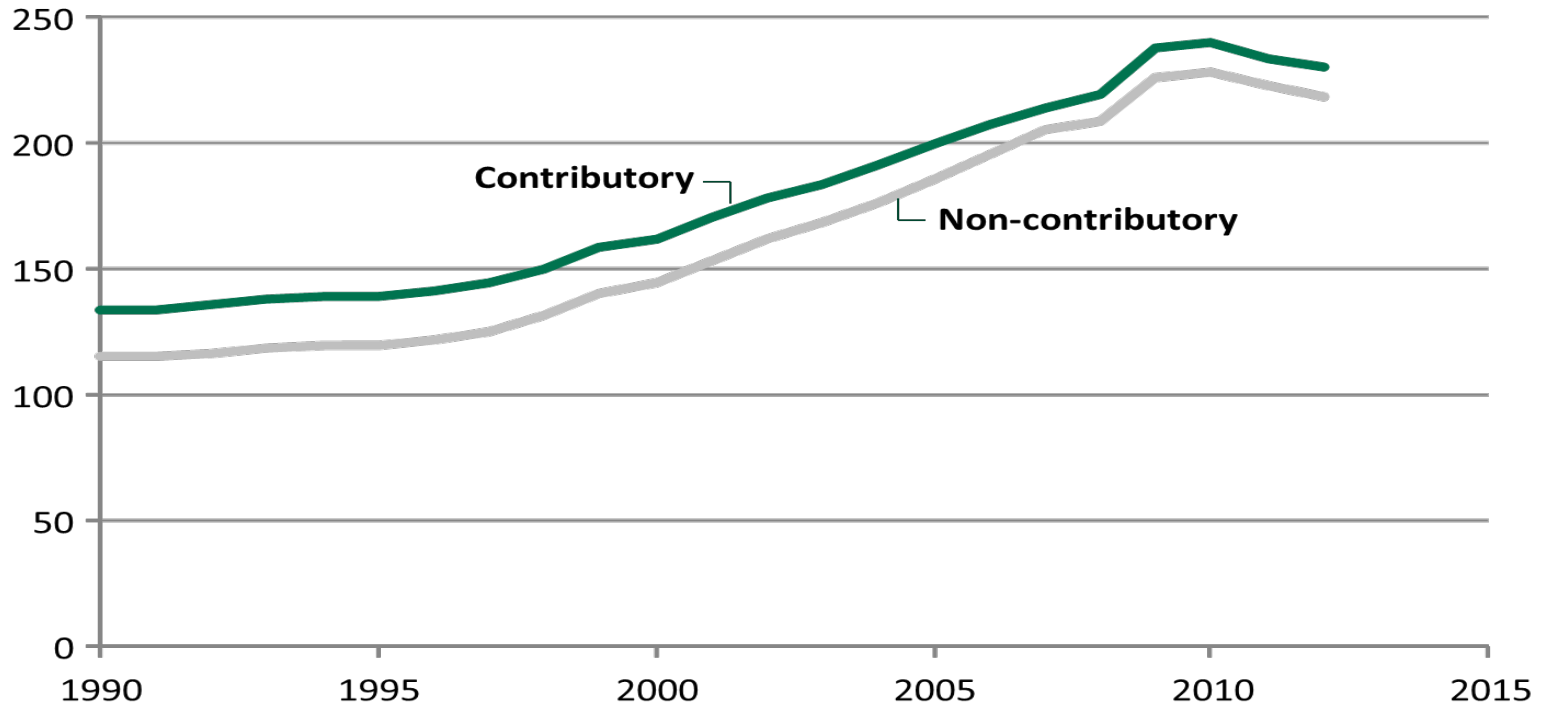
Adequacy





Real value of state pension

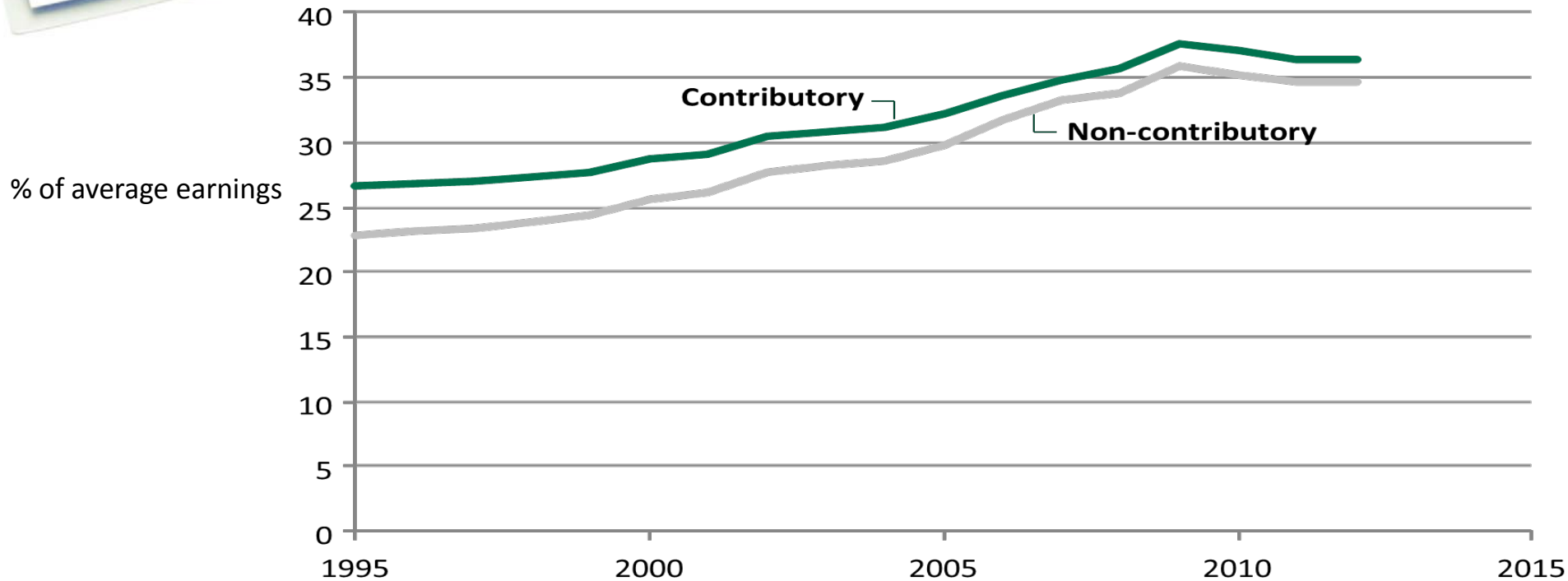
Euro per week,
2011 prices



Source: OECD calculations based on data from Department of Social Protection