

The Society of Actuaries in Ireland

Society must reconsider how it views ageing, retirement and pensions

Current retirement practices too rigid

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Irish society must re-consider how it views ageing, retirement and pensions. This was the recurring theme from different experts at a conference on aging organised by the Society of Actuaries today (Wednesday 8th October 2003).

Professor Tom Kirkwood, head of the Department of Gerontology at the University of Newcastle-upon-Tyne and former chair of the British Society for Research on Ageing and of the UK task force on 'Health Care of Older People', told the conference that key issues arising from increased longevity are implications for pensions, work, retirement and for health care. "Current practices are too rigid and flexibility is required not only in terms of individual life-course planning, but also to be able to adapt to future demographic trends, which as yet are uncertain."

A leading actuary, James Kehoe warned that the real pensions time bomb in Ireland is the inadequacy of contribution rates to defined contribution plans and that this absolutely heightens the need for protecting pensions for lower paid workers in particular.

Senator Joe O'Toole called for creative and imaginative solutions to be applied to the problem of pensions legislation and highlighted that a flexible approach to the situation could allow for a better life/work balance while also making it more attractive for people

to remain working, “We must change the current strait jacket legislation which makes flexibility impossible.”

Population Change

Improvements in life expectancy, together with falling birth rates, mean that older people will make up a much greater proportion of the population in the future. At present, less than 500,000 people are over 65; by 2050, more than 1.25 million people will be over 65. By 2050 there will be only two people of working age for each pensioner, whereas there are currently almost six people of working age for each pensioner. As a result, it is forecast that the cost of providing State pensions will increase from a current level of 2.9% to 7.9% of GDP. The most effective way to reduce the cost of State pensions would be to raise the retirement age. This is one of the key findings presented to the conference by the Society of Actuaries Population Studies Working Party.

The Working Party also considered the expected impact of an ageing population on health care and disability costs. Although they allowed for the likelihood that, as people live longer, they will be healthy for longer, they estimated that the number of people with severe disability will increase from 89,000 in 2002 to 155,000 by 2050 (a percentage increase of 74%). This is expected to give rise to an increase of 1.2% per annum in the cost of services for people with disabilities. However, the Working Party also notes that demographic change in the form of lower birth rates and greater participation by women in the labour force is likely to reduce the level of informal care so that the cost of formal care may increase at a higher rate.

The Working Party estimates that the cost of acute hospital services will increase by 0.7% per annum due to the ageing of the population and by 1.0% per annum when population growth is taken into account. This estimate also takes account of expected improvements in healthy life expectancy. The cost of community health services is expected to increase by 1.5% per annum because of demographic change. The rate of increase is higher than for acute hospital services because

people over age 70 are automatically entitled to a medical card, while means-testing applies below age 70; the increase in the number of people over age 70, therefore, has a greater impact on costs.

In his paper to the conference, Dr. Alan Barrett of the Economic and Social Research Institute asks if the Government might realise savings in other areas as a result of ageing. Looking to education as the obvious candidate, he shows that spending may only fall from around 5% of GNP today to about 3.8% of GNP in 2050. “As for tax revenues, the evidence points to falling revenues as a result of population ageing, so we certainly can’t rely on increased revenues to offset increasing cost pressures.” Dr. Barrett raises the issue as to whether an older society will have different preferences for how public money is spent. The evidence from the US points to a reduced demand for spending on education as a population ages. While it is not possible to say if this will occur in Ireland, it does raise interesting questions about changing political pressures in an older Ireland.

Ageing Process

Further insight was provided by Professor Tom Kirkwood into the scientific, environmental and lifestyle factors which will impact on the ageing process. “We are not programmed to die. There are no genes for ageing. Instead we are programmed for survival and the genes which influence length of life are those regulating key maintenance and repair systems.”

“Advances in the science of ageing are throwing new light on the factors that influence longevity and health in old age. They are also helping to identify what we mean by ‘ageing well’ and exposing new targets for interventions to improve health in old age. The dramatic and continuing increases in human lifespan can be explained by the fact that ageing is caused by the build-up of subtle faults and damage in our bodies as we live our lives. Improvements in nutrition, housing, medicine etc all mean that we are reaching older age in better condition than ever before.”

Prof Kirkwood warned, however, that the harmful effects of obesity, binge drinking and physical inactivity may halt or even reverse this trend. “There is no intrinsic limit to human lifespan. However, survival from one year to the next becomes ever more difficult as we grow old.” In his view, future increases in life expectancy will be modest without fundamental modification of the ageing process. This may come about through intrinsic genetic changes or new scientific intervention.

Sharing Pension Risks

If we are to continue to be so reliant on voluntary pension provision, then we must find a way of sharing the risks associated with voluntary pension provision more equitably between all parties involved – including the Exchequer. This was one of the key points made by actuary James Kehoe (speaking in a personal capacity) of Mercer Human Resource Consulting. He pointed out that due to the growth in defined contribution pension schemes, “the reality is that, relative to the situation which prevailed 10 years ago, there are now almost four times as many employees (approx. 237,500 compared to 61,500) taking on all of the risks associated with voluntary pension provision.” As a way of protecting pensions for lower paid workers in particular, Mr. Kehoe recommended that the Government consider giving employees and other Standard PRSA beneficiaries the option of making a transfer payment to a State Fund (e.g. the National Pension Reserve Fund) to supplement his/her weekly Social Welfare pension. He also recommended a limited State “Value for Money” underpin for Standard PRSAs.

On the issues of retirement ages and increasing life expectancy, he warned that increasing the social welfare retirement age would disproportionately disadvantage the lower paid. In this context he stated that, “it would be far more constructive for the Social Partners actively to promote a system of gradual retirement so that the opportunity to continue working in a reduced capacity would be available to those who need to work and to those who simply want to work.”

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Note to Editors:

See www.actuaries-soc.ie for details on:

- Society of Actuaries Population Studies Working Party Report: “Population Ageing in Ireland and its Impact on Pension and Health care costs”
- Jim Kehoe, Mercer Human Resource Consulting: Pensions Provision in Ireland -The Shape of Things to Come?

Society of Actuaries in Ireland

The Society of Actuaries in Ireland is the professional body for actuaries practising in Ireland, many of whom work in the pensions and life assurance industries. The Society aims to develop the role and understanding of the actuarial profession and to enhance its reputation, in particular for serving the public interest.