

Tithe an
Oireachtais
Houses of the
Oireachtas

An Oifig Buiséid Pharlaiminteach
Parliamentary Budget Office
An Analysis of Government
Expenditure on Irish State Pensions

Publication 40 of 2023

Séanadh

Is í an Oifig Buiséid Pharlaiminteach (OBP) a d'ullmhaigh an doiciméad seo mar áis do Chomhaltaí Thithe an Oireachtais ina gcuid dualgas parlaiminteach. Ní bheartaítear é a bheith uileghabhálach ná críochnúil. Féadfaidh an OBP aon fhaisnéis atá ann a bhaint as nó a leasú aon tráth gan fógra roimh ré. Níl an OBP freagrach as aon tagairtí d'aon fhaisnéis atá á cothabháil ag tríú páirtithe nó naisc chuig aon fhaisnéis den sórt sin ná as ábhar aon fhaisnéise den sórt sin. Tá baill foirne an OBP ar fáil chun ábhar na bpáipéar seo a phlé le Comhaltaí agus lena gcuid foirne ach ní féidir leo dul i mbun plé leis an mórfhobal nó le heagraíochtaí seachtracha.

Is de chineál ginearálta í an Fhaisnéis. Baineann éiginnteacht le ráitis réamhbhreathnaitheacha agus d'fhéadfadh go dtiocfaidh nithe suntasacha chun cinn mar thoradh ar an bhFaisnéis. Ní sholáthraítear ráiteas cinntitheach leis an bhFaisnéis i ndáil le haon saincheist ar leith nó i ndáil le himthoisc phearsanta. Ní comhairle atá san Fhaisnéis. Ní mór a dheimhniú duit féin go bhfuil an Fhaisnéis a sholáthraímidne, an Oifig Buiséid Pharlaiminteach agus Coimisiún an Oireachtais (lena n-áirítear seirbhísigh, gníomhairí agus conraitheoirí na hOifige agus an Choimisiúin) oiriúnach agus iontaoifa. Ní ghlacaimid aon fhreagracht as cruinneas ná oiriúnacht, ná eile, na Faisnéise agus ní thugaimid aon ráthaíocht ná aon ghealltanas ná aon bharánta i leith an chéanna; ná go mbeidh ár leathanaigh ghréasáin nó an Fhaisnéis nó ábhar eile saor ó earráidí, saor ó víris nó saor ó shárú. Ní ghlacaimid aon dliteanas (lena n-áirítear i leith éilimh maoine intleachtúla) a eascróidh as aon ábhar tríú páirtí nó aon suíomh gréasáin tríú páirtí a gcuirfimid nasc ar fáil chuige nó dá ndéanfaimid tagairt. Ní ghlactar le haon dliteanas ar bith, a mhéid is mó a cheadaítear faoin dlí is infheidhme nó (i) as aon iontaoibh a chuirfear san Fhaisnéis nó san ábhar ar ár leathanaigh ghréasáin nó (ii) as aon chaillteanas nó damáiste a eascróidh as an úsáid a bhainfidh tú as na leathanaigh ghréasáin sin nó i dtaca leis an úsáid sin. Féach ár [bhFógra Séanta cuimsitheach anseo](#). I gcás aon easaontacht a bheith idir an Séanadh seo agus ár bhFógra Séanta cuimsitheach, is ag an gceann deireanach a bheidh an forlámhas.

Disclaimer

This document has been prepared by the Parliamentary Budget Office (PBO) for use by the Members of the Houses of the Oireachtas to aid them in their parliamentary duties. It is not intended to be either comprehensive or definitive. The PBO may remove, vary or amend any information contained therein at any time without prior notice. The PBO accepts no responsibility for any references or links to or the content of any information maintained by third parties. Staff of the PBO are available to discuss the contents of these papers with Members and their staff, but cannot enter into discussions with members of the general public or external organisations.

The Information is general in nature. Forward-looking statements involve uncertainties and matters may develop significantly from the Information. The Information does not provide a definitive statement in relation to any specific issue or personal circumstance. It does not constitute advice. You must satisfy yourself as to the suitability and any reliability of the Information that we, The Parliamentary Budget Office and Oireachtas Commission (including its servants, agents and contractors), provide. We accept no responsibility for, and give no guarantees, undertakings or warranties concerning, the accuracy or suitability or otherwise, of the Information; or that our webpages or the Information or other content will be error free, virus free, or infringement free. We accept no liability (including in respect of intellectual property claims) arising out of any third-party content or any third-party website to which we link or refer. To the fullest extent permitted by applicable law, no liability whatsoever is accepted (i) for any reliance placed on the Information or content on our webpages or (ii) for loss or damage arising out of or in connection with your use of this webpages. See our comprehensive [Disclaimer Notice here](#). In any conflict between this Disclaimer and our comprehensive Disclaimer Notice, the latter will prevail.

Table of Contents

Key Messages	3
Introduction	4
Overview of Ireland's State Pension Schemes	4
Welfare Spending on Pensions	7
<i>Changes in Welfare Spending</i>	8
The Social Insurance Fund (SIF)	10
<i>Management of the SIF</i>	10
<i>SIF Expenditures</i>	11
Trends in Pension Spending	13
<i>Expenditure</i>	13
<i>Recipients</i>	15
<i>Pension Rates</i>	18
Demographic Change and the Impact on Funding Pensions	21
<i>Ireland's Aging Population</i>	21
<i>Ireland's Old Age Dependency Ratio</i>	24
Pension Sustainability in Ireland	26
<i>Pension Reform</i>	27
<i>Government Response</i>	29
<i>Future Proofing Ireland's Pension System</i>	29
<i>Future Ireland Fund</i>	30
Conclusion	31

Key Messages

- In 2022, total government expenditure was €88.2 billion of which **€9.4 billion was spent on State pension schemes (10.6% of total spending)**.
- Total spending on State Pensions increased by 50% from 2012 to 2022 driven, primarily, by a 34.6% increase in recipients in the same period.
- Ireland has a **State Pension Age of 66** and 4 weekly pension payment schemes, 3 of which are contributory, while 1 is non-contributory.
- The contributory state pension, accounts for 70% of pensions expenditure in a given year.
- Between 2012 and 2022, the weekly contributory pension rate has grown by 10%. As of 1st January 2024, the new weekly pension rate of €277.30 will be a 20% increase over 2012 rates.
- In 2022, **total State Pensions expenditure represented 3.46% of GNI***. It is projected that by 2050 the spend will be 7.9% of GNI* and 9.2% by 2070.
- Irelands population is ageing rapidly and living longer. The old age dependency ratio in 2023 is 1 retiree to 4 working age people. **By 2050, this is forecast to be closer to 1:2.**
- An ageing population and reduced proportion of PRSI contributing workers means the Social Insurance Fund (SIF) is projected to run an annual deficit from 2030. By 2070, the **annual shortfall in the SIF is expected to be 3.8% of GNI***.
- Ireland's baby boom generation (those born between 1965-1985) are approaching retirement age and are currently a substantial portion of the labour force. Today, 14% of Ireland's population is aged 66+, **in 2051, it will be 24%.**
- Despite recommendations by the Pensions Commission, the Government have announced that there will be **no change to the pension age of 66** but people will be allowed to defer their pension until 70 to accrue additional credits.
- The Future Ireland Fund was established in Budget 2024 to fund additional expenditures including those in health and pensions resulting from demographic changes.
- Dependent on continued economic growth and strong corporation tax receipts, the fund will only partially address future shortfalls in pensions. Deeper reforms of the pension system are, therefore, still required.

Introduction

This paper provides an analysis of the trends in expenditure on pensions in Ireland over the 2012-2022 period, the factors that have influenced spending in the past, and those that are likely to influence spending in the future. The paper also provides an overview of Ireland's state pension schemes and the eligibility criteria for each. Finally, the work of the Pensions Commission and subsequent Government pension reform proposals is assessed.

Overview of Ireland's State Pension Schemes

Ireland currently has four public pension schemes. This section lays out a brief description and eligibility criteria for each of the available pension schemes. Two previously available schemes - the State Pension Transition and the Bereavement Grant schemes - were closed to new applicants from January 1st, 2014, so they are not included in the broader analysis of this paper. The full pension rates shown below are effective as of January 1st, 2024, when an increase by €12 to the current rates is applied.

Table 1: State Pension Schemes in Ireland

Scheme	State Pension Contributory
Full Personal Rate	€277.30
Means Tested	No
PRSI	Yes
Eligibility Criteria	<p>To receive this pension a person must have 520 (10 years) full-rate PRSI contributions.</p> <p>1. The Yearly Average Method, in which your yearly average amount of contributions will determine your rate of payment, someone with a yearly average PRSI contributions of 10 a year will get the minimum payment, and someone with an average of 48+ will get the maximum rate.</p> <p>2. The Aggregated Contributions Method considers the total number of PRSI contribution earned while</p>

working, including the home caring period spent looking after children under 12 and/or dependant relatives and credited contributions where a person is unable to work and is in receipt of a welfare payment.

Scheme	<i>State Pension Non-Contributory</i>
Full Personal Rate	€266
Means Tested	Yes
PRSI	No
Eligibility Criteria	<p>This payment is for those who do not have enough PRSI contributions to be eligible for the contributory pension payment. This payment is means tested, to determine the applicant's rate of payment.</p> <p>1. Most cash income is included in the means test, this includes a pension from another country, however there are certain types of cash income not included. For example, an applicant and their partner can each earn up to €200 per week from employment (self-employment excluded), and it is not included in the means test.</p> <p>2. An applicant's savings, investments, cash on hand and properties (excluding their own home) are included in the means test. If the property is assessed based on its capital value, then the income earned from it (rent) is not assessed. If a person sells their home, the money they make from the sale would normally be considered. However, up to €190,500 of the proceeds of the sale can be excluded from the means test.</p>

Scheme	<i>Widow/er's or Surviving Civil Partner's Pension (Contributory)</i>
Full Personal Rate	€237.50
Means Tested	No
PRSI	Yes
Eligibility Criteria	To receive this pension, a person must be a widow, widower or surviving civil partner, and they or their late partner must have 260 paid PRSI contributions, and an average of 39 contributions in the 3 or 5 years before their death. A surviving partner may automatically qualify for this payment if their partner was in receipt of an increase for a qualified adult with their State Pension (Contributory). This is not a means tested payment, so they may earn any amount of money from another source, and it will not affect your payment, but it is taxable.

