

Maximizing the demographic bounty

A response by the Irish Gerontological Society to the Green Paper on pensions

The Irish Gerontological Society welcomes the opportunity to comment on the Green Paper on pensions (1). As one of the oldest societies for research into ageing in the world, the society welcomes the increased numbers of increasingly healthy older people as a major social and scientific advance, perhaps the most significant of the last century. One helpful calculation is that we will have the equivalent of an extra 5 hours a day added to our lives. Put another way, we woke up this morning to what is effectively a 29-hour day. Twenty-four of those hours, we will use now; the other five will be put by for later. This is an extraordinary rich resource for present and future generations.

A part of the mission of the Irish Gerontological Society is to ensure that debate on pension design, as with other areas of social dialogue relating to older people, would be marked by reference to the broad sciences of ageing¹, rather than a more narrow economic focus.

A secure and adequate income is a key determinant of health and well-being at all ages, and the United Nations Declaration on Ageing promotes this concept, with both a life-course approach to income adequacy and inter-generational solidarity as the fundamental bases of income adequacy in later life (2).

Unfortunately, the strong prominence given by the United Nations to inter-generational ties and solidarity is not conspicuous in Irish policy statements. It does not appear in Towards 2016, the Ten-Year Framework Social Partnership Agreement (3), and in the Pensions Green Paper only appears in terms of the “intergenerational fairness/equity” of raising the pension age, a limited and one-way perspective on intergenerational ties and solidarity. The report of the National Economic and Social Council comments on solidarity, but not specifically in the context of intergenerational solidarity (4).

It is therefore important that the context of the debate be established, and threats to intergenerational solidarity addressed.

The context – apocalyptic demography

In terms of context, the Irish Gerontological Society is concerned that the debate is coloured by an interpretation of present and future demography that is not gerontologically informed. In particular, official discourse on older people is often coloured by what is known as apocalyptic demography (5), a flawed concept that predicts disproportionate burdens arising from population ageing (5-7), a concept that has been adopted with enthusiasm by neo-liberal policy-makers in other parts of the world (8). Among the contributors to this misinterpretation are over-reliance on

¹ Gerontology, the science of ageing, is classically divided into four subdisciplines: i) social sciences of ageing, ii) psychology of ageing, iii) biology of ageing, and iv) health gerontology (within which are positioned the disciplines of geriatric medicine, old age psychiatry, gerontological nursing, among others). It deals with the globality of normal ageing in the first instance.

highly variable demographic forecasts (7), misapplication of dependency concept (see below), homogenization of populations of older people, failure to count in reductions in child and education spending (despite considerable increases in the numbers of older people, the ‘dependency’ ratios in the developed world will be relatively stable from 1997 to 2015) (9), and failure to incorporate scientific findings showing little extra impact from population ageing on health care (10).

Misapplication of dependency concept

In terms of pensions, the oversimplified classification of older people as dependent in the same way that children are so classified is particularly vexing. There are a number of reasons why a classification as dependent is both inappropriate and reductionist for older people. These include the increasing numbers of those over 65 who continue working, a percentage that is bound to increase as mandatory retirement becomes less common. Similarly, there are significant numbers of those of working age who are financially dependent. Dependency ratios do not count unwaged labour, and older people do a significant amount of caregiving for spouses. Indeed dependency ratios create a false dichotomy – between people who are dependent and those who are not – that ignores the relationships of interdependence and reciprocity that make up the fabric of social life (11). Private transfers, including education, bequests and a range of other transfer substantially offset public funds directed towards older people (12). Older people also contribute to their own care financially, over and above their entitlements, as shown by the first Irish longitudinal study on ageing (HESSOP-2) (13). Finally, they also have a history of having supported previous generations of older people in our ‘pay-as you go’ pension system.

The demographic dividend

The official discourse seems to assume fixed costs and productivity within the system which are erroneous. On the implied assumption that labour market productivity will not increase, and there convincing reasons to assume that this is not the case: trends in productivity and GNP are largely supportive of increased productivity (14), and the move towards both service and technology driven economy, with increased emphasis on life-long learning and improvements in understanding of the benefits of the older worker, are supportive of inclusion of older people in the labour force.

At a deeper level, there is also an emerging literature on the ‘demographic dividend’, whereby the ageing and diversification of the population is associated with growth (15): the sustained growth in developed countries, where large numbers of people have grown to later life, is a case in point (16). This process requires supportive public health, economic and infrastructure to maximize human capital.

It must be hoped that the debate around the provision of a secure adequate income for all of us as we age will allow for a radical revision of the thinking of Irish society on this matter, and allow it to be freed from the lurid metaphors of apocalyptic demography.

