



Society of Actuaries in Ireland

Press Release
11th May 2016

The Future of the State Pension

‘The Future of the State Pension’ was the theme of a major conference hosted today by the Society of Actuaries in Ireland. The conference follows the publication last year of a research report by Milliman on the financial sustainability of the state pension in Ireland. The Society of Actuaries in Ireland and PublicPolicy.ie commissioned this research with a view to stimulating constructive debate on this subject.

The conference provided insights into the importance and possible future direction of the state pension system in Ireland from a range of perspectives, summarised below.

Michael Culligan and Aisling Barrett – Milliman’s Research Report on the Financial Sustainability of the State Pension in Ireland

This report explored the financial sustainability of the State Pension in Ireland, including an analysis of the key levers that could be used to improve its sustainability, where several options for putting the State pensions system on a more sustainable footing were examined, including further increases in the retirement age, cuts in benefit levels (either in terms of the headline rate or the indexation rate), tightened eligibility criteria or increases in PRSI contributions. The report also looked at various combinations of these options.

Sorcha McKenna – McKinsey’s Report ‘Is Ireland’s population ready for retirement’?

McKinsey carried out an extensive piece of research in 2015 to assess the readiness for retirement in Ireland against the McKinsey Retirement Readiness Index. This Index assesses the level of adjustment required to household consumption pre and post retirement and has been tested in several other countries previously. The presentation summarised the findings of the Index for Ireland and potential implications to be considered in the Irish pension system in the future.

Alan Barrett – Can extended working lives enhance pension sustainability?

In his presentation, Alan Barrett proposed that all analyses of the long-term sustainability of public pension systems show that spending on pensions as a percentage of GDP will rise in the coming years. Some of these analyses show large, but sustainable increases. Other studies suggest that projected increases may not be sustainable and that the implied rates of increase in social insurance contributions that would be needed to sustain the system would be unacceptable to many. Whether the spending increases are sustainable or not, it is clear that increases in labour participation at older ages will lower spending on pensions as a percentage of GDP. There are two affects. First, if pensions are paid later in life, spending in absolute terms will fall. Second, with increased numbers employed GDP will be higher thereby helping to reduce the pensions to GDP ratio. He argued that this line of reasoning

leads to the following question: how feasible is the proposal to extend working lives? In the presentation, this question was explored. Drawing on the work of the German economist Axel Borsch-Supan, Alan Barrett considered some “myths” about extended working lives and postponed retirement. These myths are as follows:

Myth 1: declining health limits the capacity to work at older ages

Myth 2: Retirement is bliss

Myth 3: older workers are less productive

Myth 4: keeping older workers creates unemployment for the young

He also outlined some research results from Irish data that address the issue of extended working lives. This research shows the following:

- Older workers in Ireland appear to be happier at work if more of their peers are also working;
- Reported depressive symptoms seems to increase with retirement;
- Time out of the labour force seems to reduce cognitive abilities, although the effect is small;
- Expected ages of retirement seemed to respond to the recession although not to the increase in the state pension age.

The presentation concluded with a suggestion that there is an inevitability about extended working lives in the context of sustainability and that we need to start planning for this, both individually and as a society.

Anna D’Addio – International Perspective on Pensions

This presentation about pension reforms in an international perspective (OECD countries) focused mainly on reforms to extend working lives but also on the increasing role of private pensions related to retrenchment of public pensions.

Justin Moran – Failing to Prepare – Social Justice and the State Pension

Justin Moran looked at the importance of the State Pension in ensuring that older people can live with dignity, setting it in a context where cuts to secondary income supports have combined with rising prices and new taxes to put enormous pressure on many pensioners. He argued that the incoming Government must look beyond a single term of office- it must start to plan for rising numbers of older people who will be entitled to a State Pension and act now so that growing old in Ireland does not mean growing poor.

Maurice Whymys, Vice President of the Society of Actuaries in Ireland, commented that it is not an option to do nothing about potential issues around the sustainability of the State pension. However, when considering options for improving sustainability, it is appropriate to have regard to the wider objectives of the State pension within our overall pension system – such as providing a secure level of income which is sufficient to limit the risk of poverty amongst the elderly - and to ensure that the achievement of those objectives is maintained.

The issues highlighted by Milliman within their research paper need full and proper attention and debate and appropriate action needs to be taken by policymakers. In that context, he welcomed the input from other speakers today on economic, social justice, international and public policy dimensions.

Ends

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The Society of Actuaries in Ireland is the professional body for actuaries practising in Ireland. Actuaries provide advice on and relevant solutions for financial, business and societal issues involving uncertain future events. Most of the Society's members work in the financial services industry, and the profession has a statutory role relating to the supervision of pension schemes and insurance companies.

The Society seeks to make an impartial contribution to public debate on social policy and public interest matters where an actuarial perspective can add value.

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