Scheme	<i>Widow/er's or Surviving Civil Partner's Contributory Pension (Death Benefit)</i>
Full Personal Rate	€262.50
Means Tested	No
PRSI	Yes
Eligibility Criteria	This payment is under the Occupational Injury Scheme. If a person dies from a disease related to their work, this payment will be made to their surviving spouse, civil partner, or dependent child. A Widow's/Widower's or Surviving Civil Partner's Pension under the Death Benefit Scheme cannot be paid at the same time as a Widow's, Widower's, or Surviving Civil Partner's Contributory Pension.

Welfare Spending on Pensions

In 2022, spending on all social welfare supports reached a total of €24.6 billion, equating to 28% of the €88.2 billion overall Government expenditure in the same year.¹ Within the social welfare budget, spending on pension schemes accounts for the largest proportion of the annual budget reaching 38.2% (€9.4 billion) of all welfare expenditure in 2022 or 10.6% of total government spending. The state contributory pension is by far the largest of the four current pension schemes making up 70% of all pension expenditure.²

From 2012 to 2022, expenditure on pensions has increased by 50%, representing the only area of social welfare spending that has seen a consistent growth rate year on year (figure 1, below). This higher spending is driven by:

- An increase in the total number of annual recipients by 34.6% over the same period, rising from approximately 525,000 individuals in 2012 to just over 707,000 individuals in 2022.
- The number of recipients of the contributory state pension scheme increasing by 55% from 2012 to 2022.
- An average increase of 12.8% in the weekly payment rate across the four pension schemes.
- The weekly contributory pension rate paid to recipients rising by 10%, from €230.30 in 2012 to €253.30 in 2022.
- From January 1st, 2024, the new full rate of the State Contributory Pension will be €277.30 per week – a 20.4% increase over the 2012 payment rate.

Spending on pensions is forecast to increase significantly in the coming decades. This is driven by the number of people reaching the retirement age of 66 in 2050, which will be 50% more than today, as the last of Ireland's baby boom generation (1965-1985) approach retirement age.³ In 2022, State Pensions expenditure was 3.46% of GNI*, with the Department of Finance projecting that this ratio will rise to 7.9% by 2050 and will further increase to 9.2% by 2070.⁴

¹ Department of Public Expenditure and Reform, [Databank](#).

² Department of Social Protection, [Statistical Information On Social Welfare Services Annual Report 2022](#) (2022).

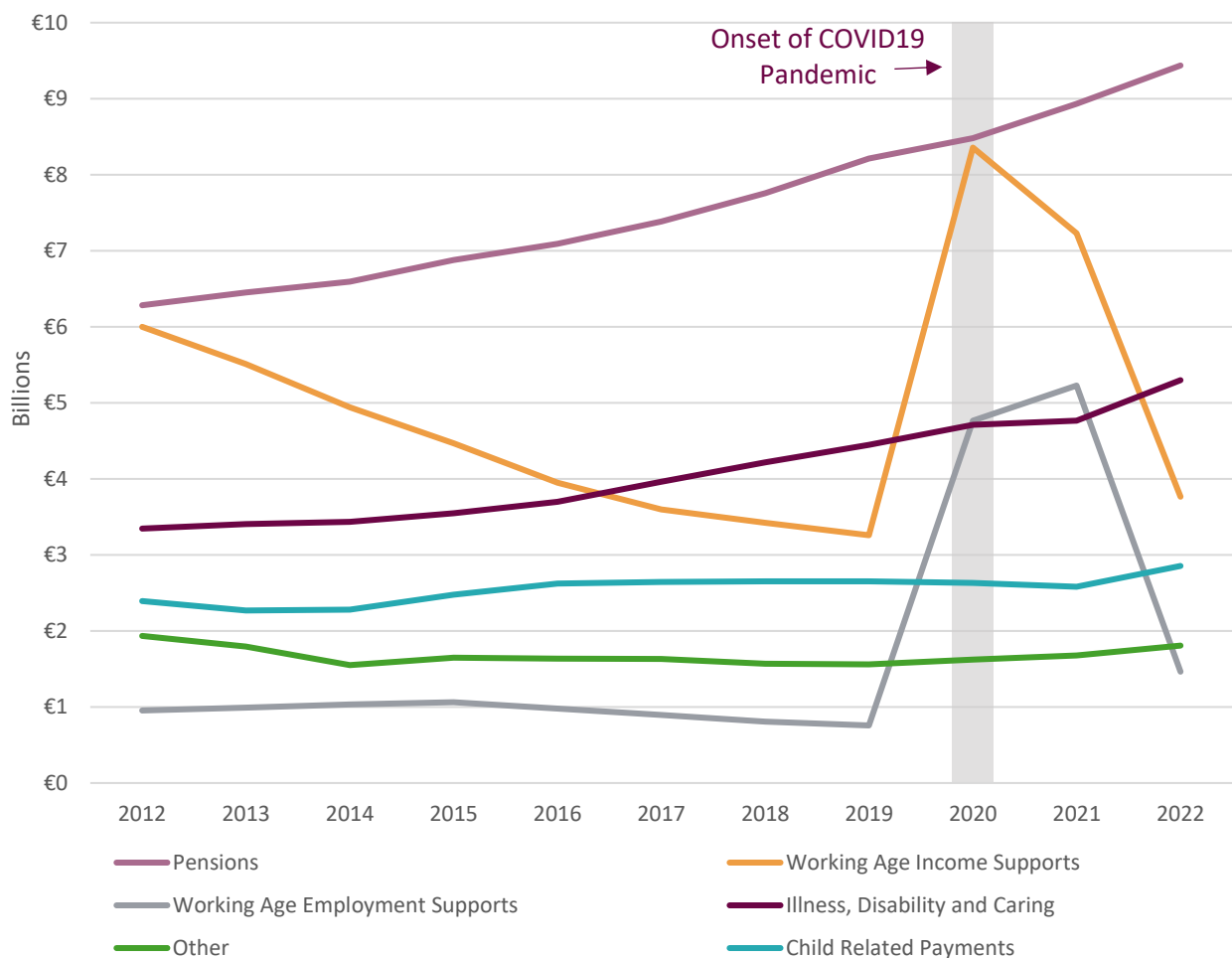
³ Carroll, K. and Barnes, S. ["Saving for Ireland's Future: Building a Sustainable Framework to Fund the State Pension"](#) (2023).

⁴ The Pensions Commission, [Expenditure Projections, Working Paper No. 2](#) (2021).

Changes in Welfare Spending

Figure 1 sets out the growth in expenditure across the different areas of social protection. Spending on pensions since 2012 has seen the most consistent and substantive growth of any social protection scheme, increasing from €6.3 billion to €9.4 billion in 2022. The illness, disability, and carers payments were the only other schemes which saw a steady increase in this timeframe. Perhaps partially as a result of the State's improving economy over the decade, spending on unemployment benefits for the most part decreased.

Figure 1: Social Welfare Spending in Ireland 2012-2022



Source: PBO based on Department of Social Protection, [Statistical Information on Social Welfare Services 2021](#) and [2022](#).

However, across 2020 and 2021, there was a significant increase in expenditure relating to Working Age Employment and Income Supports, resulting from the State's response to the COVID-19 pandemic. Much of this additional spending was concentrated in schemes such as the Pandemic Unemployment Payment (PUP) and the Temporary Wage Subsidy Scheme (TWSS), which were introduced specifically to support people made unemployed or who were furloughed from employment as a result of the pandemic. In 2020 alone, the State spent €4.98 billion on the PUP, and €2.7 billion on the TWSS.⁵

In 2022, spending relating to Working Age Employment and Income Supports saw a significant reduction as pandemic linked restrictions were lifted, and the PUP, TWSS and similar schemes were discontinued. At this point, those individuals who remained in receipt of the PUP were transferred onto the job seekers allowance scheme.

⁵ Department of Social Protection, [*Statistical Information on Social Welfare Services 2020*](#) (2020).

The Social Insurance Fund (SIF)

A key resource for the Irish government to fund state pensions schemes is the Social Insurance Fund (SIF). It is from the SIF that the largest proportion of State pension payments are made, specifically the contributory pension schemes set out in Table 1. The SIF is also used to fund other payments such as Jobseekers Benefit, Maternity and Paternity Benefit, Redundancy and Insolvency Payments, Illness Benefit, and a range of illness, disability, and carers payments, among others.

Management of the SIF

To fund the Social Insurance Fund, Pay Related Social Insurance (PRSI) contributions are collected from employers, liable employees, and the self-employed, with the funds transferred to the SIF rather than being added to the general Exchequer 'pot'.

The SIF is made up of two accounts: a current account and an investment account. The current account is managed and controlled by the Minister for Social Protection, and it is from this account that social insurance payments such as the state contributory pension, illness, disability, and carers payments are paid. The investment account is a savings account that is managed by the Minister for Finance where surplus payments to the SIF (i.e., PRSI contributions in excess of the total annual social insurance spend) are held in reserve to fund future shortfalls in SIF spending.

While the SIF is included alongside voted expenditure in the Revised Estimates for Public Services (Vote 37), it is non-voted expenditure and, therefore, does not require the approval of Dáil Éireann.

