

NATIONAL ECONOMIC DIALOGUE

PUTTING PEOPLE FIRST: ECONOMIC AND FISCAL POLICY FOR OUR DEMOGRAPHIC
OUTLOOK

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An Roinn Airgeadais
Department of Finance

Putting People First: Economic and Fiscal Policy for our Demographic Outlook

This paper has been prepared as a contribution to the discussion in the breakout session at the National Economic Dialogue. It should not be seen as prescriptive but rather seeks to set out the current factual situation and to suggest some of the key questions which participants may wish to consider.

Key Guiding Questions:

- *What do we need to do now to address increasing demographic pressures on the pension system?*
- *How can the health sector manage the coming demographic challenges?*
- *How do we design education and childcare policies for the future?*

BACKGROUND

Changes in the composition of the Irish population have obvious implications for public policy and expenditure. The demand for schools, hospitals and other facilities; the need for different types of income supports; and even the physical and transport infrastructure we need, depend in part on the age structure of our population.

After 2016, expenditure projections include an additional €0.3 billion in voted current expenditure each year to accommodate demographic pressures, primarily in Social Protection, Health and Education.

Changes in population demographics are subject to a variety of changing dynamics such as fertility, life expectancy and migration rates. While in the short term we have a degree of confidence over projections, as we move to longer term forecasts we need to be aware of the extent to which these dynamics can change over time.

Nonetheless, in Ireland we have a relatively young population at present, in comparison with other EU countries. It is also clear that our population, as a whole, will age in the coming years.

OVERVIEW

In absolute terms, the number of children in Ireland is projected to continue to increase out to 2030. However, demographic projections suggest that the population of people aged 4 years or younger could decrease from 356,000 in 2011 to between 259,400 and 336,700 by 2026 (a decrease of at least 5%). For the same period, the number of people aged 19 years or younger could increase from 1,257,600 in 2011 to between 1,304,500 and 1,447,700 by 2026 (an increase of between 4% and 15%).

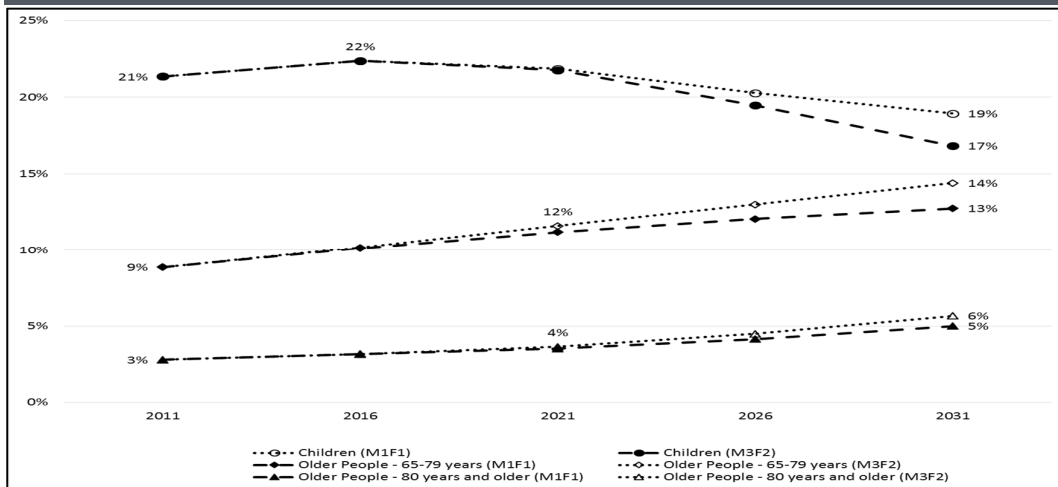
Population projections indicate that there is likely to be a significant shift in the composition of Ireland's population. The overall size of the population is projected to not only be larger but also to be much older than it is now. By 2021, older people are projected to account for about 16% of the population. By 2031, older people will account for about a fifth of the population. The population of people aged 65 years or older is set to increase from 535,400 in 2011 to between 849,500 and 860,600 by 2026, an increase of at least 58%. Over the same period, those aged 70 years or older will increase from 359,500 to between 599,200 and 606,700, an increase of at least 66%. The projected contraction in the share of the working age population will contribute to an increase in the dependency ratio so that by 2060 there will be fewer than 2 people employed for every retired person over 65 years as compared with today's ratio of almost 4.

Differences arise in predictions made by various institutions on the future demographic outlook. Estimates made by the European Commission in their 2015 Ageing Report use EU averages rather than Irish data. In contrast, CSO predictions use Ireland-specific data (set out below) and provide estimates on a range of assumptions regarding migration and fertility.

Nonetheless, the general consensus implies that the overall size of the population is projected to not only be larger but also to be much older than it is now.

FIGURE 1 | Percentage of Total Population by Age Particular Cohorts, 2011-2031

Source: Data from CSO Population Projections



POTENTIAL IMPLICATIONS FOR GOVERNMENT EXPENDITURE

Demographic changes have significant consequences for public expenditure. Three areas of public expenditure are particularly affected by these demographic pressures; namely Health, Social Protection and Education (see **table** below).