and Central Statistics Office.



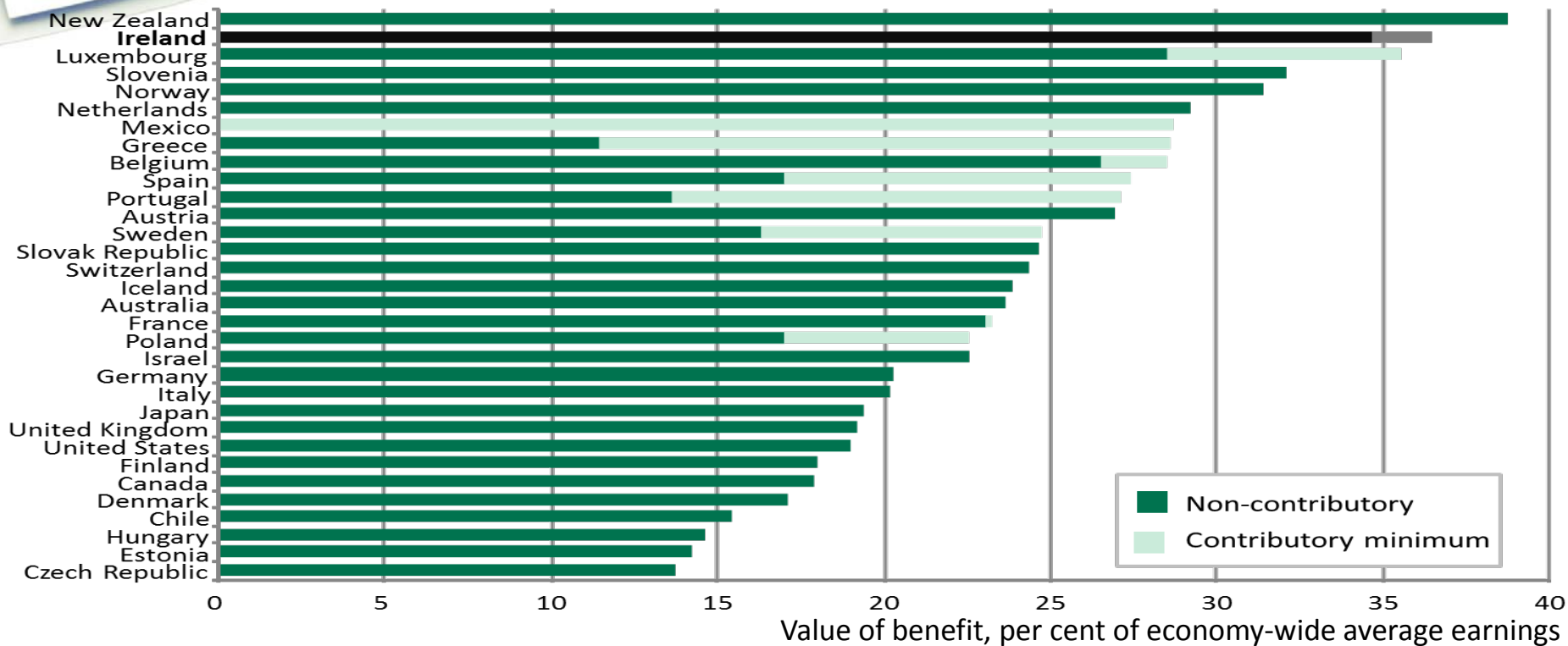
State pension relative to earnings



Source: OECD calculations based on data from Department of Social Protection and Central Statistics Office.

