An Roinn Airgeadais
Department of Finance

Population Ageing and the Public Finances in Ireland - Summary

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Prepared by Economics Division

Department of Finance

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SUMMARY[1]

- While currently quite favourable, the demographic structure of Ireland's population is set to change significantly over the coming decades (**figure 1**).

- People are living longer. Males born today in Ireland are expected to live 17 years longer than those born in 1951, while females are expected to live 18 years longer. By 2070, males born in Ireland will be expected to live 22 years longer than they would have been in 1951, while females would be expected to live 23 years longer (**figure 2**). At the same time, the number of children born per woman is falling (**figure 3**).

- Projections suggest the Irish population will reach 6.5 million by 2070; however, the population aged 65 and over is set to grow significantly faster than the working age population (**figure 4**).

- Such developments will have a substantial impact on the age-profile of the population (**figure 5**).

- Relative to other Member States, Ireland's population ageing will be relatively rapid over the coming decades (**figure 6**).

- Ireland's old-age dependency ratio is set to nearly double over the next 30 years, increasing from 24 per cent at present to 47 per cent by the middle of this century. Put another way: there are currently around 4 persons of working age for each person aged 65 and over; by 2050, the equivalent figure will be just over 2.

- Such a shift in the age-profile of the population will involve increased outlays in demographically-sensitive components of public expenditure, such as pensions and healthcare.

- Concurrently, changing demographics will slow the pace of economic expansion and, accordingly, slow the growth in the tax base. On a no-policy change basis, this will result in higher annual deficits and ever increasing public indebtedness (**table1; figure 7**).

- Analysis undertaken by the Department of Finance suggests annual age-related expenditure is set to increase by 10 percentage points of GNI* by 2070.

- Without policy intervention to mitigate the inevitable implications of ageing demographics, independent of the impact of the Covid-19 pandemic, the public finances will be on an unsustainable trajectory.

- Simulations show that, in a hypothetical scenario in which there were no further policy responses, this would contribute to a significant increase – of the order 85 percentage points – in the debt-to-GNI* ratio by 2070.

- Analysis by the Department shows that maintaining the State Pension Age at 66, compared with proceeding with previously legislated increases, could result in additional costs of approximately €50 billion over the long-term (**figure 8**).

- Policy reforms such as linking the State Pension Age to life expectancy could significantly reduce the cost burden.

[1] The data and analysis set out in this document are compiled by Department of Finance staff. Every effort is made to ensure accuracy and completeness. When errors are discovered, corrections and revisions are incorporated into the digital edition available on the Department's website. Any substantive change is detailed in the online version.

KEY DEMOGRAPHIC TRENDS THAT WILL IMPACT ON THE PUBLIC FINANCES

Life expectancy in Ireland is expected to grow by 3 and a half years between 2019 and 2050, from 81.1 years to 84.6 years for males and from 84.8 years to 88.3 years for females.

The natural increase in the population in Ireland (births v deaths) is projected to fall from close to 30,000 in 2019 to 10,000 in 2050 and turn negative by 2062.

By the midpoint of the century, those aged 65 and over are expected to make up a quarter of the population in Ireland, an increase from 1-in-7 in 2019.

8 per cent of people in Ireland expected to be aged 80 or over in 2050, up from 3 per cent in 2019.

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Figure 1: population pyramids for Ireland in 2019 (left chart) and 2070 (right chart)

Source: Eurostat. Population pyramids show share of population in each age cohort.

