Long-term Sustainability Report
Fiscal challenges and risks 2025-2050
Brief Background to the Long-term Sustainability Report

- The Fiscal Council is an official independent body with a mandate to assess the public finances.
- This first *Long-Term Sustainability Report (LTSR)* looks at challenges and risks to the public finances 2025 to 2050.
- This analysis feeds into the Council’s assessment of the fiscal stance.
Key messages

The LTSR looks at the Budget situation beyond 2025

- Growth may slow, the number of older people will increase fast
- Under current policies, spending growth would outstrip revenue
  - Pension and health costs will rise
  - A large deficit would build up, particularly from 2040
  - Without policy action, debt would fall more slowly to around 90% GNI* and then begin to rise sharply to reach 110% GNI* by 2050
- For fiscal sustainability, tax and spending will need adjust over time
  - Allowing the pension age to follow rising life expectancy would help
  - Taking appropriate actions promptly would be less costly
- There is substantial uncertainty, particularly around COVID-19, interest rates, climate change, corporation tax and health costs
LTSR Framework

Productivity
- Population
- Employment
- Inflation

Revenue
- Tax
- PRSI
- Other

Expenditure
- Health
- Pensions
- Education
- Social Protection
- Other
- Capital

Budget Balance

Debt
Productivity growth is projected to slow

Regions with higher productivity levels tend to grow more slowly

- Ireland’s productivity level is already high in GNI* terms
- Irish and international trends point to slower growth

Sources: OECD (Regional Database); and Fiscal Council workings.
Population ageing is driven by many factors

- Rising life expectancy
- Bigger cohorts in retirement
- Stable fertility
- Migration will help to mitigate ageing pressures

**Population trends over time**

Thousands annually

Sources: CSO; Osés Arranz (2019); and Fiscal Council projections.
The population will age significantly

- The share of over-65s in the population will increase to 27%.
- Life expectancy at 65 will rise from 85 to almost 90 by 2050.
- More people will be reaching retirement age.
Ireland’s ageing is relatively rapid

The share of older cohorts in the population will increase significantly
Population by broad age group in million

Old-age dependency ratios in Ireland and Europe
Ages 65+ as % of population aged 15–64

- By 2035, Ireland will be like today’s EU average
- Within a generation, Ireland’s population will be more elderly than any EU country is today
Growth is expected to slow

Real GNI* growth
% change year-on-year
Under current policies, spending growth would outstrip revenue

- Most revenue and spending items grow in line with the economy
- But some key items like pensions and health grow faster

Sources: Eurostat; CSO; Department of Finance; and Fiscal Council projections.
Pension and health costs will rise

% of GNI* (general government basis)

Pension: 7.7 → 11.9
Other Social Protection: 6.6
Health: 8.3 → 13.2
Education: 4.2 → 4.9
Investment: 3.9 → 4.3

Sources: Eurostat; CSO; Department of Public Expenditure and Reform; Department of Finance; Fiscal Council projections.
Pensions costs will rise due to ageing

Annual changes in € billion and changes in total share of GNI*

Legislated increases in the pension age in 2021 and 2028

Sources: Department of Public Expenditure and Reform; and Fiscal Council projections.
Note: Changes in spending as a share of GNI* depend on the relative pace of growth in spending and GNI*. Demographic increases are based on y-o-y changes in claimants and avg. pension payments in (t-1). Public sector pension estimates from 2021-2050 are official estimates consistent with the Ageing Report 2018 (European Commission, 2018). The 2021 increase is a break in time series, since 2020 public sector pensions are taken from the Revised Estimates, 2020.
Health costs will rise with higher demand

Annual changes in € billion and change in total share of GNI*

Sources: Department of Public Expenditure and Reform; and Fiscal Council workings.

Note: Healthcare spending includes spending on long-term care. Changes in spending as a share of GNI* depend on the relative pace of growth in spending and GNI*. Demographic costs are based on constant last observed costs per age group. In the longer run, some of the demographic effect is taken up by price effects due to this lack of chain-linking.
A large deficit would build up, particularly from 2040

Sources: CSO; Department of Finance; and Fiscal Council calculations.
Debt would fall more slowly to around 90% GNI* and then begin to rise sharply after 2040

This would leave the debt/GNI* ratio at a vulnerable and unsustainable level

Sources: CSO; Department of Finance; and Fiscal Council calculations.
Cost pressures would more than use available fiscal space each year from 2025