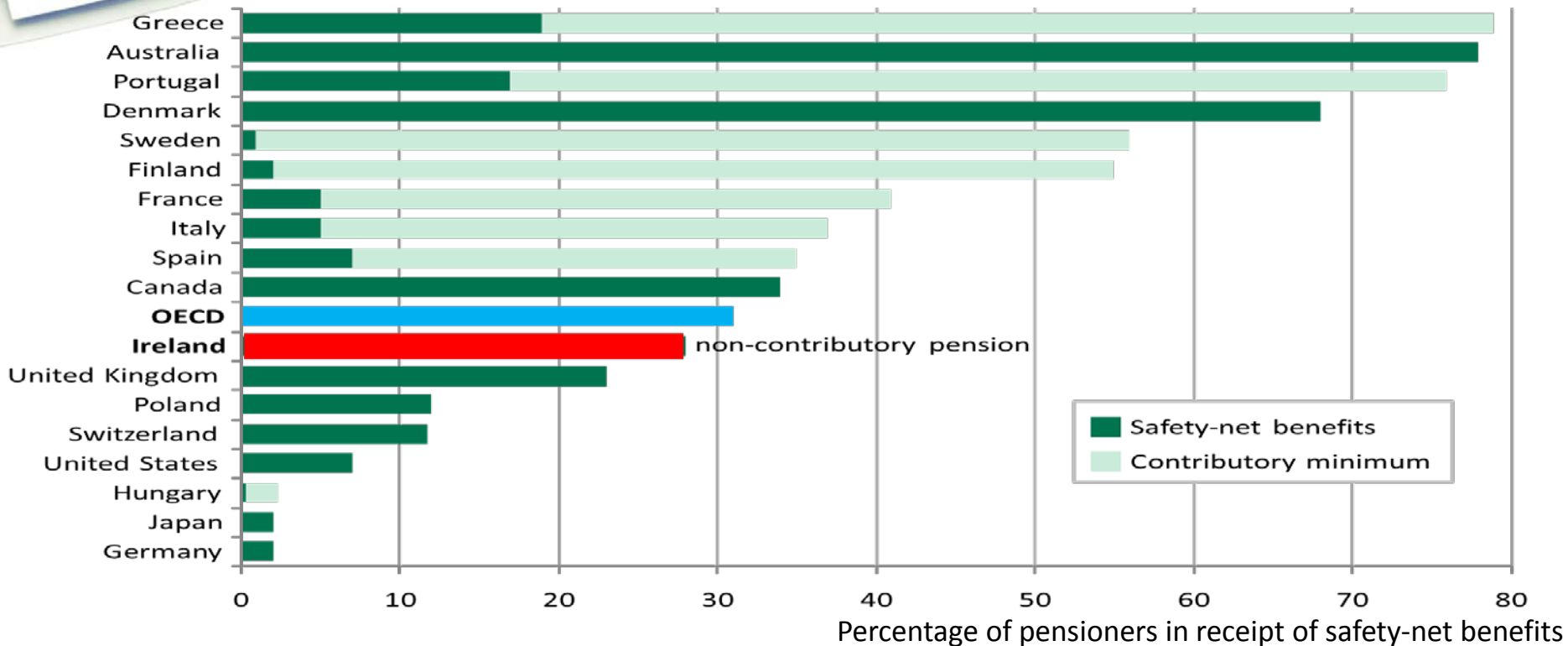


International comparisons





Safety-net benefits: reciprocity





State pension receipt in Ireland

Percentage of full value	Percentage of new retirees today	Percentage of new retirees in 2020
100%	50%	46%
90-100%	30%	6%
33-90%	6%	28%
0	14%	20%