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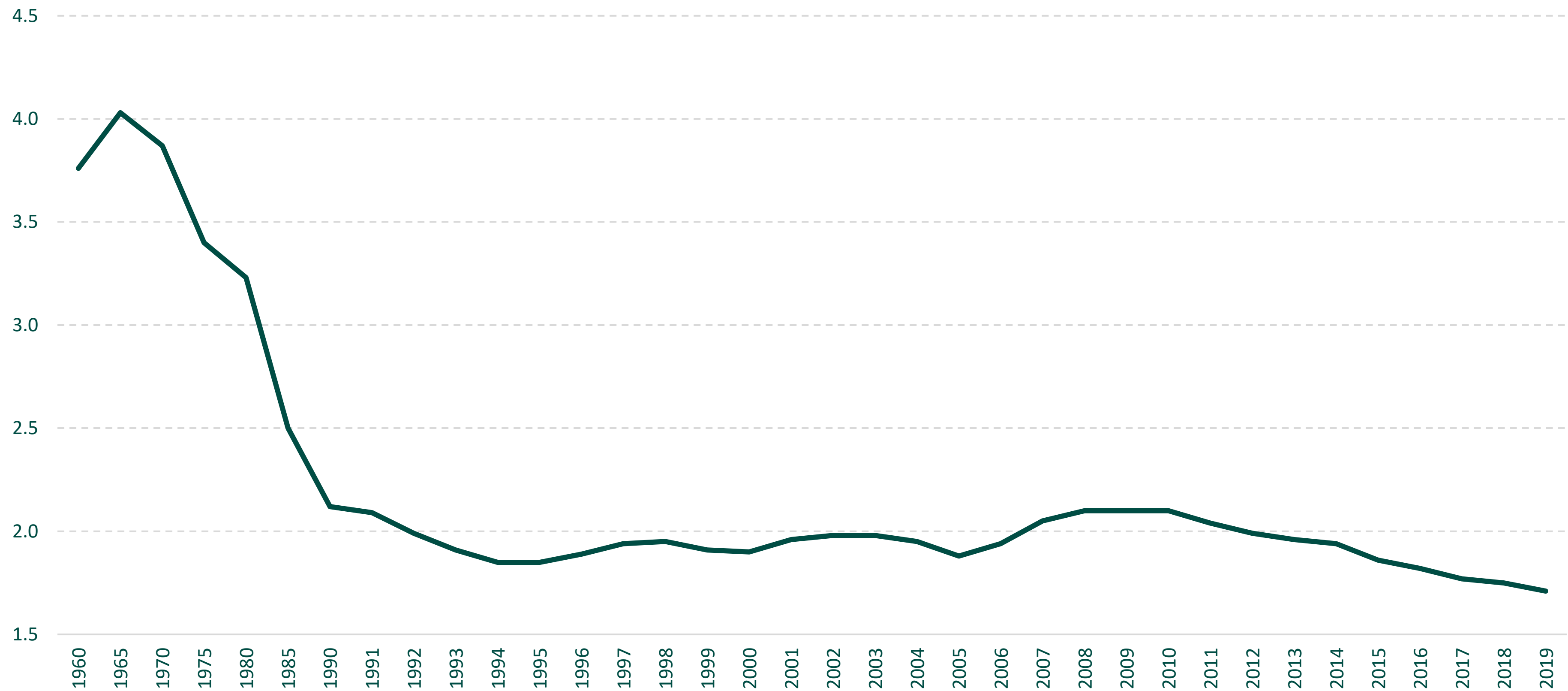
Figure 2: male and female life expectancy in Ireland, years at birth

