

IRELAND

Ireland's population structure has changed considerably over the past 50 years. The figures at right show the percentage of Ireland's total population by five year age groups separately for males and females. In 1950, the structure of Ireland's population formed a pyramid shape, where each successively younger age cohort represents a larger portion of the total population.

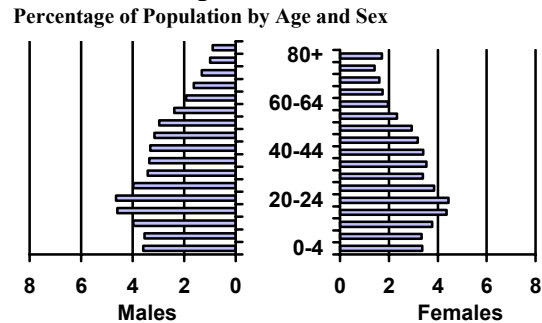
Between 1950 and 2000, Ireland's birth rate fell from 3.38 to 2.02, and life expectancy rose 8 and 12 years for males and females respectively. This caused the population structure to diverge from the traditional pyramid shape to a formation more representing a pillar, where the total population is equally distributed among the age cohorts. The bulge in the middle aged cohorts represents the surge in fertility rates following WWII that produced the baby boom generation.

Looking to the future, the anticipated mix of fertility near replacement with rising life expectancy will lead to a near fulfillment of a pillar formation in Ireland's population structure. By 2030, Ireland will have an average age of nearly 39 compared to today's average age of 35.

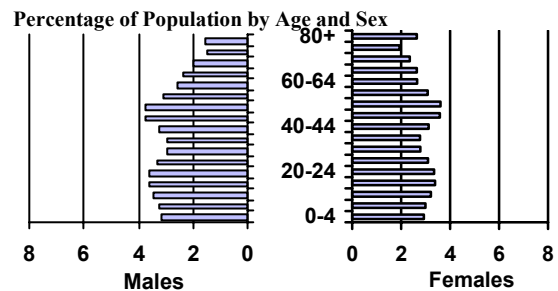
Ireland's Population Structure in 1950



Ireland's Population Structure in 2000



Ireland's Population Structure in 2030



Source: UN Population Division, World Population Prospects (The 2000 Revision).

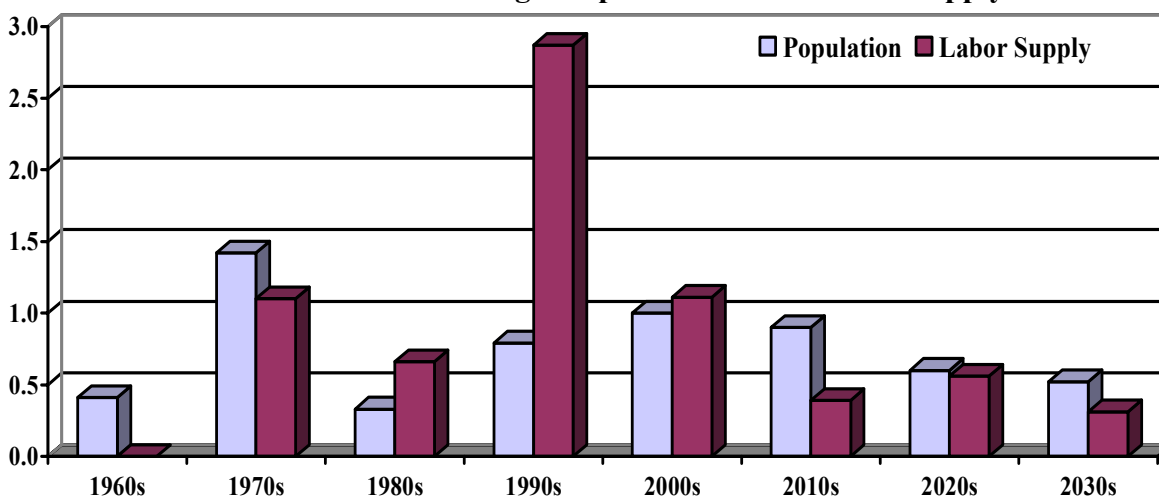
Demographic History

	1950	1960	1970	1980	1990	2000
Life Expectancy at Birth						
Males	65.70	68.40	68.90	70.44	72.62	74.41
Females	68.20	72.30	73.80	75.92	78.14	79.60
Life Expectancy at 65						
Males	-	-	-	-	78.61	79.59
Females	-	-	-	-	82.29	83.30
Fertility Rate	3.38	3.98	3.82	2.88	1.97	2.02
Net Migration Rate	-6.00	-3.58	1.79	-1.87	-0.04	1.31