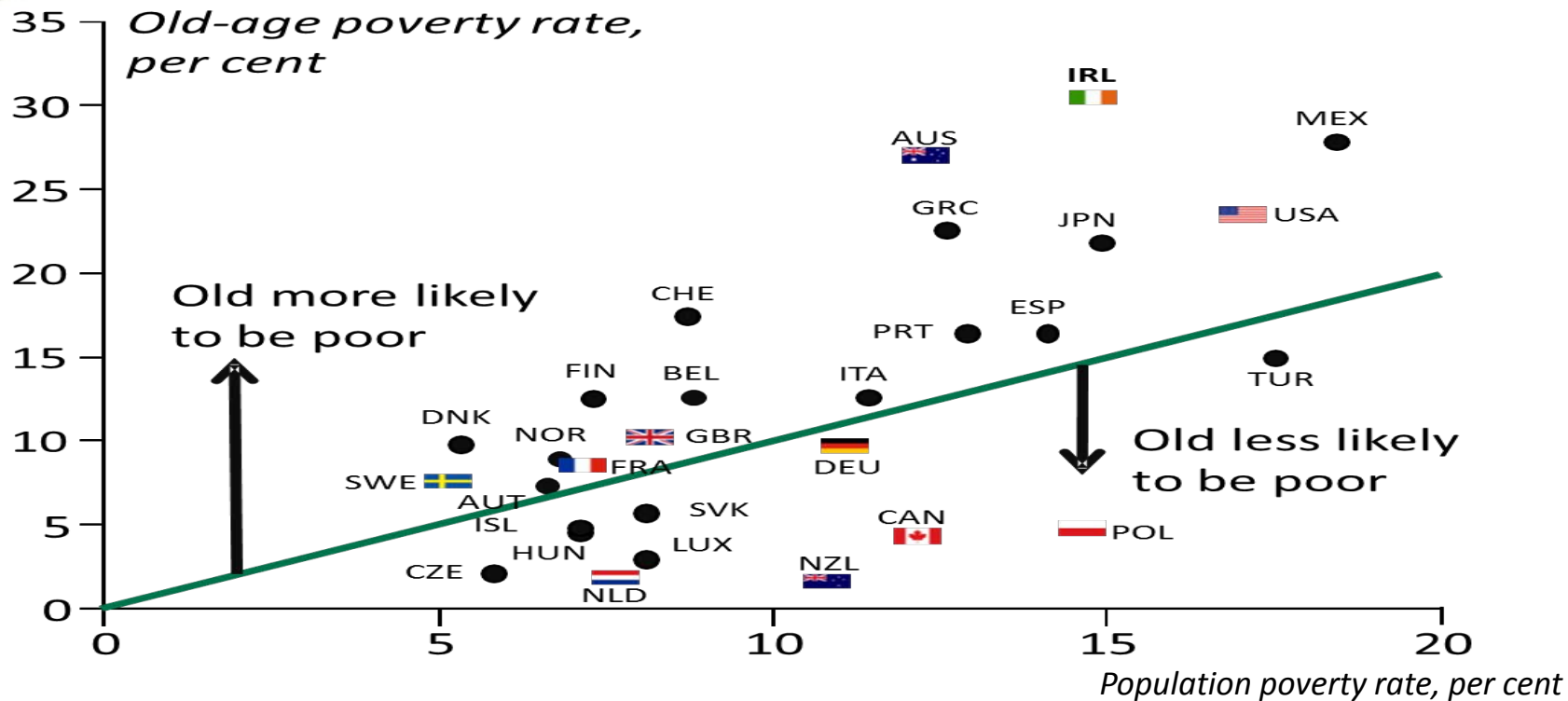


Adequacy: Income-distribution data

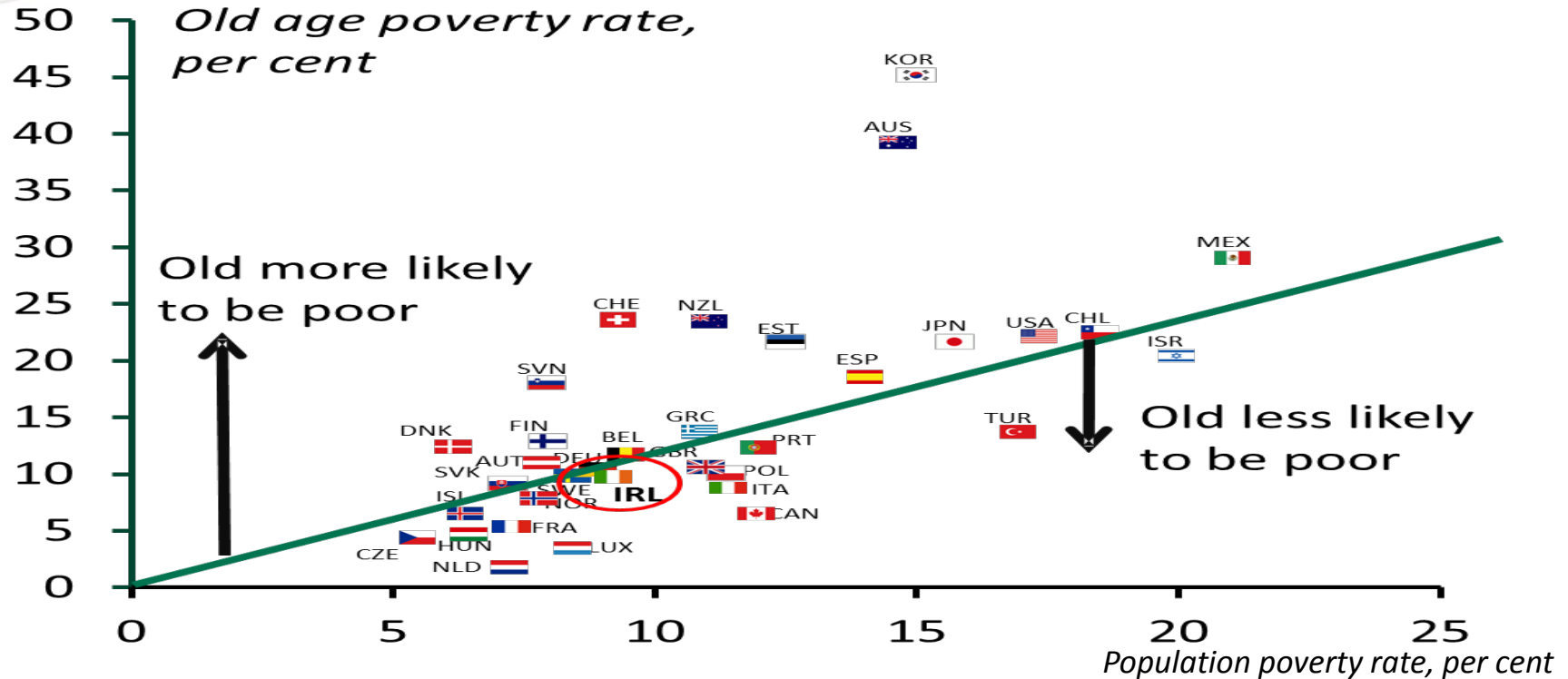