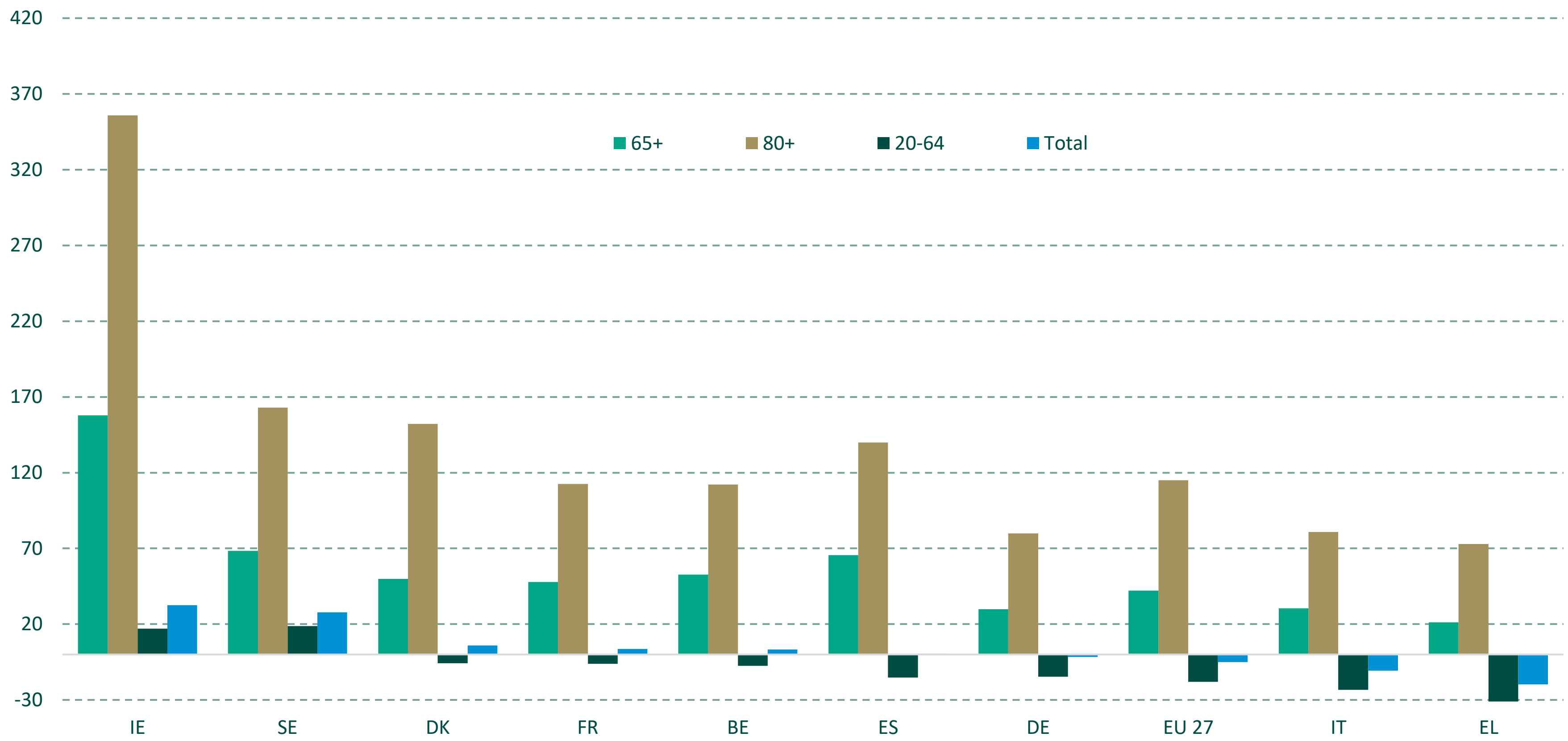
Source: Central Statistics Office and Eurostat.