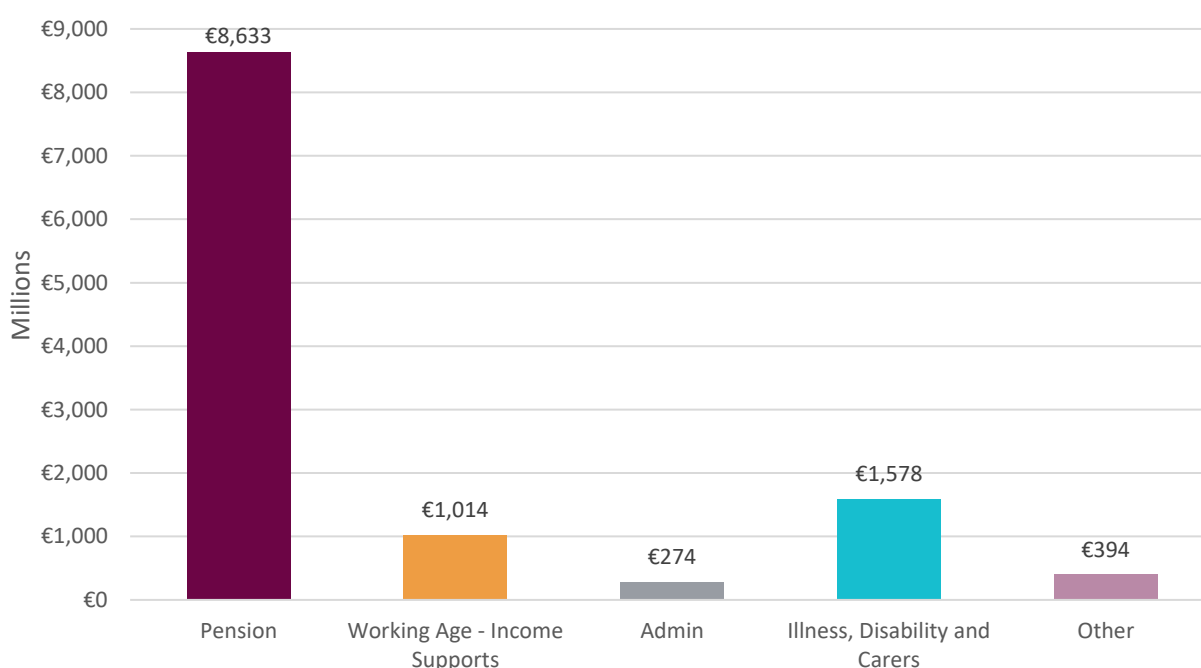
The SIF operates on a "pay-as-you-go" basis. This means that the contributions by today's workers meet the current liabilities of the SIF. When the economy is performing strongly and there are sufficient active and contributing workers in the labour force, the SIF typically runs a surplus. However, during periods of economic downturn or higher levels of unemployment, there may be insufficient levels of PRSI paid into the SIF to cover all its outgoings in a given year.

When this happens, to cover the shortfall the SIF must first draw from any reserved surplus which is being held in the investment account. Once any such surplus has been exhausted, a subvention (a grant of money) from the Exchequer may be required to fund the remaining shortfall. The PBO's 2018 [note *An overview of the Social Insurance Fund \(SIF\)*](#) describes the function and operation of the SIF, while the impact of economic shocks to the SIF are explored in the PBO note [The COVID-19 Pandemic: Implications for the Social Insurance Fund](#) (2020).

SIF Expenditures

In 2023, €8,633 million, or 72.5% of the total expenditure from the SIF, was spent on contributory pension schemes (figure 2).⁶ From 2023 to 2024, Contributory Pension expenditure from the SIF is estimated to increase by 7% as the weekly pension rates are increased further.⁷ In the Revised Estimates for Public Services 2023, the SIF was projected to run a whole year surplus of €3.24 billion, up from €2.06 billion in 2022.⁸

Figure 2: SIF Spending in 2023



Source: PBO based on Department of Finance, [Budget 2024: Expenditure Report](#).

⁶ Department of Social Protection, [Statistical Information on Social Welfare Services 2022](#) (2022).

⁷ Department of Finance, Budget 2024, [Expenditure Report p.225](#) (2023).

⁸ Department of Public Expenditure and Reform, [Revised Estimates for Public Services 2023](#) (2022).

While these surpluses are directly linked to the economy being at full employment, the update of the 'Actuarial Review of the Social Insurance Fund' projected **annual shortfalls** in the SIF in the coming decades – regardless of future economic performance.⁹ Prior to the pension reforms announced in 2022,¹⁰ the SIF was projected to run annual deficits of €2.36 billion by 2030, €8.56 billion by 2040, €13.35 billion by 2050, and €21.1 billion by 2070.¹¹

These shortfalls are largely a result of the projected number of pension recipients increasing while at the same time the proportion of working age individuals contributing to the SIF narrows. This is referred to as the Old Age Dependency Ratio (OADR). The OADR is defined as the number of individuals aged 65 and over per 100 people of working age (ages 20 to 64). The evolution of old-age to working-age ratios depends on mortality rates, fertility rates and migration.¹²

It is unclear, at present, what impact these proposed pension reforms will have on the annual shortfalls in SIF funding.

⁹ The Pensions Commission, [*Report of the Commission on Pensions*](#) (2022).

¹⁰ Department of Social Protection, [*Minister Humphreys announces landmark reform of State Pension System in Ireland*](#) (2022).

¹¹ The Pensions Commission, [*Report of the Commission on Pensions*](#) (2022).

¹² OECD, [*"Old-age dependency ratio"*](#) (2023).

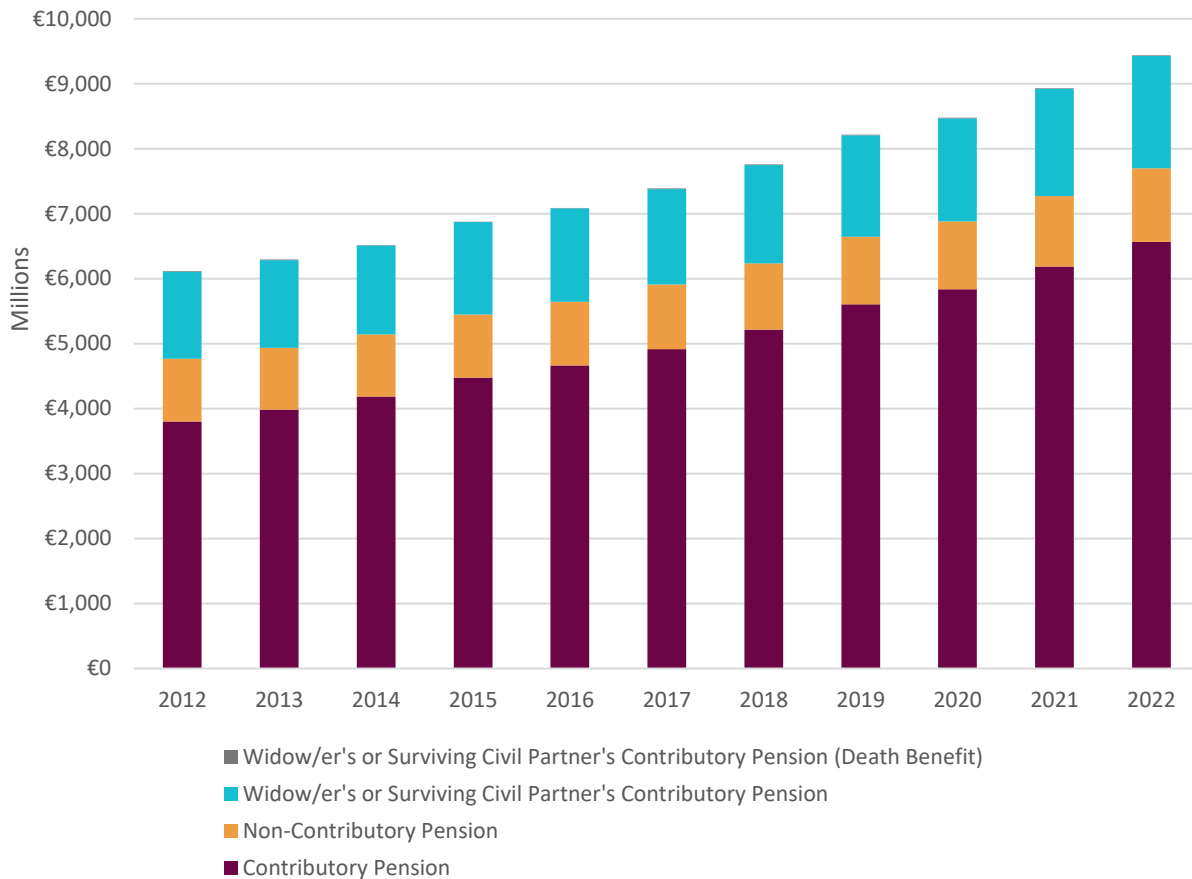
Trends in Pension Spending

In 2012, the Irish State Pension System went through some key changes, including the introduction of a revised method of assessing a person's eligibility criteria for the State Contributory Pension. Prior to 2012, pensioners had to have a yearly average amount of 10 PRSI contributions to qualify for the contributory pension. Since 2012 pensions can be accessed using a Total Contributions Approach (TCA), which includes a 'Home Caring Credit' of up to 20 years. This allows people who have a gap in their PRSI contributions to still qualify for the higher pension rate, provided they have enough contributions throughout their working life, rather than a constant yearly average. The Home Caring Credit is targeted at people who ceased employment to care for people in the home e.g., children.

Expenditure

In 2022, the State Contributory Pension accounted for 70% of all spending on pensions in Ireland - €6.56 billion of a total €9.44 billion. Figure 3, below, sets out the annual spend across the decade and shows expenditure on pensions has risen steadily in the last 10 years.