Income poverty mid-2000s



Income poverty late-2000s



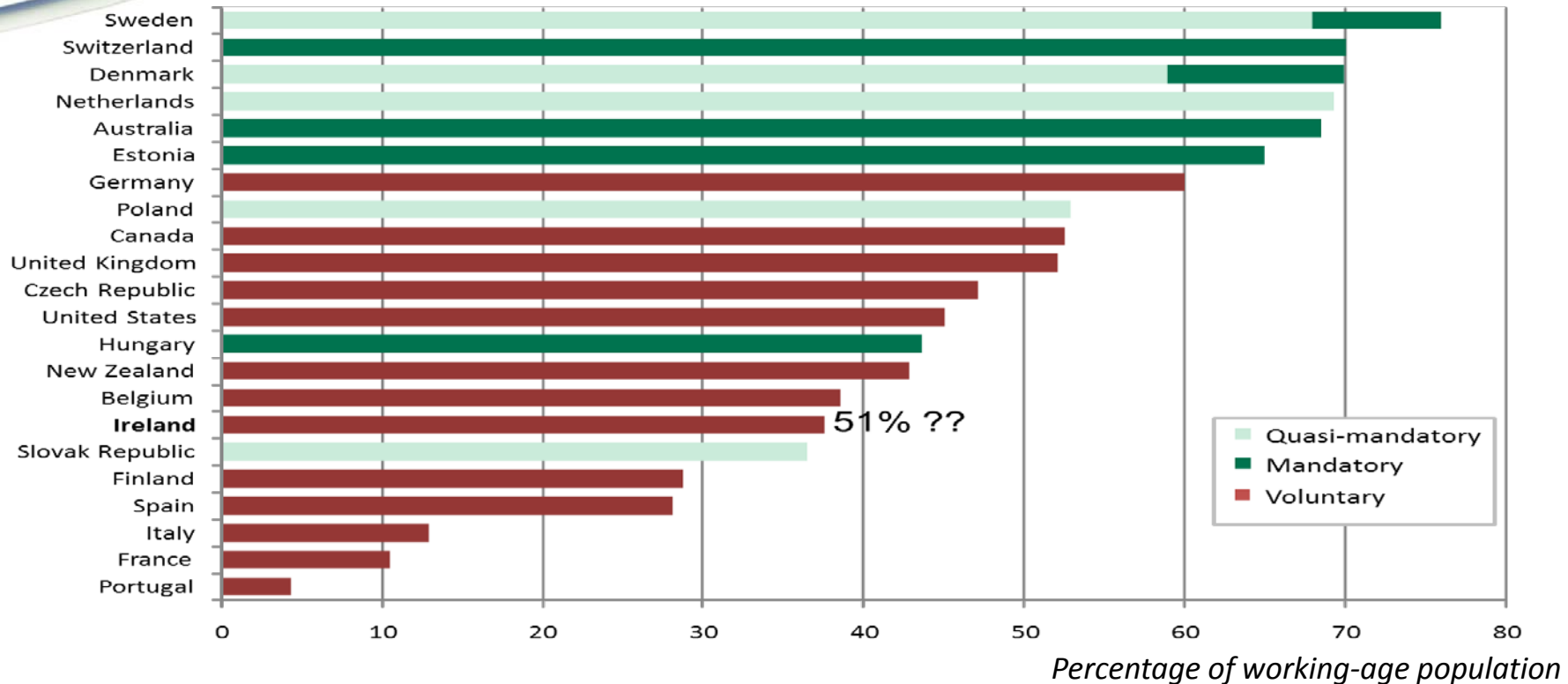


Adequacy and coverage of private pensions