Figure 3: total fertility rate 1960-2019, number



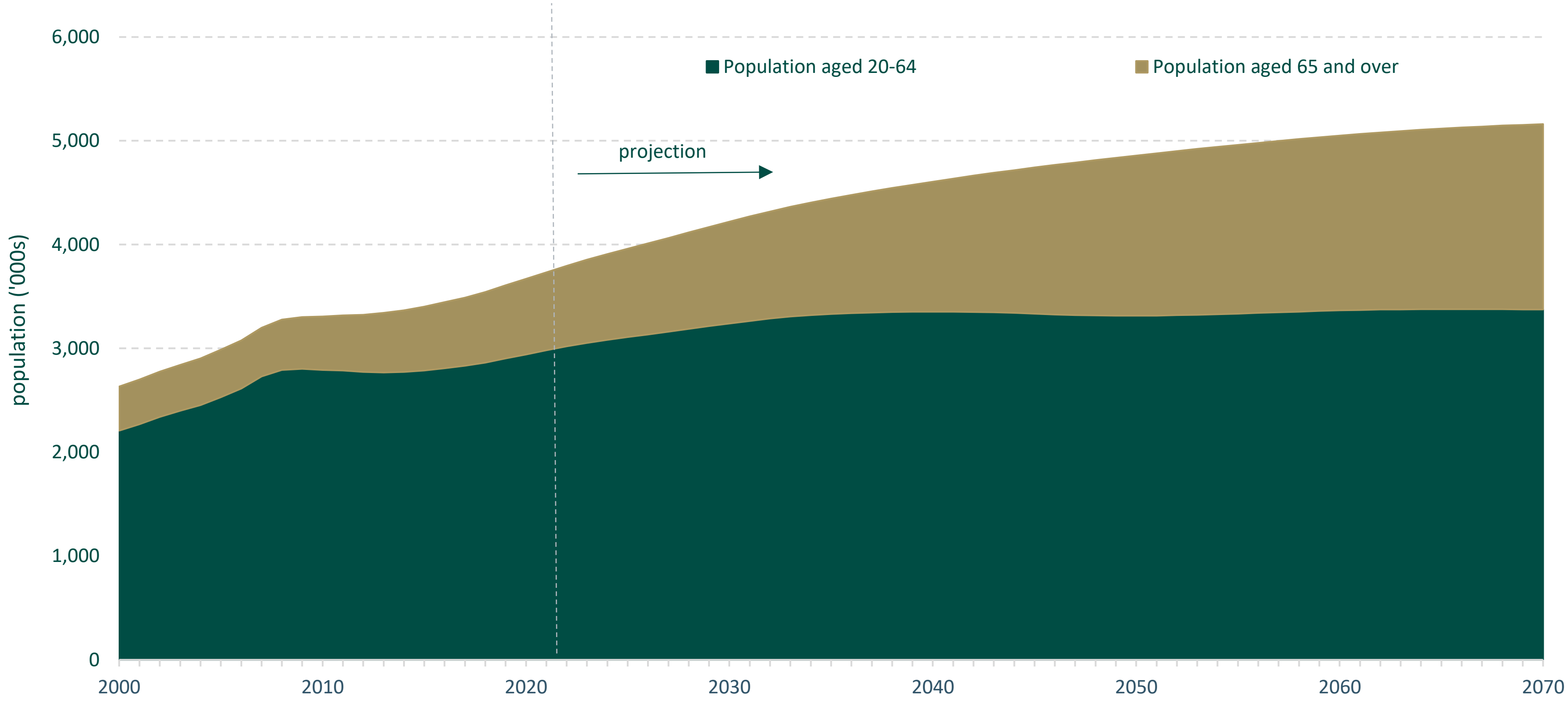
Source: Central Statistics Office and Eurostat. The total fertility rate is defined as the total number of children that would be born to each woman if she were to live to the end of her childbearing years and give birth to children in alignment with the prevailing age-specific fertility rates.

Figure 4: projected population change by age group, 2019-2070, percentage point change



