

CONGRESS RESPONSE TO THE MILLIMAN REPORT ON THE SUSTAINIBILITY OF THE STATE PENSION IN IRELAND

INTRODUCTION

Milliman has produced '*Research report on the financial sustainability of the State Pension in Ireland*' which has concluded that the Irish State Pension system is unsustainable. The report suggests that it will be necessary going forward to improve the system's sustainability and the authors have evaluated various options to that end. The options involve decreasing the level of pension, reducing pension increases in future, or reducing the portion of the population entitled to benefits and further increasing the pension age. Milliman also suggests that higher levels of PRSI might help to allow smaller cuts than otherwise might be the case.

Public Policy.ie and the Society of Actuaries who commissioned this report have welcomed the analysis as an insightful and valuable contribution. There is something distasteful when a well pensioned self- selected few, commission and then welcome a report that suggests that Ireland cannot sustain a moderately decent pension for its less well-off citizens going forward.

There are many challenges of affordability and sustainability facing Irish society today. Health care, homelessness, the catastrophic collapse of our funded pension schemes, tax and PRSI evasion through bogus self-employment and the lack of a properly funded education system are just some of the more pressing issues.

WHY DID MILLIMAN PRODUCE THIS REPORT?

The authors and those who commissioned the report justify their decision to choose this subject for study because the OECD has stated *'Ireland faces challenges on the financial sustainability of its pension system as its population ages'*. Of course Ireland faces challenges but we are better placed than most of our European partners to meet those challenges. To move from an observation that we face challenges to the definitive assertion that *'the State pension system is unsustainable'* is a very large leap indeed. It is more akin to propaganda than insightful analysis.

OUR STATE PENSION SYSTEM IS NOT SOLELY DEPENDENT ON THE PRSI FUND

Ireland's old age pension system predates the PRSI fund. In its original form the old age pension was a transfer of wealth to the elderly poor through the taxation system. It also came to represent a beacon of intergenerational solidarity where one generation of workers commits to looking after its pensioners and the next generation does the same in turn. This tried and trusted method of caring for our pensioners was unquestioned in the developed world until fairly recently.

Since the 1960's there has been a consensus in Ireland and indeed in Western Europe that social policy should be directed to eliminating poverty in old age. Successive Governments have sought to improve the lot of the elderly and until recently there were incremental improvements in pensions, the provision of medical cards, free phone, free fuel and free travel for the elderly, with the full support of the vast bulk of the citizens who showed no reluctance to finance these improvements through taxation

THE SOCIETY OF ACTUARIES AND THE STATE PENSION

The Society of Actuaries has a record of describing our State pension system as unsustainable and has long been a cheerleader for increasing the pension age. The Society does not deal in hard facts and figures. It deals with preferred assumptions and demographic projections which in the long run will almost certainly be wrong. An actuary's methodology is blind to notions of fair play and social justice. For instance the Society -appears blissfully unconcerned that forcing a bricklayer or scaffolder to continue to engage in heavy manual labour until they are 68 and older is grossly unfair. These workers and their employers have paid for the three years pension entitlement that will be confiscated from them.

It was only by using the Troika as cover that the Government was able to get away with increasing the pension age to 68 (the highest pension age in Europe.) No government could have gotten away with this change had the Society of Actuaries not done the spade work for them in term of ringing false alarm bells about the unsustainability of the State pension.

THE ELITE ESCAPES THE HARDSHIP IT IMPOSES ON OTHERS

Many of the senior politicians and administrators who implemented this change in the pension age (which cost many private sector workers as much as €36,000) suffered no ill-effects and will continue to get their gilt edged pension from age sixty, many years earlier than their private sector counterparts. Congress has been campaigning to change this unjust and inequitable attack on a section of the workforce. The Milliman report will be used to resist the reasonable trade union call to delay the age increase and for Ireland to move

in line with the rest of Europe. It will also be used to try to justify a further increase in the pension age beyond 68.

POPULATION PROJECTION IS AN INEXACT 'SCIENCE'

One of the main props of the Milliman analysis is the CSOs 2011-2046 population projections. Milliman carries the mortality, fertility and migration assumptions on to 2047-2065. One thing we can know from experience is that the CSO projections will be spectacularly wrong. Every past attempt at population projection in Ireland has grossly under-estimated population growth. One eminent academic has described population projection as a 'hazardous exercise.' To extend the assumptions for a further twenty years as Milliman has chosen to do will inflate to margin of error to such an extent that its figures are little more than idle speculation.

'THE EXPANDING FUNNEL OF DOUBT'

The actuarial profession has an expression that captures this idea that the further out you go with your projections the more unreliable those projections become. Actuaries recognise what they refer to as *the expanding funnel of doubt* which it comes to projecting investment performance. Milliman's disregard for this concept in relation to its population projections is disappointing.