Source: Fiscal Council Workings.
Note: The “Stand-Still” basis is where today’s level of public services and benefits are maintained in real terms over the long term (allowing for price and wage increases and demographic pressures). It is assumed potential growth equals actual growth over the long term. This means that the fiscal space available for each year is determined by the previous year’s corrected expenditure aggregate multiplied by the current year’s nominal growth rate.
Policy Strategies to Meet Future Needs Sustainably

• Increase taxes or adjust other areas of spending
• Make changes within the pension system:
  – Raise the retirement age
  – Raise contribution rates
  – Reduce benefits or coverage
Allowing the pension age to follow rising life expectancy would improve sustainability

Gap between life expectancy and pension age has widened

Sources: CSO; Government of Ireland; and Fiscal Council workings.
Note: The baseline assumed includes two legislated adjustments to the pension age: in 2021 and in 2028.
Implementing already legislated pension age rises and allowing future increases would help.

Additional costs in a scenario where the pension age is unchanged

% GNI*

2020 2022 2024 2026 2028 2030 2032 2034 2036 2038 2040 2042 2044 2046 2048 2050

Compared to baseline

Additional costs in a scenario where the pension age is unchanged

% GNI*

2020 2025 2030 2035 2040 2045 2050

Baseline

Unchanged pension age

Pension age rises with life expectancy

Sources: Fiscal Council projections.
Notes: Unchanged pension age refers to the pension age staying at the 2020 age of 66. In the baseline, the pension age rises from 66 to 67 in 2021 and to 68 in 2028. The link to life expectancy assumes another rise to 69 in 2040. The costs include differences related to spending on state pensions and other old age supports. These are adjusted for associated changes to working-age supports.
Earlier action and more prudent policies would ease future adjustment

If fiscal adjustments are chosen, swifter action will cost less

Fiscal adjustment required after 2025 to stabilise debt by 2050, cumulative % of GNI*

<table>
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<th>Scenario</th>
<th>2025</th>
<th>2027</th>
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<td>Acting early (until 2035)</td>
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<tr>
<td>Acting gradually (until 2050)</td>
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<td>3.7</td>
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<tr>
<td>Delayed adjustment (after 2035)</td>
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<td>2.1</td>
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<td>5.8</td>
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</tbody>
</table>

Source: Fiscal Council calculations.
Note: These adjustments are relative to a “stand-still” approach—where spending rises with demographic and price pressures—but the adjustments could also partly be achieved by growing spending at a slower pace than the economy expands at.
Uncertainty around long-term projections is high

- Many uncertainties about the future
- 5 key risks:
  - COVID-19 risks
  - Reduction in CT
  - Climate change costs
  - Health care costs
  - Interest rates

General government gross debt as a % of GNI*

Baseline
Uncertainty range

2015 2020 2025 2030 2035 2040 2045 2050

Sources: CSO; Department of Finance; and Fiscal Council projections.
Note: The uncertainty range is based on alternative assumptions for TFP growth over the long run of +/- 0.5 percentage points. This roughly corresponds to the middle two-thirds of the range of potential outcomes estimated under various approaches. The range also includes participation rates +/- 5 percentage points (ages 20–64) and the higher/lower migration consistent with growth.
A higher level of debt GNI* post-Covid-19 would increase future challenges

Gross government debt
% of GNI*, general government basis

Debt ratio starting at 140% in 2025

Baseline

Sources: CSO; and Fiscal Council calculations.
Further corporation tax falls would compound debt increases

Sources: CSO; FitzGerald and Kenny (2018); Department of Finance; and Fiscal Council projections.
Note: Graph shows gross debt. Modified GNI* is linked to GNI for the period 1970–1995 and to GNP for the period 1926–1969.
Debt dynamics are currently very supportive due to low interest rates, but this could change.

The interest-growth differential is expected to be favourable.

A percentage-point upward shift in the risk-free yield curve would increase Ireland’s debt ratio.

Sources: CSO; Fiscal Council calculations.
Health care costs are hard to predict; an unfunded Sláintecare would create risks

Alternative assumptions on how health demand increases with income

Baseline, income elasticity = 1

Low-income elasticity = 0.7

Assumed additional cost of Sláintecare relative to baseline

€ billion

Note: We assume implementation begins in 2021. Additional annual spending is taken from Tables 8 and 9 of the Sláintecare Report (Committee on the Future of Healthcare, 2017).
Climate change and the carbon transition costs will need to be met at the same time

Levels of greenhouse gas emissions

Mt CO$_2$eq

- Projected emissions: 480
- Better land use management: -27
- Additional effort required: 378
- Ceiling: 378

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