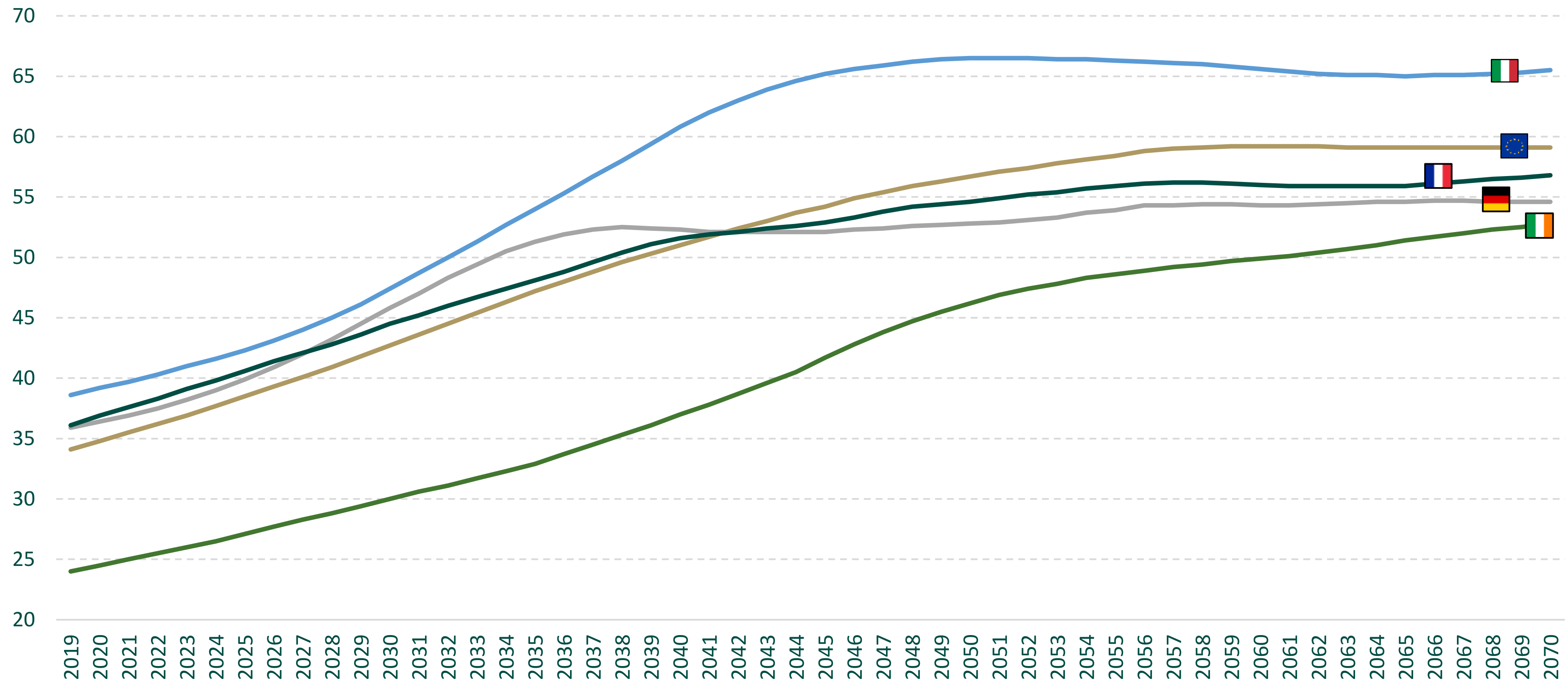
Source: Eurostat.

Figure 5: population aged 20 and over by age group



* 2000-2013 population data from the CSO. Population estimates from 2014 onwards are based on *Eurostat* estimates/projections. Source: CSO Population and Migration estimates, Eurostat EUROPOP 2019 and Eurostat demography and migration database.

Figure 6: old-age dependency ratio – Ireland and selected EU EU Member States, per cent