A critical component of a society's ability to expand its production of goods and services is the growth of its labor force. As Ireland's population aged and as its economy has gone through significant transitions over the past half-century, the growth of its labor force has undergone significant changes as well. Soon after the end of World War II, many industrialized societies, including Ireland for a period, experienced a significant spike in birth rates – better known as the baby boom. As a result, population growth rose at a faster rate throughout the 1960's and most decidedly throughout the 1970's. As the baby boom entered the labor force, including an unprecedented number of its female members, labor supply growth increased rapidly over the latter part of the twentieth century. Most notable was the surge in labor force growth to nearly 3 percent per year over the 1990's, which was in large part induced by the rapid advancement in Ireland's economy. The considerable drop in fertility rates from those of the early post-war period - a trend that has persisted – created a period of high workforce participation in Ireland. As a result, between 1970 and 2000, total dependency rates in Ireland dropped 32 percent, while youth dependency dropped nearly 38 percent.

Ireland has enjoyed relatively robust labor supply growth over the past 50 years; however, this trend will not last indefinitely. As a growing segment of Ireland's population moves into retirement over the next few decades, labor force growth is expected to slow considerably. This is caused by the combination of several factors – prolonged fertility near replacement, improving life expectancy and a greater proportion of the population in age groups that have lower propensities to work. As a result, Ireland will face a growing inactive portion of its population, reflected by an 11 percent increase in the total dependency ratio and a 51 percent rise in its old age dependency rate between 2000 and 2030.

Annual Percent Change: Population versus Labor Supply



Source: World Bank, World Development Indicators database

Dependency Ratios

	1970	2000	2030	% change 1970-2000	% change 2000-2030
Youth- (Inactive pop 0-19)/ LF 15+	0.97	0.60	0.54	-37.98	-10.42
Aged- (Inactive pop 55+)/ LF 15+	0.40	0.33	0.49	18.29	51.02
Total- (Inactive pop 0-19 and 55+)/ LF 15+	1.37	0.93	1.03	-32.25	11.14

Source: Sources: International Labor Office, LABORSTA database, current through 2001; UN, Population Division, World Population Prospect (The 2000 Revision); OECD, CDE database on labor statistics, current though 2002

Old Age Pension System

The old age pension system in Ireland is relatively small program for which insured employees receive either a retirement pension from age 65 or a contributory old age pension from age 66 for men and women. To qualify for the retirement pension, the employee must have commenced contributions before age 55 and paid at least 156 weekly contributions over his/her career. A full retirement pension is payable if the employee has had a yearly average of 48 weekly contributions and is reduced for those with a yearly average of at least 24 weekly contributions. Eligibility for the contributory old-age program is very similar except coverage must start by age before age 56 and for the reduced benefit the employee must have average at least 20 weekly contributions.

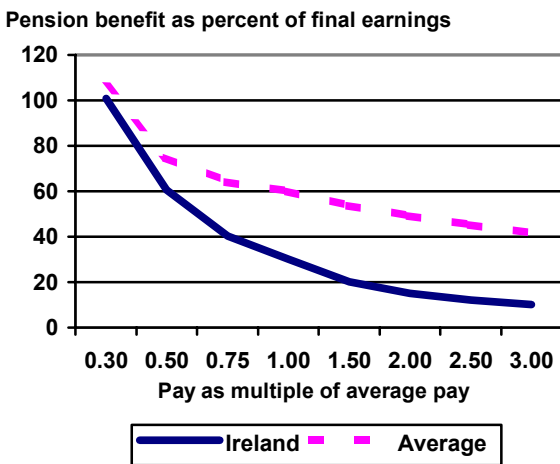
As of 2002, the basic benefit for both the retirement pension and the contributory old age pension equaled a flat rate of €147.3 per week if the pensioner is under age 80 and is raised to €153.7 per week upon reaching age 80. The pension is reduced in proportion to the actual contribution record. Pensions are reviewed periodically, typically on an annual basis. There are no provisions for early retirement and there is no actuarial increase with deferment. There is also a means-tested non-contributory old age pension for retirees aged 66 and up that do not qualify for benefits under either insured arrangements. Low income retirees can receive up to €134 per week depending on a means test. In certain special needs cases, a supplementary means-tested welfare allowance of up to €118.80 may also be received.