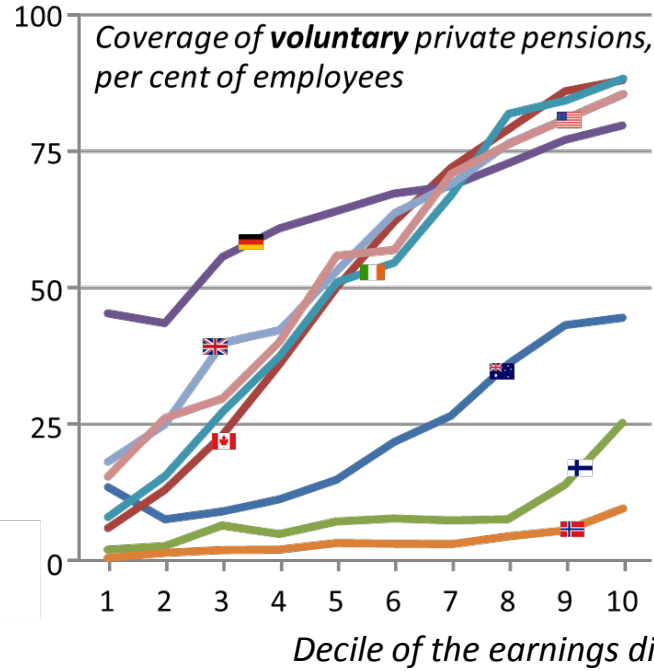
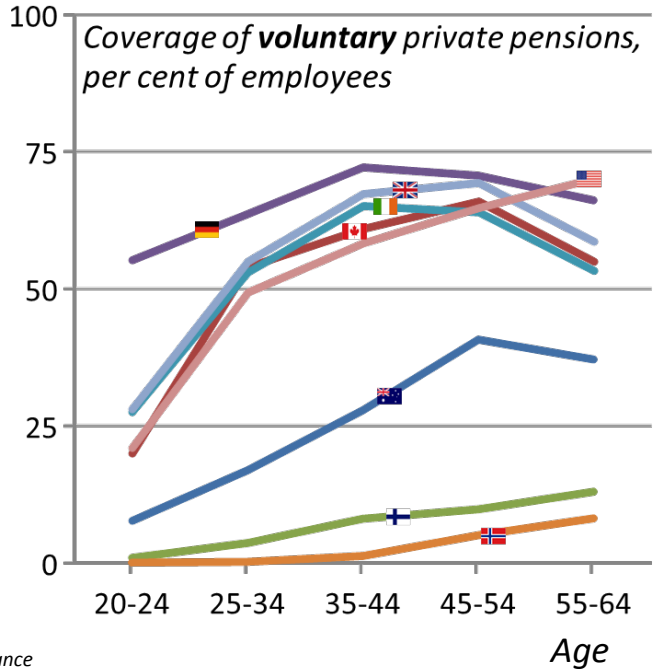
Coverage of private pensions