Figure 3: Expenditure on each State Pension Scheme



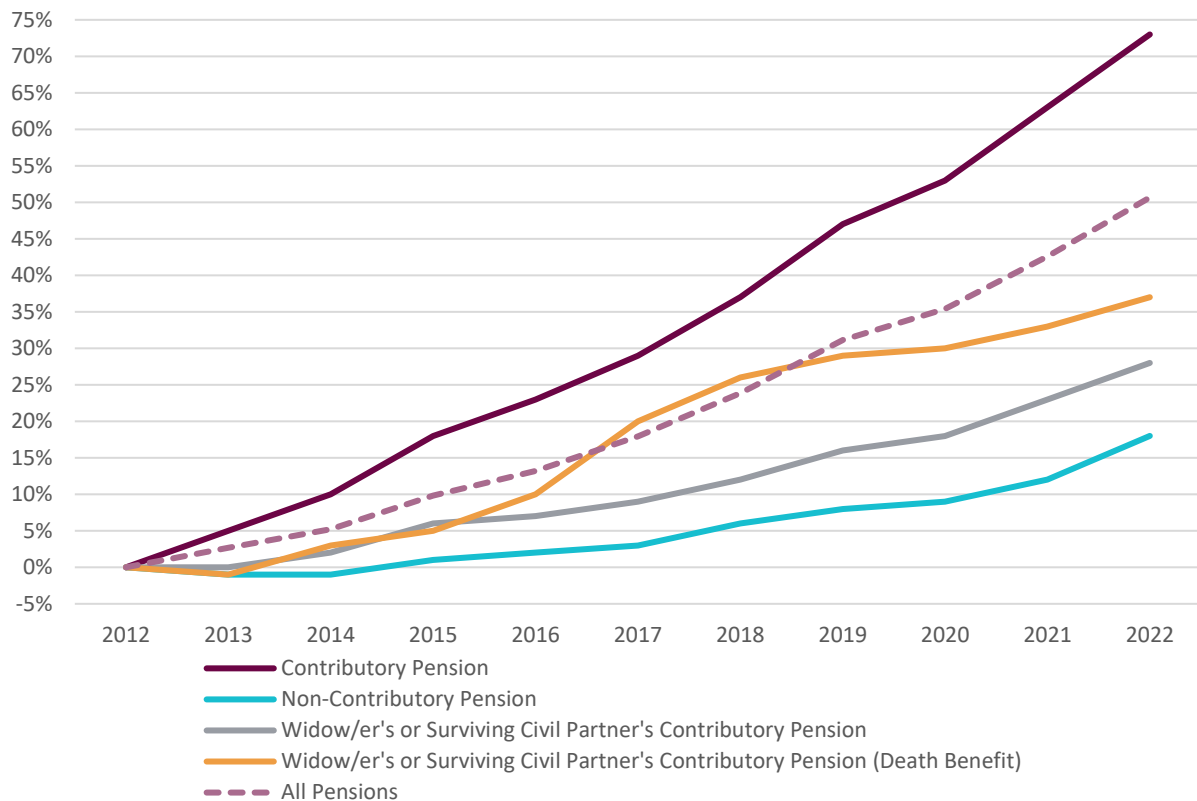
Source: PBO based on Department of Social Protection, [Statistical Information on Social Welfare Services 2021](#) and [2022](#).

Figure 4, below, shows the percentage increase in pensions expenditure each year, starting in 2012. Taking 2012 as the base year, the combined spend on pensions has increased by 50% to the end of 2022. The contributory pension has seen the largest rate of growth, up 73% over the 2012 total – almost double the average increase across all pension types. It is notable that the trend in growth for the contributory pension across the decade has been hugely consistent, when compared to the other schemes, which have seen periods of both stagnation and growth.

This growth in expenditure is expected to continue as the significant upward trend in people reaching retirement age continues over the next three decades. This is a result of a rapidly aging population, increased life-expectancy among the over-65s, and as those born during Ireland's baby boom generation (born between 1965-1985) approach retirement age.¹³

¹³ Carroll, K. and Barnes, S. ["Saving for Ireland's Future: Building a Sustainable Framework to Fund the State Pension"](#) (2023).

Figure 4: Percentage Change in Pensions Spend from 2012-2022



Source: PBO based on Department of Social Protection, [Statistical Information on Social Welfare Services 2021](#) and [2022](#).

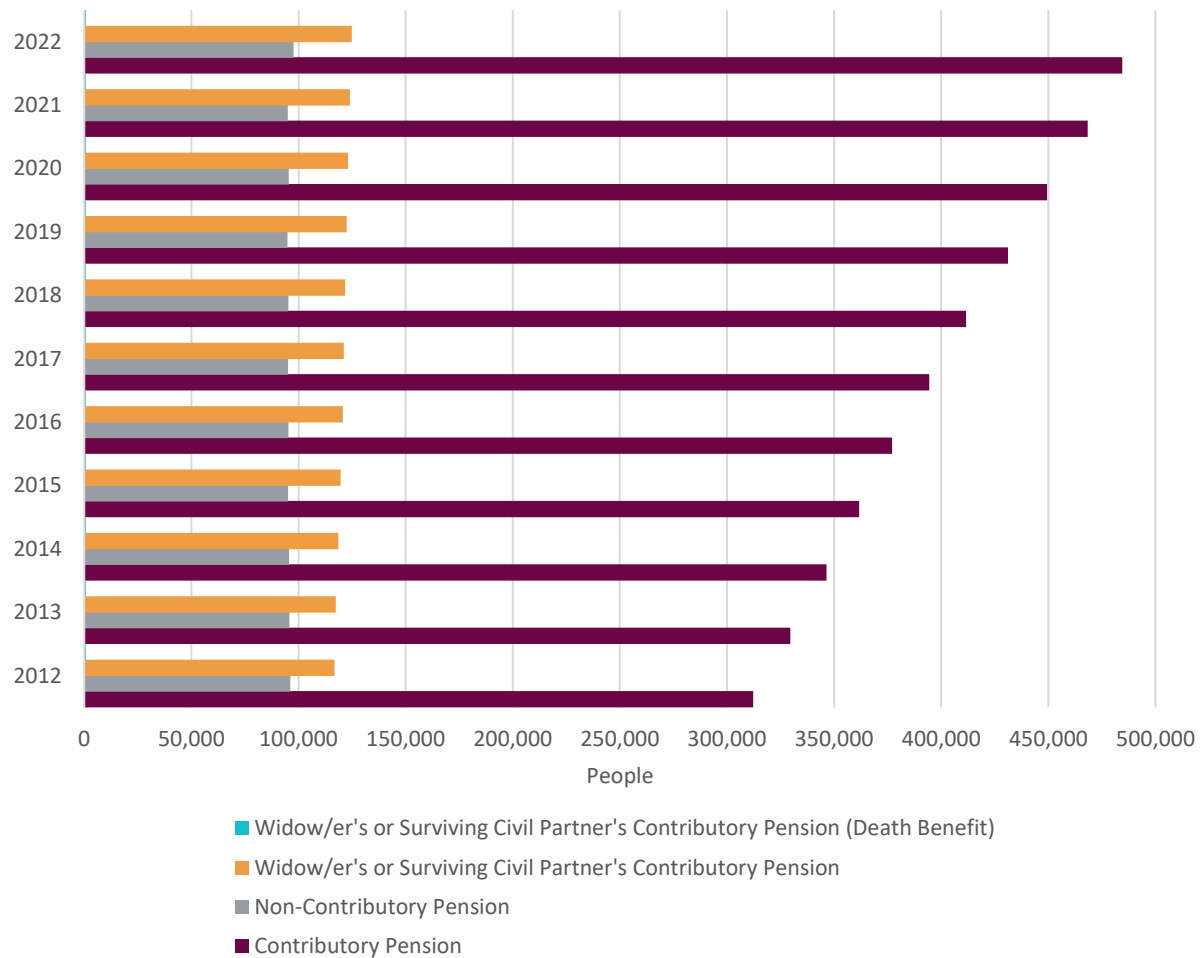
Note: This graph is indexed. 2012 was chosen as the base because of the pension reform that happened in that year.

Recipients

Since 2012, the total number of pension recipients has grown consistently year-on-year (figure 6, below). Much of this growth is concentrated in the contributory pension scheme which saw an average of just over 17,000 new recipients being added annually to 2022. Across the three other pensions schemes, the average number of new recipients was fewer than 1,000. Reforms to the eligibility criteria for the contributory pension introduced after 2012 are likely to have influenced these trends.

Between 2012 and 2022, the number of overall pension recipients had increased by 34.6% - growing from 525,836 people to 707,879. In this total, the growth in contributory pension recipients is by far the largest, growing by 55% across the decade to 484,541 recipients - a net addition of 176,000 individuals. In contrast, non-contributory pension recipients only grew by 1.7% or 1,600 individuals.

Figure 5: Recipients by Scheme – 2012-2022



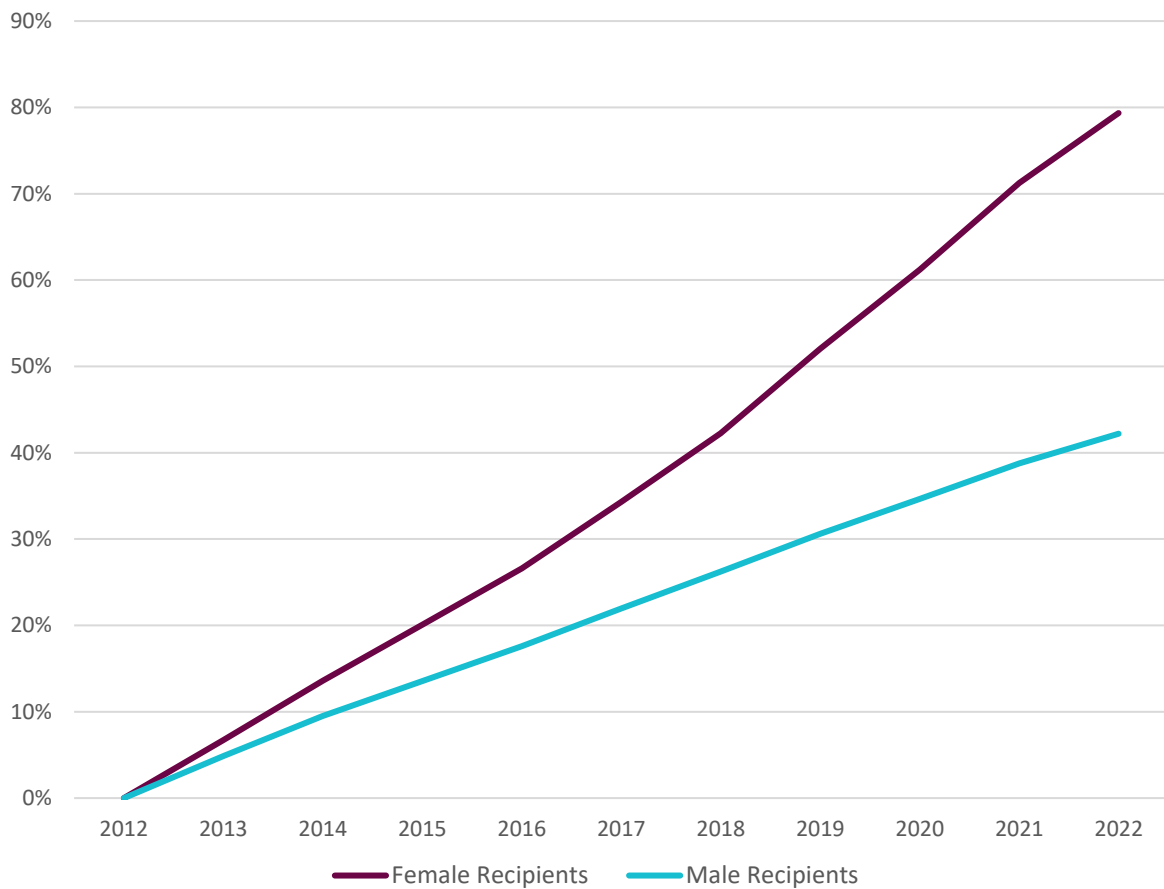
Source: PBO based on Department of Social Protection, [Statistical Information on Social Welfare Services 2021](#) and [2022](#).