Income support and poverty among older Irish people

It is striking that the philosophy of income support for older people in Ireland has been one of a very low safety level, with income levels predisposing to a relatively high level of poverty and the state pension pegged at one of the lowest levels in



Europe (17). There has been a sustained assault on defined benefit pension schemes over the last decade (18). This change is not only likely to lower the pension income of increasing numbers of current workers, but also reduce inter-and intragenerational solidarity between those in defined benefit, and those in defined contribution schemes. If unchecked, current trends threaten to erode inter-generational solidarity and contribute to what the celebrated gerontologist Robert N Butler calls the myth that older people are unproductive, cost too much and cause inter-generational conflict (19).

The inter-generational contract and ways of expressing it

Pension support can be viewed as a part of an inter-generational contract, akin to ways in which social reproduction and cultural transmission take place (20), on the basis that a good 'life prospect' can occur for each cohort (21). The very nature of the transfers involved – human capital, pensions, bequests – implies a recognition of transfers to previous and future cohorts. Pension design should be so structured as to reduce vulnerability and economic inequalities in later life. Pension design is not coherent if it is not also accompanied by a review of labour market policy, with an emphasis on support for life-long learning and a removal of barriers to recruitment and retention of older workers.

Although the differences between funded and pay as you go schemes are not as stark as might be imagined, at their polar opposites, certain differences are clear. Funded schemes seem to remove the funding requirement from the labour force, but have high administration costs (from 11-29% of a lump sum), a downside risk to particular cohorts due to stock market variability, and in reality do not eliminate the need for continued support from the current labour force (21). Pay as you go schemes are easily understood, and offer relative certainty as pensions will relate to the rise in real GDP growth. However, if the number contributing from the workforce reduces in either numbers or productivity, then some readjustment will be required.

There has been a relatively unquestioning acceptance in many quarters of the Feldstein conceptualization that funded schemes are inherently more efficient than pay as you go schemes (22-24). This conclusion is not always valid, however, when we take into account that returns on both pay as you go and funded systems are stochastic. In a stochastic framework, a lower expected rate of return on the pay as you go system does not necessarily imply that it is an inferior alternative. A low-yielding pay as you go system can benefit individuals if it contributes to hedge other risks to their lifetime resources. This reflects the basic idea that the pay as you go asset is not spanned by other assets due to an imperfect correlation between stock returns and the growth of aggregate wage income. Thus, the pay as you go system is a government created asset that allows one generation to trade in the human capital returns of the next (25). The pension 'reforms' in Latin America since 1980 have shown an increase in vulnerability and inequality for older people in major shifts towards self-funded pensions from pay as you go pensions (26).

Further arguments for the basic soundness of social security models, such as that of the Social Security system in the USA, can be found in an array of arguments both before and during President George W Bush's unsuccessful attempts to privatize the US social security system (27).



Recommendations

The Irish Gerontological Society consider that the recent overview of pensions in Ireland, *Choosing Your Future*, gives an important and balanced perspective on: the parsimony of the Irish state in social insurance pension provision, the challenge of understanding how pensions are both investment and an insurance, the artificiality of a dichotomous divide between pay-as-you go pensions and ‘funded’ pensions, on the inefficiency and enormous drain on that financial institutions remove from the income of funded investments, the excessive reliance on tax reliefs which largely benefit the better off (and which have exceeded Social Welfare pension costs to the taxpayer for some time), and the inequity and inefficiency of shifting the payment burden towards the individual and away from the collective (28).

The Irish Gerontological Society concurs with their position that pension policy design should start on the basis that an expanded state pension system has the capacity to help provide a more equitable, comprehensive structure of pensions in the future, with the capacity to adapt in the future in the light of changing economic and demographic trends. The Irish Gerontological Society also sees significant merit in their proposal for an increase in the State pension to a level that will eliminate the risk of poverty in retirement, as well the provision of a second-tier system related in some way to earnings, accompanied by a reduction in tax reliefs and greater flexibility in the choice of retirement age so that those who wish to may increase pension payments by increasing the contribution period.

The Irish Gerontological Society hopes that this contribution is helpful in clarifying aspects of the background and important features of the debate. The society also welcomes the new Office for Older People and hopes that the part of its brief to combat ageism on the general public will also aim to supplant apocalyptic demography in government planning with a more balanced view of the benefits to our society of life extension. In terms of the demographic bounty, in the words of Franklin D Roosevelt, all we have to fear is fear itself.

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Dublin, 31 May 2008

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