Percentage of working-age population



Coverage patterns



Source: OECD Pensions at a Glance



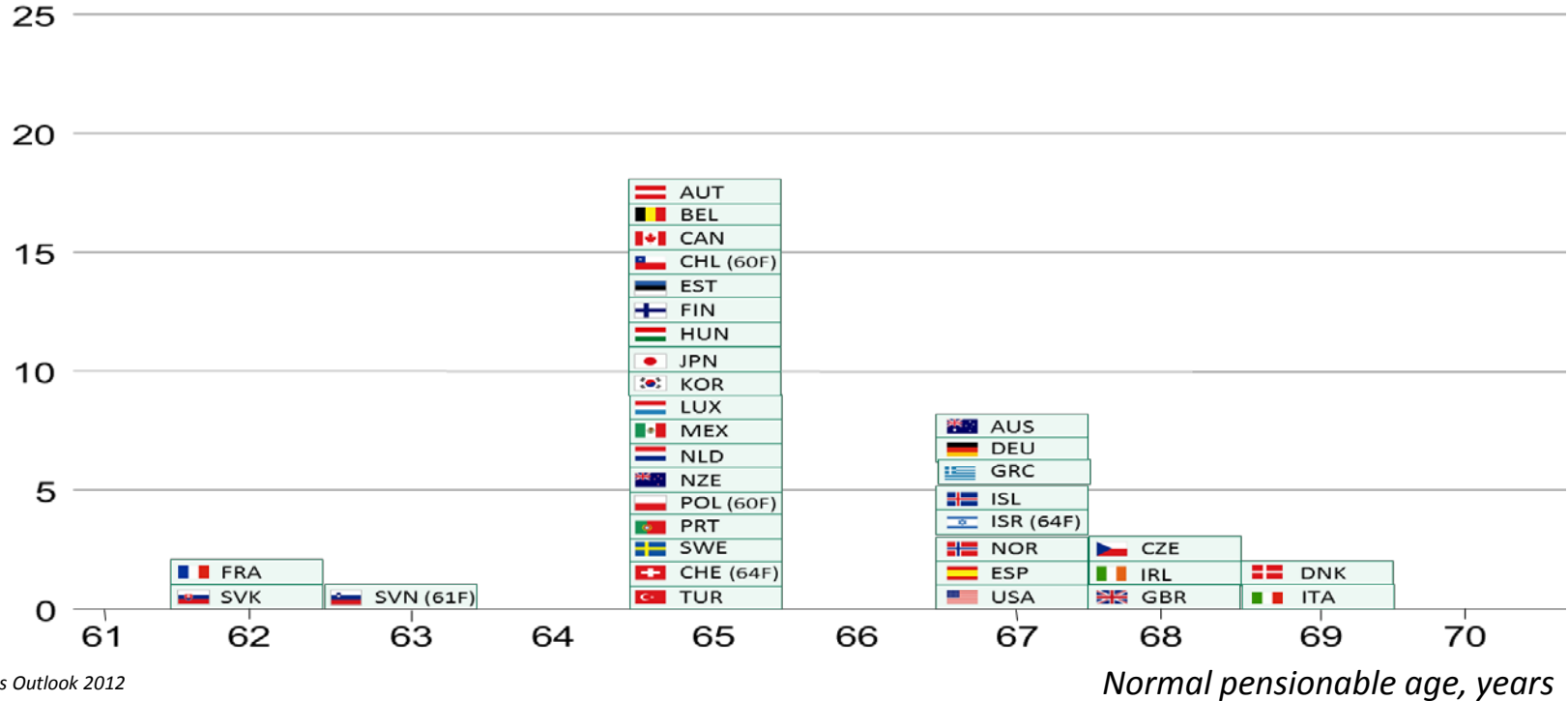
Modernity: Delivering longer working lives