Note: The Death Benefit recipient levels are much lower in comparison to the other schemes, so the bar is not clearly visible on this graph.

In the last 10 years, there has been a large rise in the number of women in receipt of the contributory pension. As shown in Figure 6, below, the percentage of women receiving the contributory pension has risen by almost 80% since 2012. This has been driven, in part, by the regularisation of the pension situation for many women who were forced to leave the workforce following their marriage because of the marriage bar, in place until its formal removal in 1973. While the bar was technically only for civil servants, it was informally observed in the teaching profession and in the private sector. The resulting break in employment for many women that were affected had an impact on their future pension eligibility.¹⁴

¹⁴ Bambrick, L. [The Marriage Bar: A ban on employing married women](#) (2023).

Figure 6: Percentage Change in number of Recipients of Contributory Pension by Sex



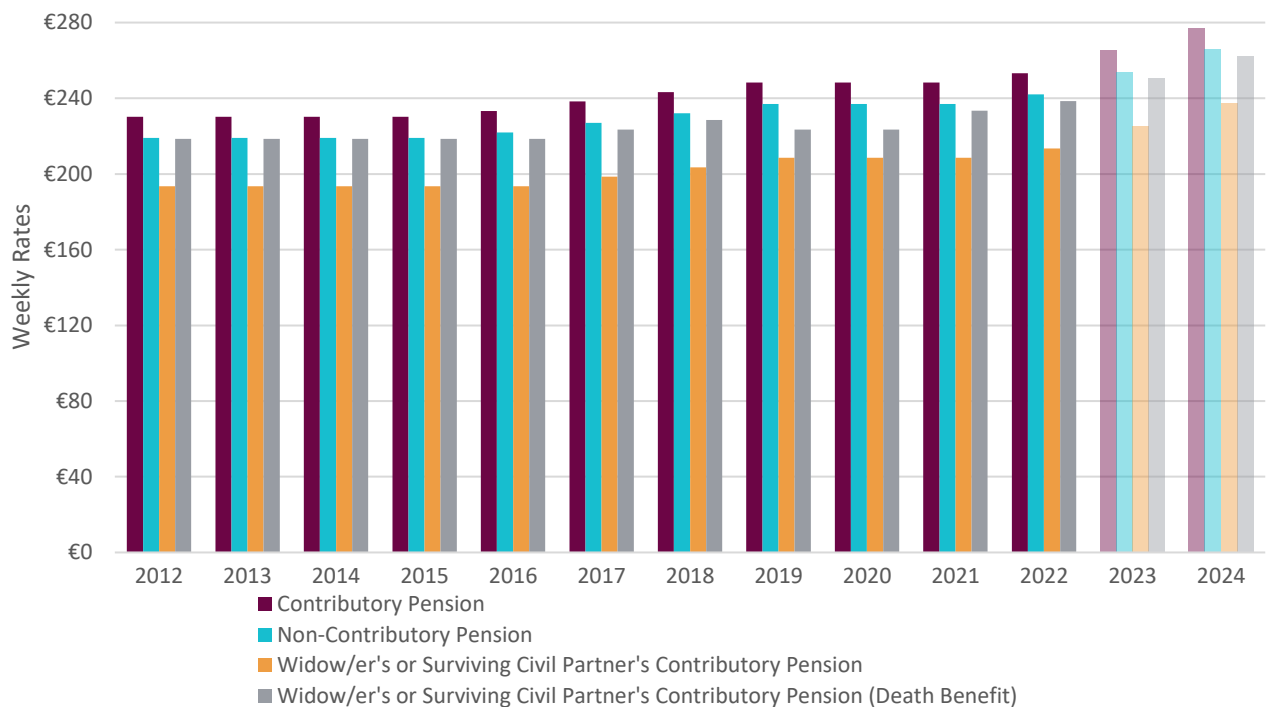
Source: PBO based off Department of Social Protection, [Annual Statistical Reports 2012-2021](#) and [2022](#).

Following pension reforms in 2012 the home caring credit was introduced, which allowed people who stayed at home to look after a dependant person to claim that time back in PRSI contributions. Under the scheme, individuals who stayed out of employment to provide care for a child under 12 or a person who needed and increased level of care, are entitled to a home caring period for every week they are not in employment. These measures have made state pension schemes more accessible for carers, a role which has predominantly been fulfilled by women.

Pension Rates

Figure 7 shows the full, personal, weekly rates of the four pension schemes from 2012-2024. Over this period, payable rates for each scheme saw only modest annual increases with the largest individual increase of €12 being outlined in Budget 2023. A further €12 increase for all pension schemes was announced in Budget 2024. The 2023 and 2024 rates are not included in the broader analysis of this paper, but they are shown above for illustrative purposes.

Figure 7: Rates of Payment of Pension Schemes Over Time



Source: PBO based on Department of Social Protection, [Statistical Information on Social Welfare Services 2021](#) and [2022](#), and Citizens Information.

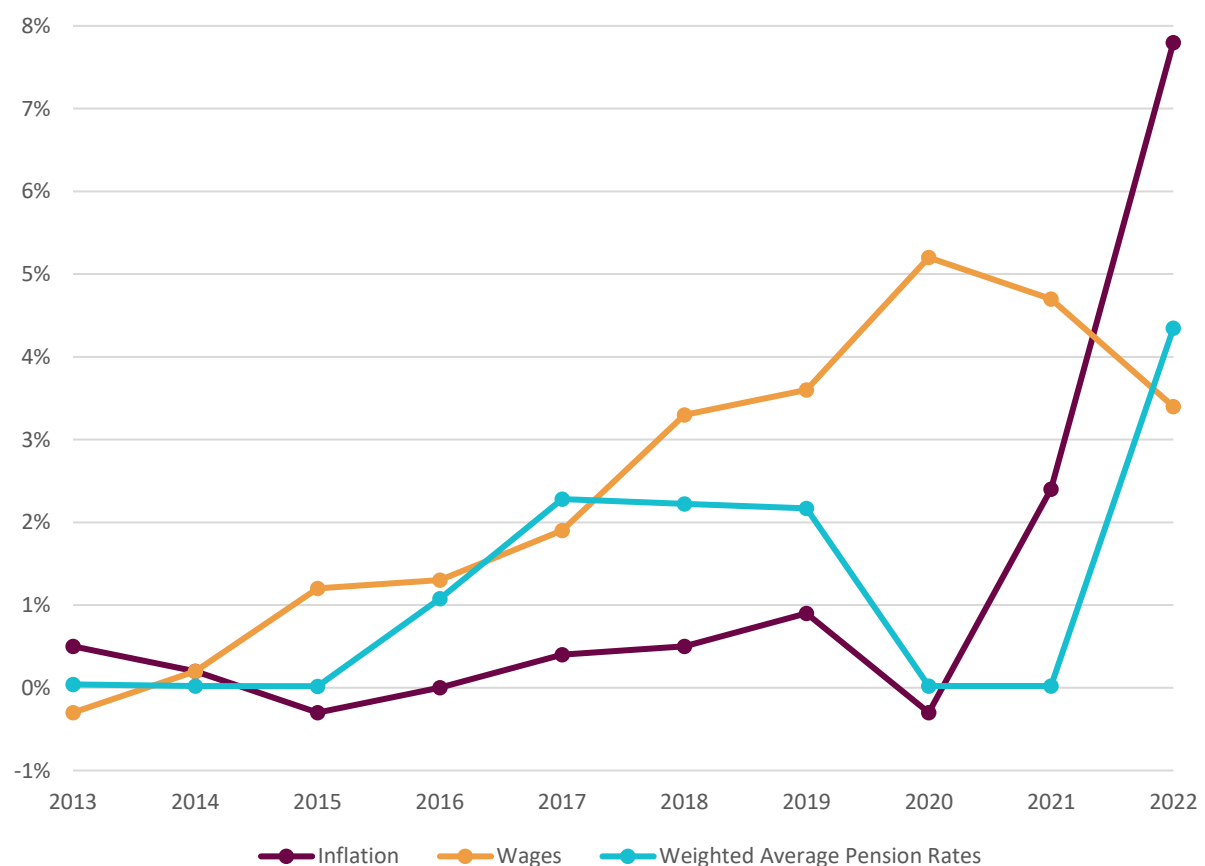
Note: This graph captures the personal, full rates only and does not include increases for qualified adults and children.

From 2015 to 2020, the annual growth in full pension rates and wages were greater than the annual growth in inflation (figure 8, below). In 2020, there was a period of deflation for several months due to economies closing to slow the spread of the COVID-19 virus. As restrictions eased across Europe, and economic activity increased, inflation turned positive again in 2021, and increased dramatically to 7.8% in Ireland in 2022 following the invasion of Ukraine by Russia in February of that year.