To finance the program, employees contribute roughly 4 percent of earnings while employers put in 10.75 percent of payroll, which is reduced to 8.75 percent, if an employee's weekly earnings are less than €355.53. In addition, the Irish plan to divert 1 percent of GDP per annum into a national fund to finance their ageing society.

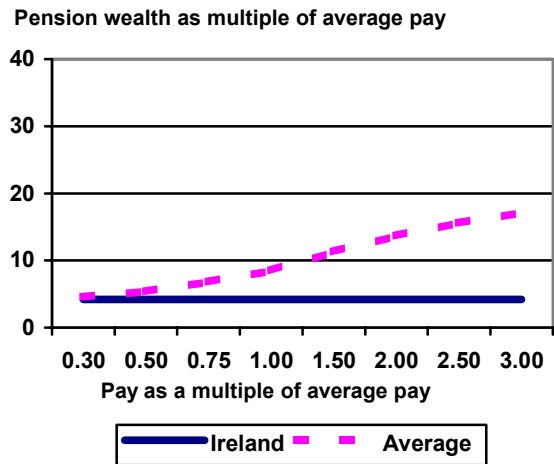
As illustrated in the graphs below, Ireland's old age pension system does not provide a very generous benefit compared to the average OECD nation. While gross replacement rates are relatively comparable to the OECD for the lowest income workers, they are well below average for the remaining income classes. As a result, retirees are able to accumulate very limited amounts of pension wealth through Ireland's public pension scheme. This is one possible reason for the expansion of occupational plans at Irish companies; whereby, as of 2002, roughly 52 percent of the employed population are covered by a private pension program. In addition, tax-deductible personal pensions have also grown significantly in recent years for directors and those not covered by an occupational scheme.

Source: Social Security Administration, Social Security Programs Throughout the World (2002). Watson Wyatt Data Services, Benefits Report: Western Europe, USA & Canada (2002).

Gross Replacement Rates
Ireland v OECD Average



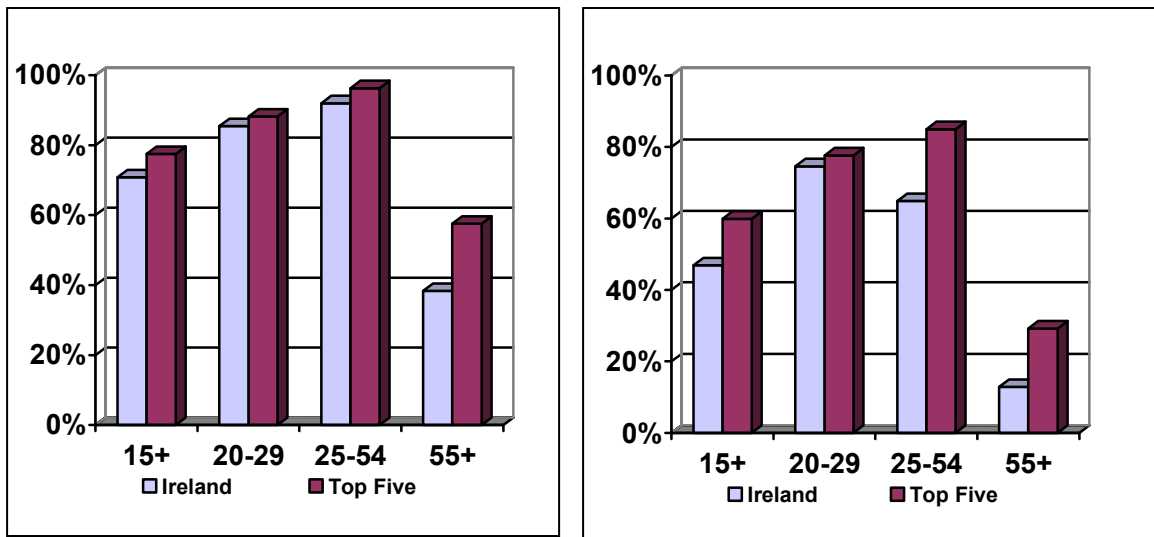
Gross Pension Wealth
Ireland v OECD Average