THE LIMITS OF POPULATION PROJECTIONS

It is possible to make reasonable projections about the number of pensioners in the economy twenty years hence. Significant numbers of people between the ages of 45 and 65 are unlikely to migrate inwards or outwards. However

amongst the younger age groups migration is far more common and difficult to predict over 20 years. It is well-nigh impossible to project, with any degree of accuracy, migration amongst younger workers. Historically Ireland's rates of emigration and (in the early 2000s) in-migration have been high relative to most countries. This has led to dramatic swings in the size and structure of the population – all making projections less useful. To attempt to project migration amongst younger workers over 40 years is not so much hazardous as it is foolhardy. The great human tragedy that is unfolding in southern Europe should tell us that demography based on past experience of population inflows and outflows is an inexact science at best.

WHAT MAKES A PENSION SYSTEM SUSTAINABLE?

The ability of a society to pay a decent level of pension is not down to population numbers, dependency ratios or the income or outgoings of a social insurance fund. It is down to the level of productivity and the wealth generating capacity of that society. How much productivity and wealth is allocated to pay for pensions is a political decision which should be made democratically and in real time in the light of real economic experience.

THE ACTUARIAL PROFESSION'S RECORD ON PENSION SUSTAINABILITY

The Actuarial profession in Ireland has generated substantial fees by assuring trustees, employers and workers that their funded defined benefit pension was sustainable. The profession got it spectacularly wrong and it is the workers of Ireland who have had to carry the terrible losses arising from their faulty assumptions. The profession is not responsible for the regulatory failures which led to the collapse of defined benefit but it did gain by lending credibility to a system that turned out to be a very expensive white elephant.

The Society has shown no interest in whether our DC system is sustainable or represents good use of workers money. If DC turns out to be as poor value as DB the actuaries still get its fees and only the workers will carry the losses.

WHO BESIDES PUBLIC POLICY.IE WILL WELCOME THIS REPORT?

This report will be used by the neo-liberal right to redouble its offensive against decent public pension provision in Ireland. This may or may not be what Public Policy and the SAI intended. However they clearly have an ideological preference for private pension provision (where Actuaries have a lucrative role) over public pension provision (where they have little or no role.). The pensioners and PRSI payers of Ireland need to watch that their politicians are not blinded by the use of highly speculative population projections to undermine public pension provision.

THIS REPORT WILL DAMAGE THE EMERGING CONSENSUS ON PENSIONS

There is a broad consensus emerging amongst all stakeholders in Ireland that we need to move on from the catastrophic failure that was Defined Benefit and ineffectively regulated DC towards properly regulated universal provision. In this regard Milliman's suggestion that a universal second pillar might be used to offset reductions in the State pension is ill-timed. If the workers of Ireland believe that universal second pillar provision will be used to displace public pension provision that they have already earned and paid for, not only will workers not support universal provision they will resist its implementation.

LEVERS TO CONTROL BENEFIT OUTGO

'Levers to control benefit outgo' is the quaint phrase Milliman uses to describe ways of reducing citizens' pension entitlement. Firstly it suggests that increases

in the retirement age should be part of the solution if life expectancy continues to improve. No recognition is given to the fact that with a pension age of 68 Ireland already has the highest pension age in Europe. We have moved very quickly to get to that point. There was an appalling lack of consultation or notice given to those whose pension entitlement has been confiscated. No consideration was given to the injustice involved to private sector workers engaged in in hard physical labour who had already seen their Defined Benefit pensions collapse.

CHANGES TO PENSION INDEXATION

Of all the harmful ‘levers to control benefit outgo’ evaluated by Milliman changing the approach to indexation appears to the authors as ‘the most promising option.’ The DB debacle has a valuable lesson to teach us about lack of indexation. More than 50% of our DB schemes are wound up and most of those that survive are closed to new members. Nearly all surviving schemes have no provision for indexation. The means that the pension one receives is frozen on retirement day and with ordinary low levels of inflation (2% p.a.) will lose more than 50% of its value in twenty years. If higher levels of inflation arise the descent into penury will be all the more rapid. The whole point of DB was that the pensioner was supposed to have income certainty until death. Changing indexation is a way of confiscating pension value by stealth. While this might seem like a promising option to Milliman it is in fact the most pernicious as its long term effects are hidden to all but the experts who are reticent about sharing their knowledge.

CONCLUSION

Of all the stark and immediate sustainability challenges facing Irish society the question of providing a decent pension for citizens 40 or 50 years from now is not the most pressing. The commissioning of this report and the speculative methodology used will serve only to play into the hands of those who are ideologically opposed to public pension provision.

Public Policy.ie and the Society of Actuaries have done no service to the Irish public in publishing this report.