Inflation can erode the real value of pension benefits over time, especially if pension payments are not adjusted for inflation. In the periods where pension rate increases were greater than the rate of inflation, recipients were able to retain much of the purchasing power of their weekly pension.

However, in 2021 and 2022, the rate of inflation began to rise at its fastest rate in a decade with the annual increase growing faster than the rate of increase in the weekly pension payment. This resulted in pensioners purchasing power decreasing, as the price of goods and services rose. Lump sum payments can help provide immediate financial support to households but come at the risk of ignoring the adequacy of core rates of welfare payments in the medium-term.¹⁵

Figure 8: Annual Percentage Change in Inflation, Wages and Pension Rates



Source: PBO based on CSO Statistics for [Wages](#) and [Inflation](#), and Department of Social Protection, [Statistical Information on Social Welfare Services 2021](#) and [2022](#).

Note: A weighted average was used to calculate the annual growth rate across the 4 pension schemes.

¹⁵ Parliamentary Budget Office, [Post Budget Report 2024](#) (2023).

For analysing pension rate growth in figure 8, a weighted average was calculated across the four schemes outlined in this paper. The percentage of total recipients of each scheme determined the weight of each scheme, for example, in 2017, 64.5% of total pension recipients were receiving the Contributory State Pension, so this scheme will account for 64.5% of the average increase or decrease.

Policy 'levers' are available to Governments to adjust pension rates or implement cost-of-living adjustments (COLAs) to ensure that retirees' pensions keep pace with inflation. These adjustments are often based on the Consumer Price Index (CPI) or another inflation measure. Not without costs and complications, the indexation of the pension and wider social protection payments to a set level above the rate of inflation can help alleviate the worst effects of inflation on vulnerable members of society.¹⁶

¹⁶ Committee for Budgetary Oversight, [*Report on Indexation of the Taxation and Social Protection System*](#) (2022).

Demographic Change and the Impact on Funding Pensions

By 2050, Ireland is expected to see a significant increase in spending relating to both Social Protection and healthcare services.¹⁷ An important driver of demand in both areas is Ireland's ageing population coupled with increased life expectancy. While the longevity of the population due to improved living standards and healthcare provision is to be welcomed, the combination of increased life expectancy alongside reduced fertility rates has led to dramatic – and sustained – increases in the proportion of older people in the population.¹⁸ The resultant increase in the number of individuals aged 65 and over will lead to an enhanced financial burden being placed on the State pension system currently in place.

Ireland's Aging Population

At present, Ireland has one of the most favourable demographic make-ups in the EU with the highest 'natural' rate of population increase (the gap between births and deaths, +0.6%) and the lowest median age (37.7 years against EU average 43.3 years) among member states.¹⁹

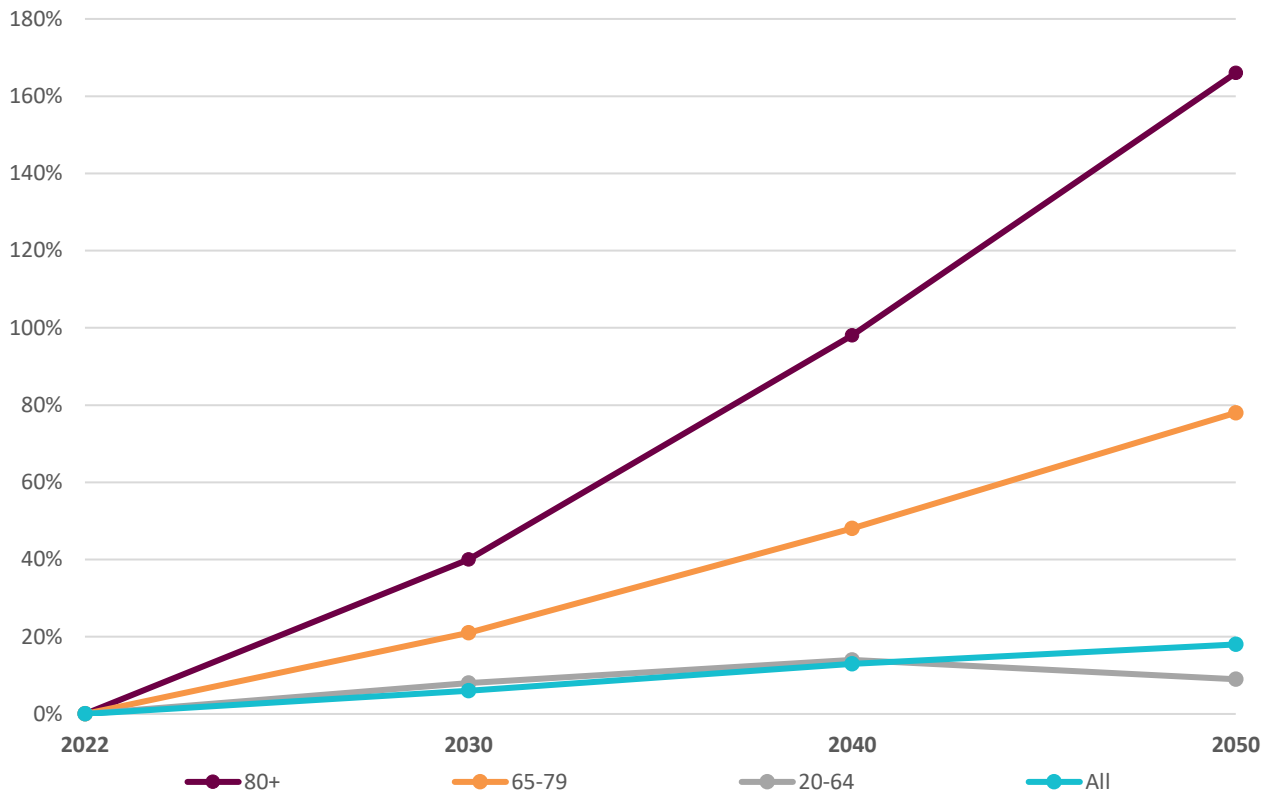
Figure 9, below, is based on OECD population forecasts which suggest Ireland's total population will grow by just under 18% between 2022-2050. However, within this total population growth the rate of increase in the 65-79 and 80+ age groups are most pronounced, with the former increasing by 80% and the latter by 166% by 2050. In contrast, the 20-64 age group is projected to only increase by 9% by 2050, down from a 'high' of +14% in 2040. This equates to 1.54 million people aged 65+ against a population of 3.59 million in the 20-64 age group.

¹⁷ Department of Finance, [*Population Aging and the Public Finances*](#) (2018).

¹⁸ Sheehan, A. and O'Sullivan, R., [*Ageing and Public Health – an overview of key statistics in Ireland and Northern Ireland*](#) (2020).

¹⁹ KBC, [*Irish demographic data remain strong but show surprising drop in net inward migration*](#) (2020).

Figure 9: Percentage Change in Population by Demographic Age Group from 2022-2050



Source: PBO based on Demography and Population Statistics in the Economic Outlook 113 [OECD](#).

In 2022, the CSO estimated Ireland's population to be approximately 5 million, of which there are:

- 773,480 (15%) aged 65+,
- 3.24 million (65%) aged between 15 and 64,
- and just over 1 million (20%) children aged 14 and under.

Within three decades, by 2051, the CSO forecasts a total population of 6 million made up of:²⁰

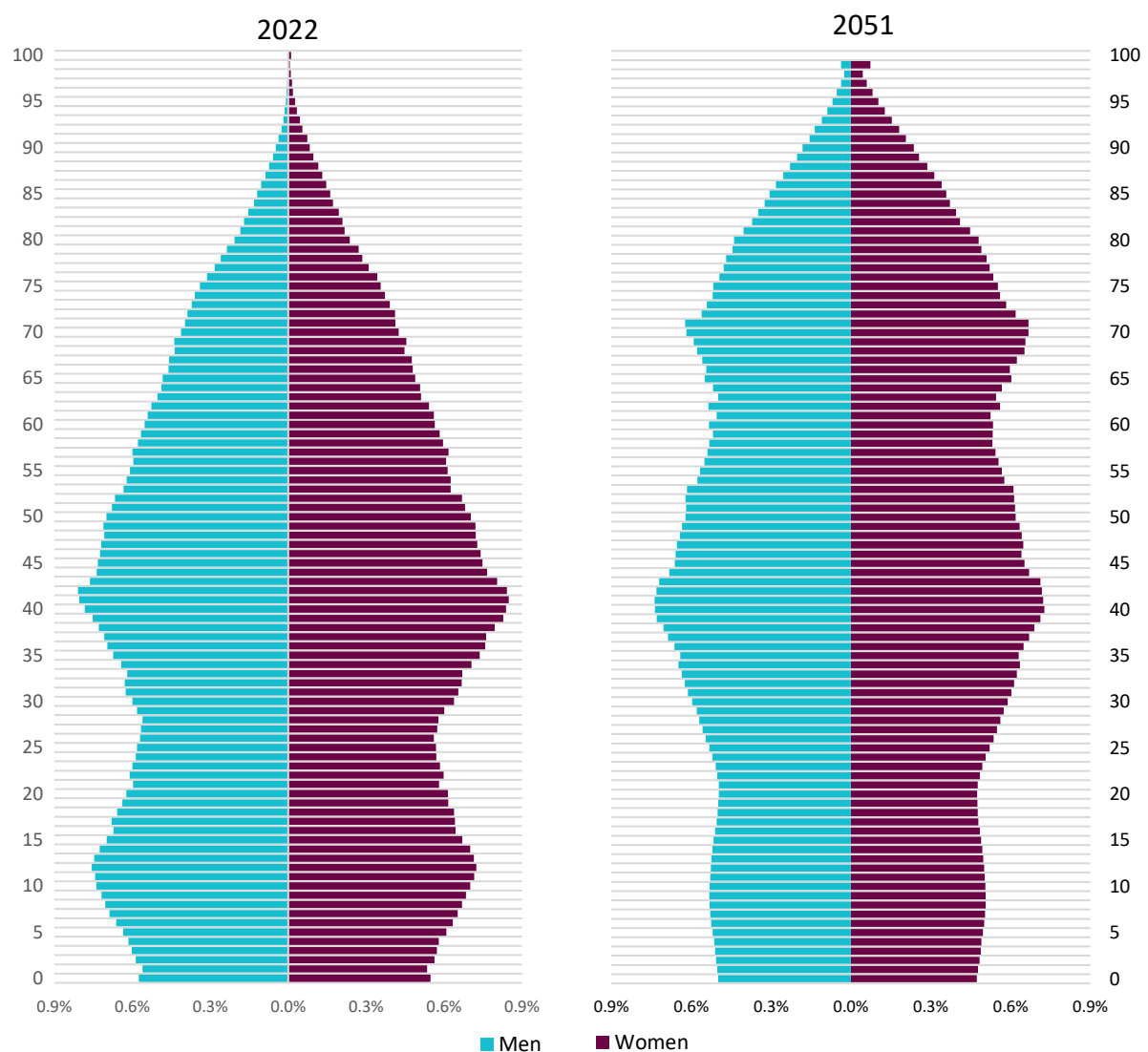
- 1.6 million (26%) aged 65+,
- 3.55 million (59%) aged 15-64, and
- 918,200 (15%) children aged 14 and under.²¹