Normal pension age: long-term rules

Number of OECD-34 countries

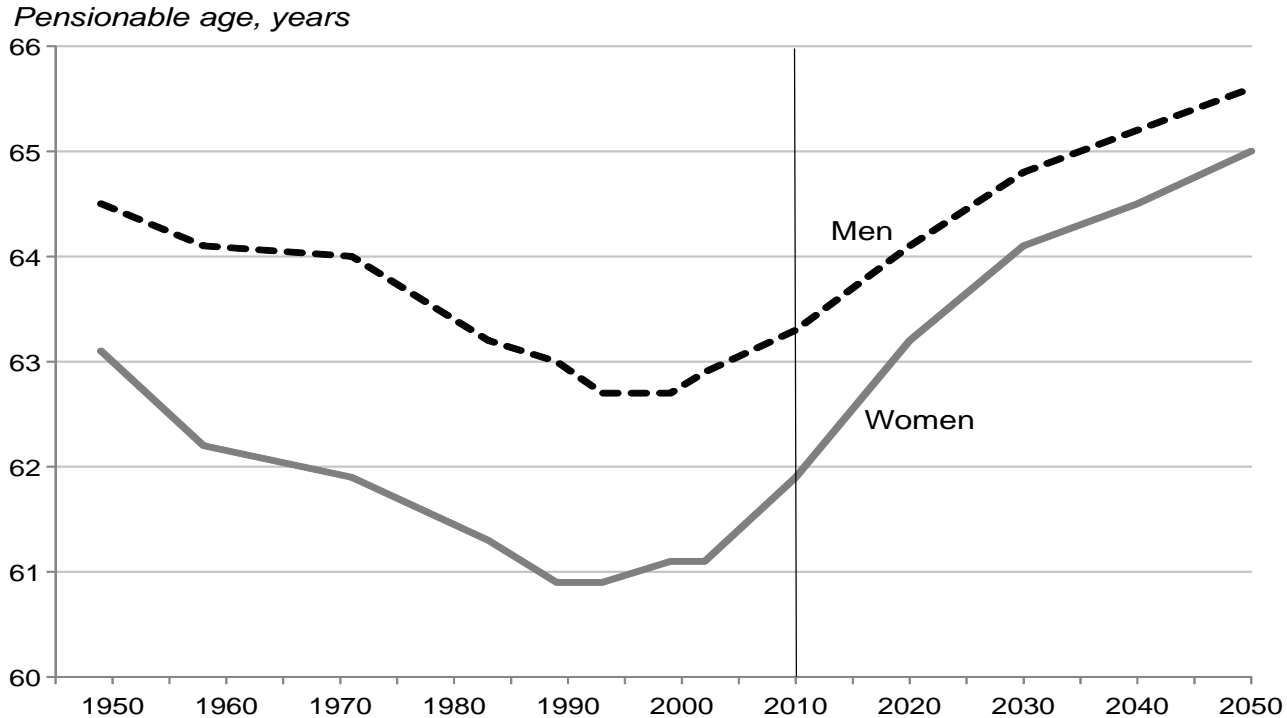


Source: OECD Pensions Outlook 2012

Normal pensionable age, years



Trends in pension age: OECD average



Source: OECD Pensions Outlook

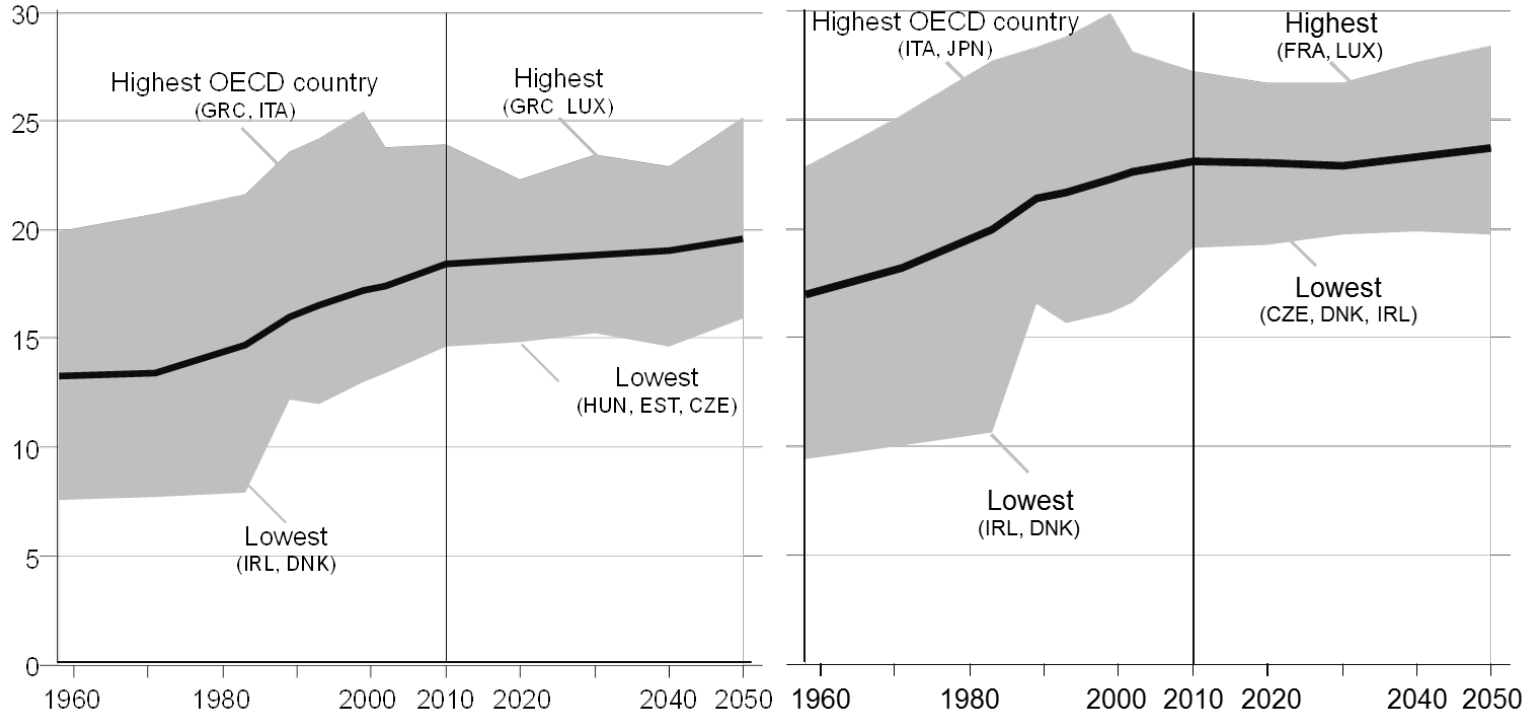


Life expectancy at pensionable age

Men

Women

Additional years of life expectancy





Conclusions





OECD: general policy direction

- Balancing objectives of benefit adequacy and financial sustainability
 - challenges of crisis and ageing
 - need to achieve both
- Improving the terms of the trade off
 - working longer
 - private pensions
 - targeting





Ireland

- Financial **sustainability** has now become a challenge
- Retirement provision well **diversified** (public/private, PAYG/funding)
- Pension system provides strong **work incentives**
 - but continuing problem of other benefit pathways into early retirement, such as disability benefits
- Degree of private-pension saving – coverage and contribution rates
 - remains the main challenge for future adequacy
 - is automatic enrolment the way forward?





What next?

- Further increases in pension age? Link to life expectancy?
- Other routes to financial sustainability:
 - higher contributions (link to actuarial equilibrium) **BUT** negative impact on labour market and incentives for workers
 - lower benefits **BUT** risk of undermining future adequacy and so resurgence of old-age poverty
- Enhancing coverage of private pensions to close the ‘pension gap’
 - is automatic enrolment the answer?





THANK YOU

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