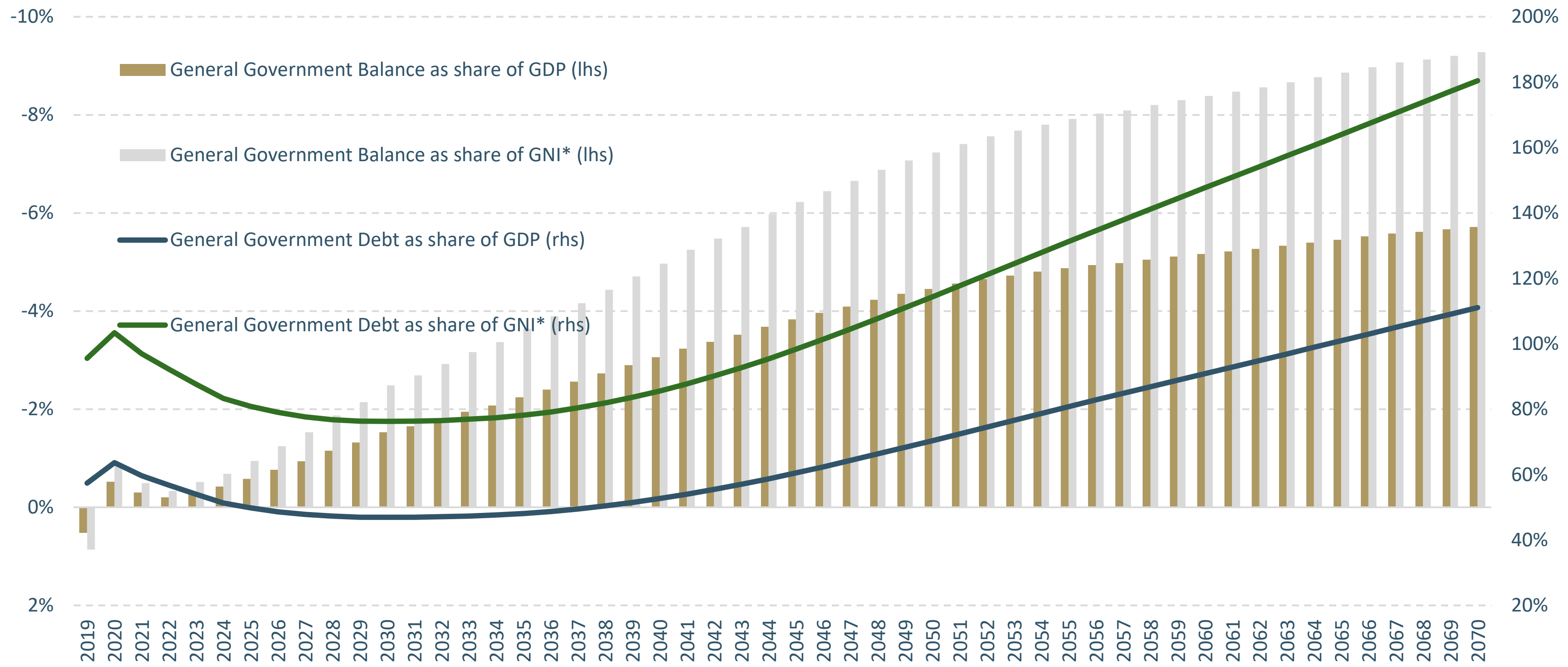
Source: Eurostat.
The Old-Age Dependency Ratio (OADR), a key metric in demographic analysis, is defined here as the population aged 65 and above divided by the population aged 20-64. The OADR is often used internationally as a proxy indicator of the ratio of the non-working to the working population. While the State Pension Age in Ireland is currently 66 years of age, the working age population is defined here as 20-64 to allow for cross-country comparison.

Table 1: Total age-related expenditure projections 2019-2070, per cent of GNI*

	2019	2030	2040	2050	2060	2070	∆ 2019-2070
Pension	7.4	9.6	11.2	12.1	12.2	12.3	+4.9
Health care	6.6	7.2	7.8	8.3	8.7	8.9	+2.3
Long-term care	2.0	2.7	3.2	3.9	4.5	5.1	+3.1
Education	5.3	5.3	5.0	5.2	5.2	5.1	-0.2
Total age-related	21.4	24.7	27.2	29.5	30.6	31.5	+10.1
Memo items:							
GDP/GNI* growth (real)^	5.5	1.4	1.7	1.6	1.7	1.5	-4.1
Productivity growth^^	3.4	1.2	1.5	1.5	1.5	1.5	-1.8