²⁰ The CSO has produced several demographic scenario assumptions. The scenario referred to here is M2F2, used by both the Pensions Commission and Department of Finance.

²¹ The Pensions Commission, [Populations and Labour Force Projections](#) (2021).

Figure 10 shows the projected change in demographic spread over a 30-year period. As Ireland enters the 2050s, the last of the current broad 'middle' section (those presently aged 35-55) will be reaching retirement but will not be 'replaced' by a working age population of a similar size. Coupled with greater life-expectancy among retirees, the shape of Ireland's demographics will be more vertical with lower levels of variance between the age groups than in previous generations.

Figure 10: Population Changes in Ireland between 2022 and 2051



Source: PBO based on [M2F2 CSO Statistics](#).

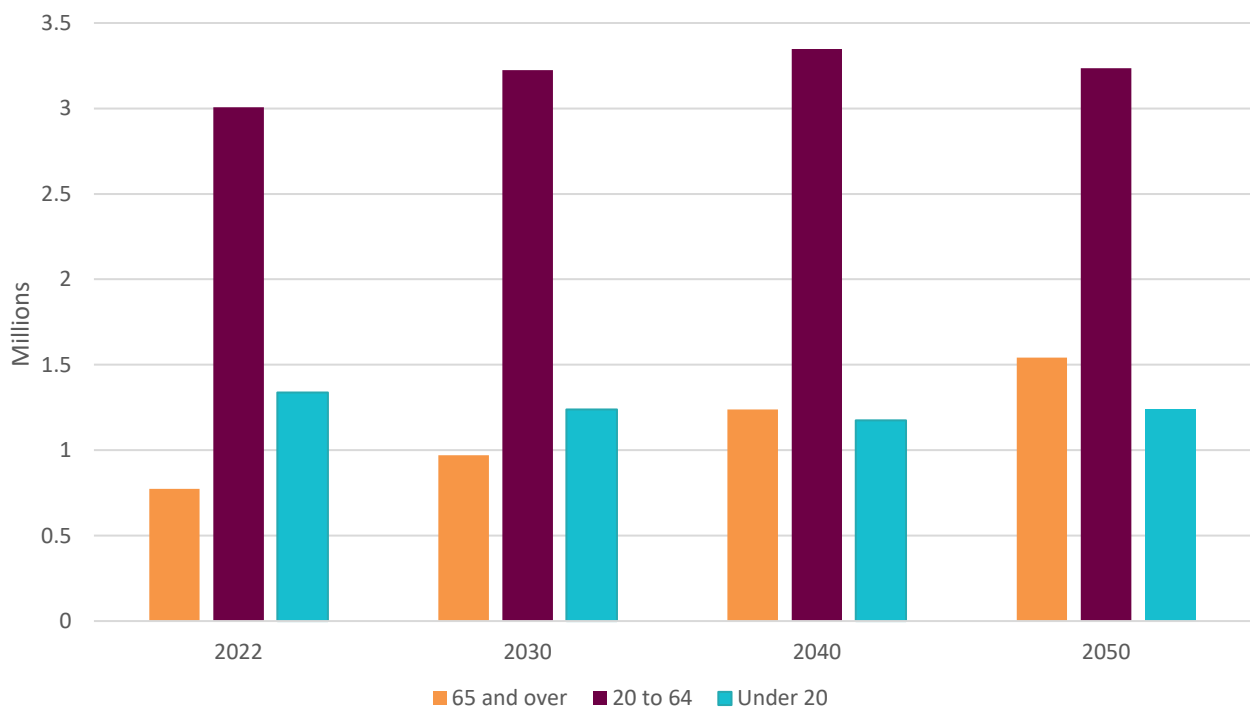
Note: Each bar in Figure 10 represents a single year of age.

Ireland's Old Age Dependency Ratio

Due to this ageing population, participation rates in the labour market are projected to fall significantly with the percentage of labour that contributes to economic growth projected to steadily decrease up to 2050 (figure 11). As a result, the Irish Old Age Dependency Ratio (OADR) is projected to increase in comparison to the working age population (aged 20-65).

At present, the OADR in Ireland is an estimated 1:4.5 meaning there is approximately 4.5 people of working age (20-64) to every one person aged 65 and over.²² By 2050, this ratio is forecast to narrow drastically with estimates ranging from 1:2.4 to as low as 1:2.1. Therefore, within 30 years it is forecast that for every 2 people in the working age population, there will be 1 person of pensionable age (based on an age of entitlement of 66).

Figure 11: Ireland's Current and Projected Demographic Makeup



Source: PBO based on Demography and Population Statistics in the Economic Outlook 113 [OECD](#).

As with most wealthy nations, Ireland's population is ageing due to increasing life expectancies and falling 'natural' population growth.

²² The Pensions Commission, [Technical Working Paper 1: Population and Labour Force Projections](#) (2021).

However, over the coming decades the change in Ireland's demographic make-up will be one of the most dramatic among EU nations, with the Irish population expected to age at a faster rate than many of our neighbours. Figure 12 shows the projected share of retirees (65+) as a proportion of the labour force (dependency ratio) almost doubling by 2050.

Figure 12: International Projected Old Age Dependency Ratios



Source: PBO based on Demography and Population Statistics in the Economic Outlook 113 [OECD](#).

It should be noted that the OADR is not an exact measurement as not all people in the 65+ cohort are necessarily classified as 'dependent' while not all working age persons may be net contributors.

Furthermore, forecast demographic trends are only projections based on the modelling of likely scenarios, generally informed by past trends, so the exact make-up of each cohort or total population numbers are affected by uncertainty. However, the forecast by the Fiscal Council, Department of Finance, and the CSO – contained in the Pension Commission's report and Eurostat modelling all point to broadly the same expected outcomes and balance of age cohorts.^{23,24}

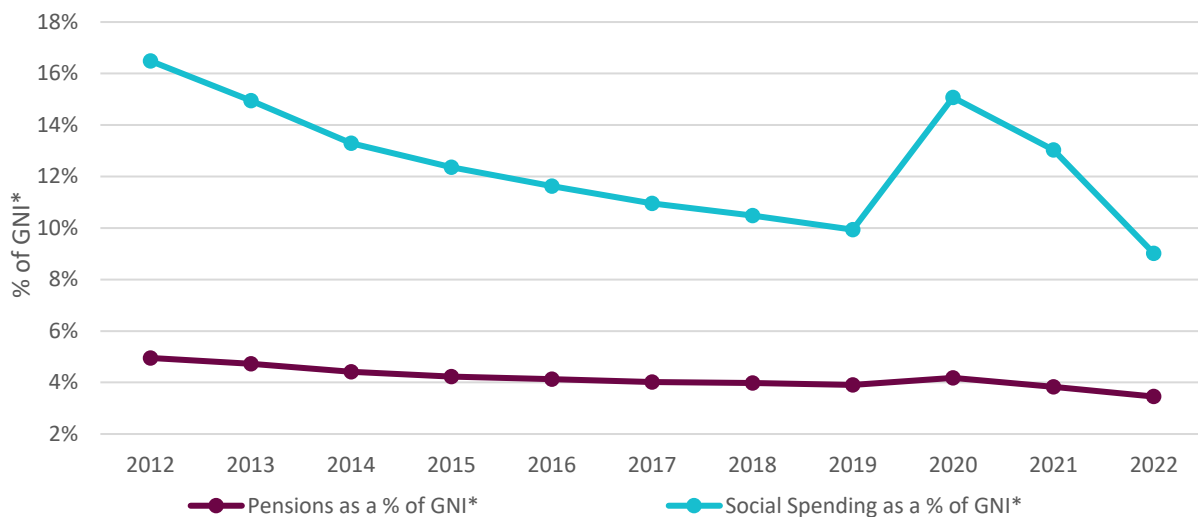
²³ The Pensions Commission, [Technical Working Paper 1: Population and Labour Force Projections](#) (2021).

²⁴ Department of Finance, [Population Ageing and the Public Finances in Ireland, 2018 and 2021](#).

Pension Sustainability in Ireland

Figure 13 shows that, as the Irish economy grew, the spend on social protection as a % of GNI* decreased. While pension rates increased over the same period, they did so at a slower rate than the increase in performance of the Irish economy. This means the country has generated enough resources to sustain the current spending on social welfare. But as the labour force changes and more people reach retirement age, funding the state pension will come under huge pressure in the coming decades. As the OADR narrows further, the reductions in productivity resulting from an aging population may slow the growth of the economy.

Figure 13: Social Protection Spending as a % of GNI*



Source: PBO based on CSO Statistics and Department of Social Protection, [Statistical Information on Social Welfare Services 2021](#) and [2022](#).