Source: Whitehouse, Edward (2003)

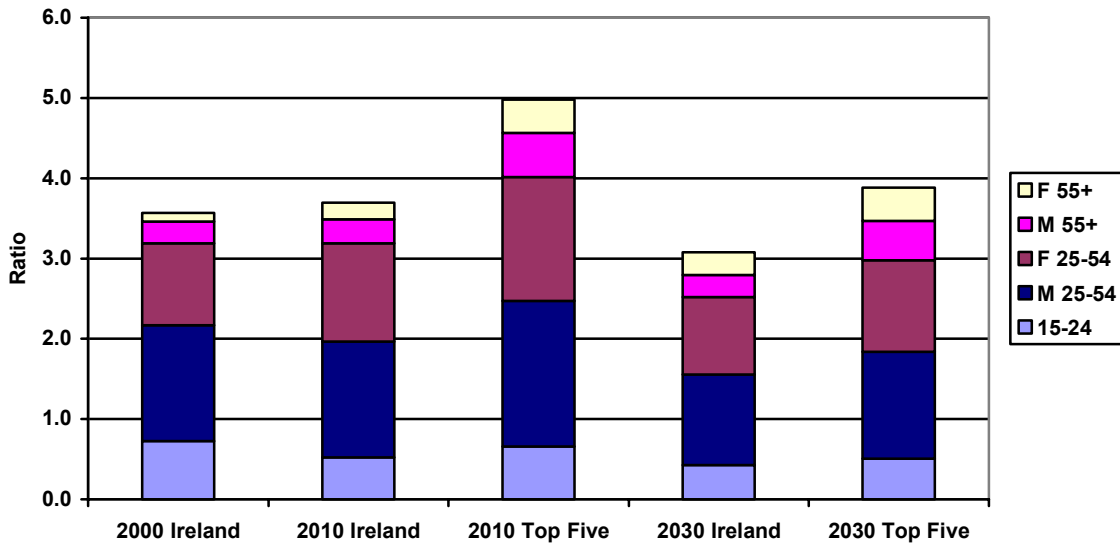
Notes: Pension wealth estimates are a multiple of economy-wide average.

Labor Force Participation Rates: Ireland v Top Five OECD Country Composite



Source: OECD, Corporate Data Environment database on labor statistics, current though 2002

Ratio of Workers in Ireland 15+ to Retirees 60+ in 2000, 2010 and 2030 and Under Alternative Assumptions of Old Age Participation Rates for the Top Five OECD Countries



Source: UN Population Division, World Population Prospects (The 2000 Revision); OECD, Corporate Data Environment database current though 2002

Much of the burden caused by demographic aging is due to rising dependency rates. While Ireland's aging predicament is projected to be far less severe than many other developed nations, in the coming decades, Ireland will need to figure out how to support a growing inactive population with fewer workers. A remedy to this problem is to adopt programs that promote greater workforce participation at all ages. Some countries excel at achieving high workforce participation across various age and gender groups. The figures above show how Ireland's labor force participation stacks up next to the average of the Top-five OECD nations. Activity rates in Ireland fall short of rates in the Top-five countries for every age and gender group. Most noticeably, females and older individuals participate in the labor force to a much lesser extent than those in the Top-five countries. If Ireland adopts measures to increase labor force participation of older age groups (55+) to rates similar to the Top-five OECD nations, it could significantly reduce its old age dependency rates. As shown in the figure above, if Ireland maintains its current activity rates between 2000 and 2030, the ratio of workers to retirees is expected to fall from nearly 3.6 to 3.1. However, by adopting policies to entice workers to defer their retirement at rates similar to those achieved by the Top-five OECD nations, Ireland could reduce its dependency burden by raising its activity rate to 3.9 workers per retiree in 2030, even higher than today's rate.