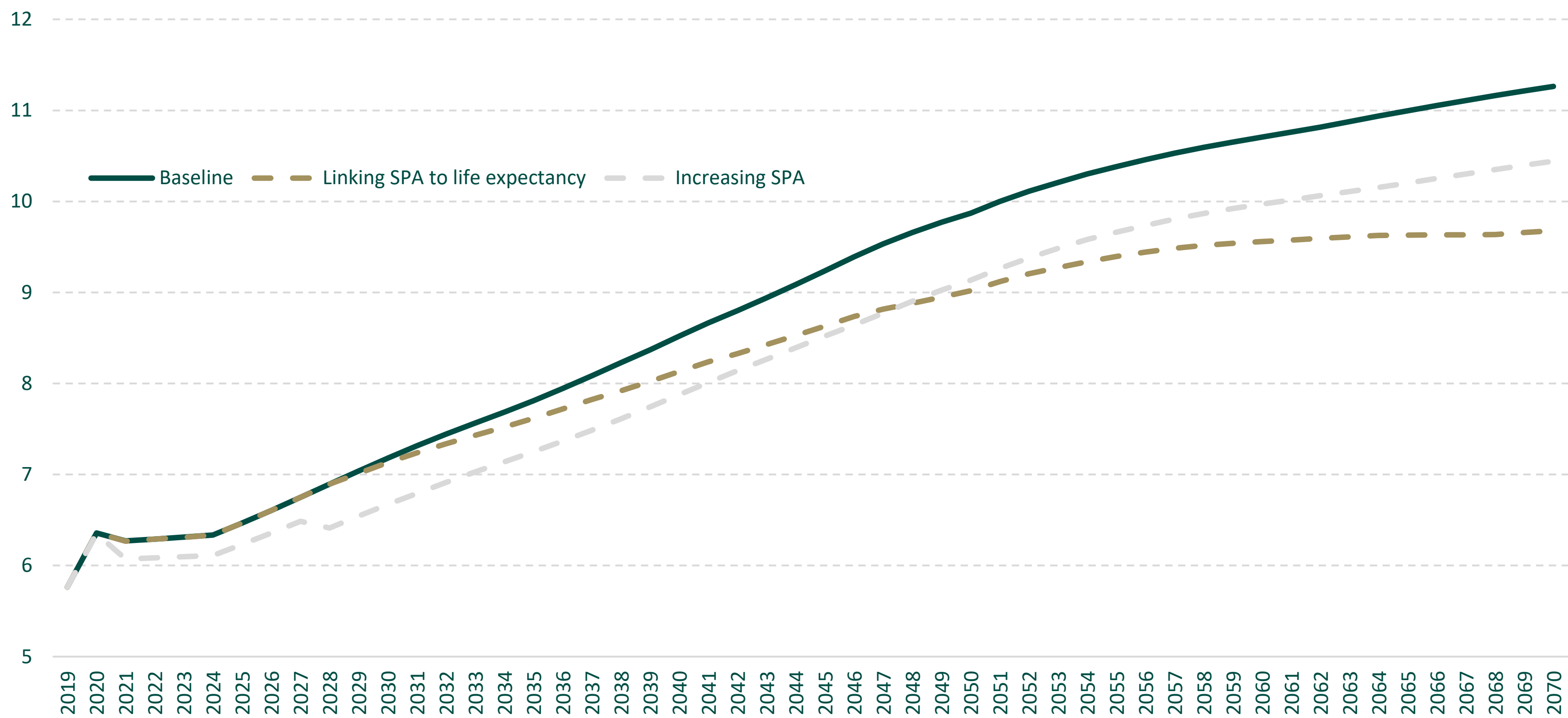
^ GDP and GNI* assumed to grow at same rate. ^^ productivity growth refers to labour productivity growth which is made up total factor productivity (TFP) and capital deepening.
Source: 2021 Ageing Report, European Commission and Department of Finance.
Based on Ageing Report framework. Rounding may affect totals. Macroeconomic projections based on the European Commission's Spring forecasts 2020.

Figure 7: evolution of key fiscal ratios on a hypothetical no-policy change basis, per cent^



Source: Department of Finance calculations. ^ does not capture the impact of Covid-19 pandemic and related support measures, which are temporary.

Figure 8: evolution of debt-income ratio under different policy scenarios, per cent of GNI*



Source: Department of Finance
Baseline assumes the State Pension Age (SPA) remains at 66 years of age for the entire projection period.
"Increasing SPA scenario" assumes SPA increases in line with previous legislation, i.e. SPA increases to 67 in 2021 and 68 in 2028.
"Linked SPA scenario" assumes that the SPA increases to 67 in 2021 and 68 in 2028 and thereafter for every additional year in life expectancy, the SPA increases by ¾ of a year.

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