Ireland's rapidly aging population will have significant implications on the public finances. As seen in figure 12 (above), as the old age dependency ratio narrows there will be increased pressure on the Exchequer to provide for the future increases needed in spending in pensions and healthcare. The contributory pension schemes funded through the SIF will come under increased pressure as the number of people of pensionable age grows relative to those of working age. The government expects to meet most future pension costs through increasing PRSI contribution levels rather than increasing the State Pension age, which is currently 66.²⁵

²⁵ Carroll, K. and Barnes, S. ["Saving for Ireland's Future: Building a Sustainable Framework to Fund the State Pension"](#) (2023).

As part of their analysis into pension sustainability and pension reform, the Pensions Commission noted that, in the absence of changes to pensions policy, the associated increase in pension expenditure by the end of this decade would result in the SIF running significant annual deficits. For example, they estimated that the single year deficit by 2030 could reach €2.3 billion, and that by 2070 the deficit that year would be a projected €21 billion, or 3.8% of GNI*.²⁶ To put this into context, in 2022, Ireland spent €8.6 billion on pensions which represents 3.46% of GNI*, so this shortfall will be greater than Ireland's total pensions expenditure in 2022.

The scale of the projected deficits has not been seen previously – even in relative terms.

To put these shortfalls in a present-day context, the deficit in SIF income in 2021 was just over €4.2 billion – based on an unprecedented level of state funding for unemployment and employment supports during the pandemic, and unemployment rates which far exceeded even the peak seen during the financial crisis (2008-2014). Analysis for the Pension Commission has estimated that by 2045 “if PRSI rates remain as they are today, and there are no changes to the pension age or pension calculation method, in the absence of Exchequer subventions, all the PRSI income received will be used to fund State Pension Contributory expenditure alone. SIF income would need to increase by 54% to maintain all SIF benefits”.²⁷

Pension Reform

In 2018, the government published the Roadmap for Pension Reform 2018-2023 with the aim of modernising Ireland's pension system and ensuring it could be financed in a sustainable manner.²⁸ Included within the reform roadmap was the intention to raise the pension age to 67 in 2021 and 68 in 2028. However, during the General Election in January 2020 resistance to raising the pension age grew with several parties campaigning to halt the proposed changes.²⁹ As part of the discussions in forming the new government, the planned pension reforms were paused and the decision to establish a 'Commission on Pensions' was included in the Programme for Government in 2020.³⁰

²⁶ The Pensions Commission, [*Technical Working Paper 2: Expenditure Projections*](#) (2021).

²⁷ Ibid.

²⁸ Department of Social Protection, [*A Roadmap for Pensions Reform 2018-2023*](#) (2019).

²⁹ Irish Times, [*Why has the Pension Age Question Suddenly Become an Election Issue*](#) (2020).

³⁰ [*Programme for Government*](#) (2020).

Established in November 2020, the Pension Commission's terms of reference included a review of eligibility criteria for state pensions, the impact of demographic changes, and impact on future funding. It considered labour market movement, previous pension analysis and pension arrangements in other countries. In doing so it outlined an intention to convene views and opinions from experts, stakeholders, and advocacy groups to assess issues of sustainability, long term care and the impact of private sector retirement on funding pensions.

In October 2021, the Report by the Commission on Pensions was published which made a series of recommendations to government with a view to alleviating the anticipated financial challenges facing the pension system in Ireland.³¹ These recommendations included:

- The gradual increase in the age of eligibility from 66 to 67 in three month increments per year between 2028 and 2031. A further increase to 68 would occur by 2039 (involving three month increments every 2 years).
- Flexible access to the State Pension, which includes deferred access to the pension up to the age of 70 permitting the continuation of PRSI contributions past retirement age to allow an individual to improve their social insurance record.
- The consideration of allowing those with long PRSI contributions (45 years plus) to retire at 65 and be in receipt of a full pension.
- Access for long-term carers (defined as caring for more than 20 years) to the State Contributory Pension, by having retrospective contributions paid for them by the Exchequer when approaching pension age for any gaps in their contribution history that have arisen from caring.
- The establishment of an independent body that will advise the Government on pension rates of payment, to ensure they meet the effectiveness of the benchmarking and indexation approach in preventing pensioner poverty.
- The alignment of retirement ages in employment contracts with the State Pension age, by introducing legislation that allows but does not compel employees to stay in employment to State Pension age.

³¹ Department of Social Protection, [Report of the Commission on Pensions](#) (2021).

- The creation of a separate Social Insurance Fund for State Pensions with a view to aiding transparency of income, expenditures, reserves, and shortfalls. This was intended to allow for a sub-division of PRSI, allowing for greater transparency on the portion of PRSI contributions directly relating to the State Pension.

Government Response

In September 2022, the Government announced a suite of measures aimed at reforming the State pension system.³² While some of these measures reflected recommendations made in the Commission's report (such as a move towards the Total Contributions Approach), they crucially opted to maintain the current retirement age of 66. Instead, a new flexible pension age model is to be introduced and from January 2024, people will have the option to continue working until the age of 70 in return for a higher pension. With PRSI contributions now permitted to be made after the age of 66, for each additional year of work, the weekly pension payment will increase. Rates payable under the new flexible system are at this stage unclear of the rates for each age yet, however all pension schemes have increased by €24 since the reforms announcement was made in 2022.³³

Future Proofing Ireland's Pension System

Prior to Budget 2024, to ensure Ireland's long-term sustainability of pensions, the Fiscal Council had put forward suggestions as to what the government can do now, to help the future of pensions in Ireland. One suggestion is that Ireland establish a separate State Pensions SIF account, to allow for a clearer analysis of the contributions required to maintain the level of Pension expenditure and allow transparency in how it is financed. The SIF has been significantly boosted by the historically low rates of unemployment, and future economic or labour force shocks may erode the capacity of the SIF to fully fund all its commitments.³⁴ The Fiscal Council identified two key conditions for the establishment of such a fund.

³² Department of Social Protection, [*Minister Humphreys announces landmark reform of State Pension System in Ireland*](#) (2022).

³³ An increase of €12 announced in Budget 2023, and a further increase of €12 in Budget 2024.

³⁴ Carroll, K. and Barnes, S. [*"Saving for Ireland's Future: Building a Sustainable Framework to Fund the State Pension"*](#) (2023).

1. There should be mechanisms in place to make sure necessary decisions are made to sustain the state pension fund in the long term, and that long term plans are in place.

- The Irish government have made it clear that it is not their intention to raise the pension age from 66. But in many countries, there are automatic adjustment mechanisms (AAMs) in place, these involve adjusting their pension systems to balance their SIFs over time. For example, Finland automatically adjusts the retirement age and benefit levels with respect to life expectancy.³⁵

2. Planning and balancing requirements should be set over a long-term horizon because demographic changes can occur over lengthy periods of time.

This state pension fund could also be used to absorb windfall tax receipts, rather than use these receipts to fund higher levels of permanent spending. There is no guarantee that these will last forever, but redirecting this revenue could reduce the future fiscal burden of an aging population and prevent reliance on these windfalls to fund current spending, which can create an array of additional problems, if they suddenly dry up.³⁶

Future Ireland Fund

Age related spending is projected to cost an additional €7 to €8 billion more, annually, by the end of this decade. To address these extra costs, the Minister for Finance announced in Budget 2024 the establishment a new 'Future Ireland Fund' intended to support the future costs of an aging population (pensions, healthcare and long-term care), climate neutrality, and wider healthcare costs. The fund is intended to be financed through some windfall tax receipts, government investment equivalent to 0.8% of GDP annually from 2024 to 2035, as well as the transfer of €4 billion 'seed funding' from the dissolution of the National Reserve Fund, reaching a total contribution from the State of approximately €70 billion. The Government believes that, through prudent management and investment, the fund could reach a total of €100 billion by 2035.³⁷ However, this does not account for any possible economic shocks or a fall in windfall corporation taxes.

³⁵ OECD, *Pensions at a Glance 2021* (2021).

³⁶ Carroll, K. and Barnes, S. "*Saving for Ireland's Future: Building a Sustainable Framework to Fund the State Pension*" (2023).

³⁷ Dáil Éireann debate, *Budget 2024 Statement* (2023).

Conclusion

Since 2012, Ireland's spending on pensions has increased consistently, largely driven by our aging population, expansion of the eligibility criteria for accessing pensions and increases in the weekly payment rates. In the decade to 2022, spending grew by almost 50% rising from €6.3 billion in 2012 to €9.4 billion in 2022. In the same period, average weekly pension rates increased 12.8% while the number of recipients has grown by 34.6%.

With our population due to age rapidly in the coming years and decades – coupled with increased life expectancy – this trend is set to both continue and escalate.

Between 2023 and 2050, the share of retirees to working age individuals (the OADR) is projected to narrow significantly, reducing from 1:4.5 to 1:2. This means, by 2050, there is expected to be only two people active in the labour force to fund each retirees' pension. By 2071, the annual shortfall in the SIF is projected to be 3.8% of GNI*. In 2022, Ireland's total spend on State pensions (€9.4 billion) represented 3.46% of GNI*.

As a result of Ireland's changing demographics and labour force make up, the current system of funding state pensions is not sustainable and will come under intense financial stress in the coming decades.

Some pension reforms have been introduced by the government to address this issue, such as a flexible pension age model and changes to PRSI rates. In addition, in Budget 2024, the Minister for Finance established the Future Ireland Fund which is intended to fund the future pensions and increased healthcare costs of an aging population. At this time of high levels of employment and windfall tax receipts, it is prudent that the State now prepares for the future funding pressures linked to demographic change.

The PBO suggests that the current proposed reforms of the pension system may not sufficiently address the demographic linked issues Ireland will face. While a 'savings account' such as the Future Ireland Fund is an important first step, the projected shortfalls in pension funding may quickly erode these savings. Therefore, it is important that additional and robust pension reforms are enacted to ensure the future sustainability of the pensions system.

Contact: *pbo@oireachtas.ie*

Go to our webpage: *www.Oireachtas.ie/PBO*

Publication Date: 24 November 2023