Table 1 | Total Departmental Expenditure, 2008-2014

	2008	2009	2010	2011	2012	2013	2014
	€bn	€bn	€bn	€bn	€bn	€bn	€bn
Health, Social Protection and Education (Current)	41.6	44.5	44.5	43.6	43.1	42.3	41.4
<i>Of which: Social Welfare - Live Register</i>	2.1	3.7	4.1	3.9	3.6	3.7	3.3
<i>Of which: Social Welfare - Other</i>	15.4	16.5	16.5	16.8	16.6	16.2	16.1
Other (Current)	11.8	11.2	9.7	9.3	9.0	8.7	9.1
Capital	9.0	7.3	6.4	4.5	3.8	3.4	3.5
Total Gross Voted Expenditure	62.4	63.1	60.6	57.4	56.0	54.4	54.0

Projections set out in the European Commission's 2015 Ageing Report suggest that demographic changes in Ireland will present significant challenges to the Exchequer over the medium-term. In particular, total pension expenditure is projected to increase from 9.2% of GDP in 2013 to 11.4% in 2025. Expenditure on health care and long-term care is projected to increase from 6.7% of GDP in 2013 to 7.4% in 2025. Expenditure on education is projected to increase from 6.0% of GDP in 2013 to 6.3% in 2025.

These areas are addressed in more detail in the following sections.

EDUCATION

Based on CSO forecasts, the Department of Education and Skills has projected the school going population out to 2032. In the most likely scenario, the number of primary pupils is projected to peak in 2018 with 29,000 more pupils than in 2014. The peak in second level numbers is projected to occur later, in 2025/26, with an additional 71,076 pupils compared to 2014. In terms of resources, by 2021 the primary and secondary school system is likely to have 64,713 more pupils and 4,496 extra teachers at current staffing levels. When capitation payments are included, this represents an additional annualised expenditure requirement of €222 million compared to 2014. There will also be demands to invest in the building of new schools and the extension of existing schools.

The Department of Education and Skills projections indicate that demand for third level full time education is expected to continue to rise every year over the period 2014-2028, reaching 211,709 by 2028, an increase of over 46,500 on the 2013 enrolment levels. If the current level of funding per student is kept constant, the additional expenditure requirement in 2028 compared to 2014 is likely to be approximately €362 million.

HEALTH

Demographic drivers of public health care expenditure comprise the age structure of the population and the evolution of their health status. There are four main sectors that account for the majority of the estimated demographic cost pressure in health. These sectors include Acute Hospitals, Primary Care Reimbursement Service (PCRS), Nursing Home Support Scheme (NHSS) and other Services for Older People. The increased healthcare requirements associated with an older population will have obvious demand implications for Ireland's health services in the coming years.

For 2015, the Department of Health estimated the pure demographic cost pressure for public health to be in the range of €180-€200 million. For the 2015 estimate, the highest cost occurs in the acute hospital sector where an additional €56-60 million is required to accommodate demographic change. PCRS accounts for a further €40-48 million of the additional cost pressure and the other significant areas include the NHSS and other Services for Older People which together account for around €50 million of the additional demographic cost pressure.

SOCIAL PROTECTION

In 2014, €2.3 billion (12%) of Social Protection expenditure was on child related payments. The main child related payment affected by demographic pressures is Child Benefit, which is a non-taxable and non means tested payment to parents for the support of their children. Based on 2014 data, c. 618,000 families (1.2 million children) were in receipt of Child Benefit. According to CSO population projections, the proportion of children in the population will peak in 2016 at 22%, but is due to decrease thereafter.

Demographic pressures will impact on both Contributory and Non-Contributory State Pensions. In 2013, these schemes accounted for €4.93 billion in public expenditure (25% of total expenditure on social protection schemes and services) with over 420,000 people in receipt of one of these two payments compared with 201,000 in 2003, a 115% increase. In particular, the number of recipients of the Contributory State Pension has grown significantly from 114,000 in 2003 to 330,000 in 2013 (+189%). Under a 'no policy change' scenario, the expenditure on the two State schemes could reach around €7.5 billion by 2026 – an annual increase of €195 million per year out to 2026. Furthermore, it is estimated that by 2026, expenditure on Supplementary Benefits (including Household Benefits, Free Travel and Fuel Allowance) could increase to around €800 million. The estimated increase per year due to demographics alone is in the region of €200 million.

CONCLUSION

Short term demographic projections suggest that there is a need for additional facilities in the area of childcare and education. Looking toward longer-term projections, the main demographic pressures come from an ageing population in the form of health, social care and pensions.

Long-term spending projections are inherently uncertain and subject to upside or downside risks. Other drivers will also affect public expenditure such as technological progress, wider economic factors, underlying policies and institutions.

How demographic composition evolves is also dependent on how migration responds to economic conditions. Therefore, it is better to analyse a range of possible outcomes rather than

FURTHER GUIDING QUESTIONS

Notwithstanding uncertainty around long-term projections, demographic change due to an increasing and ageing population will impact on resource allocation decisions. The following questions are intended as a prompt for further discussion.

- How should Government go about co-ordinating policy and resources across relevant policy areas (such as health, pensions, social protection and education) to successfully address the demographic challenge?
- What additional demands is demographic change likely to place on public services, and how can policy choices now anticipate likely changes in demographic composition?
- Where should capital investment in infrastructural improvements be targeted in order to meet the needs of our changing population?
- What will be the impact of changing demographics on transport, planning and the environment?

*Department of Finance/Department of Public Expenditure and Reform
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