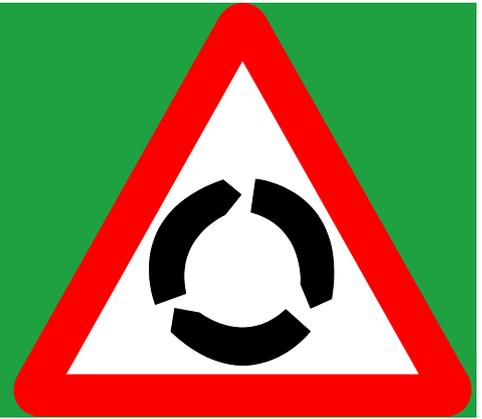


Session 3.

Paying for the Past, Providing for the Future:
Intergenerational Solidarity



Intergenerational solidarity can be seen as a desirable value in itself: when generations have a positive view of one another or there is consensus between generations on the way forward. It is also a means to an end: a mechanism for supporting mutually beneficial exchanges, both monetary and non-monetary, between generations.

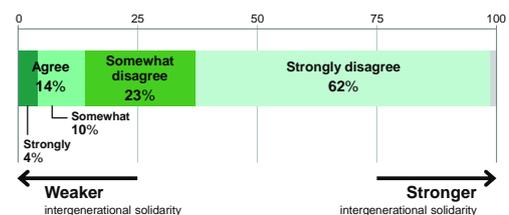
These exchanges are too often seen as one way: younger workers paying taxes to support older workers' pension benefits and healthcare costs. But the exchanges, in fact, go in both directions. Forwards, towards younger generations, are investments in infrastructure, innovation and environmental protection. Backwards, to older generations, are pensions and public and family care for older people. The family and the government are the best institutions to ensure this intergenerational exchange works.

State of relations
What do people think?

With predictable pressures on intergenerational solidarity in light of populations ageing, it is important to know the state of relations between generations today. But it is very difficult to measure intergenerational solidarity. Nevertheless, relations between generations today appear to be positive, according to attitudinal surveys. One such survey, conducted in 2009, asked the provocative question "Are older people a burden on society?". The great majority of citizens disagree with this statement in 21 European countries that are members of the OECD (Figure 1). There are few signs of intergenerational conflict over resources in these responses.

The answers show that, overall, intergenerational solidarity appears robust: 62% of people strongly disagree with the sentiment that older people are a burden, with a further 23% somewhat disagreeing. Only 14% agree with the statement to either degree.

Figure 1. Positive attitudes to older generations prevail
"Are older people a burden on society?",
percent of respondents

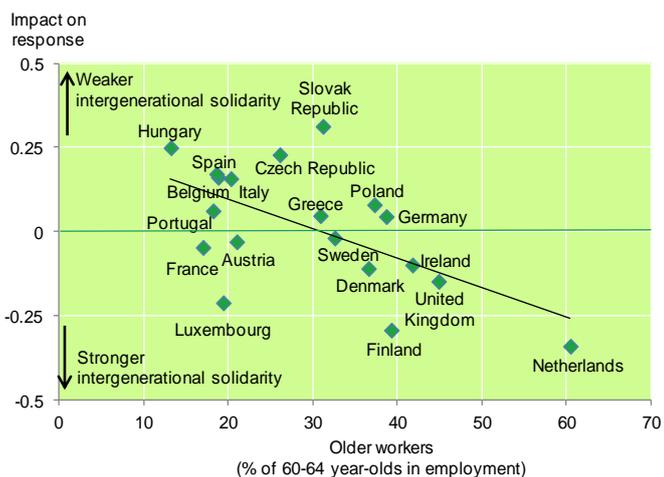


Source: OECD analysis of data in European Commission (2009), "Intergenerational Solidarity", *Flash Eurobarometer*, No. 269. See Piggott, J. and E.R. Whitehouse (2011), "Intergenerational Solidarity and Population Ageing: Attitudes in Europe", Social, Employment and Migration Working Paper, OECD, forthcoming.

There are significant patterns in responses. People aged 40-50 – who expect to retire in the next 10 to 25 years – are most likely to disagree that older people are a burden, while those in their 20s are somewhat less likely to disagree. Interestingly, it is older people themselves who are most likely to think that they are a burden on society, with people aged 55 and over more likely than average to agree with the statement used in the survey.

National labour market outcomes, demographic prospects and pension systems also have a significant effect on responses. Figure 2 shows how responses vary with the percentage of 60-64 year olds in employment. There is a sizeable and statistically significant effect: people in countries with more older people working disagree more strongly with the “burden” statement.

Figure 2. Impact on response of labour market conditions



Source: OECD analysis of data in European Commission (2009), “Intergenerational Solidarity”, *Flash Eurobarometer*, No. 269. See Piggott, J. and E.R. Whitehouse (2011), “Intergenerational Solidarity and Population Ageing: Attitudes in Europe”, Social, Employment and Migration Working Paper, OECD, forthcoming.

Change towards uniting generations
Balancing policies and burdens between generations

This two-way exchange works well in times of demographic balance, but less so in the context of population ageing. The OECD celebrates its 50th birthday in 2011. In 1961 – the year of the OECD’s birth – around 18.5 million children were born in the 34 countries that make up the current membership. That was subsequently to prove about the highest number of the post-war baby boom. By 2010, this had fallen to around 15 million. Relative to total population, the number of births halved over these five decades. Life expectancy at birth has risen by ten years since the OECD was founded, to 76 years for men and 82 for women. This is a remarkable achievement and first and foremost very good news, but the result of fewer babies and longer lives is an ageing population.

Figure 3. The fiscal pressure from ageing populations is large now and is going to increase in the next decades
 Projected pension, health and long-term care expenditures, 2010 and 2050, percent of GDP



Source: OECD (2011), *Pensions at a Glance*; OECD (2011), *Help Wanted? Providing and Paying for Long-term Care*; European Commission (2009), “The 2009 Ageing Report: Economic and Budgetary Projections for the EU27 Member States (2008-2060)”; International Monetary Fund (2009), “Fiscal Implications of the Global Economic and Financial Crisis”; Standard & Poor’s (2010), “Global Aging 2010: An Irreversible Truth”.

Population ageing will have an impact on government budgets. Figure 3 shows that public spending on the three areas most affected by population ageing – pensions, health and long-term care – is projected to grow faster than the economy in all 12 countries shown. By 2050, it is expected to exceed one fifth of national income in the majority of these countries.

Family support for the inactive – both in time and money – has also come under strain. Families are smaller and so there are fewer people to share the caring burden while longer lives mean that up to four generations of a family can be around at the same time. Concurrently, policies for prolonging working lives throughout the life cycle are also being encouraged which affects the possibilities for informal care as more people work more and longer. Changing family structures – more cohabitation, fewer marriages, more divorces and subsequent remarriages – are also challenging the solidarity between the different generations in the family.

This indicates the need for a fine balance between providing adequate benefits to all age groups through social protection and care schemes, maintaining expenditures at a manageable level and designing reasonable labour market policies that promote longer and healthier working lives for active workers.

Pensions and retirement

Adequate and sustainable benefits

Public benefits remain the backbone of retirement-income support in OECD countries, accounting for 60% of old-age incomes on average. Most of these are financed on a pay-as-you-go basis: contributions and taxes from current workers pay benefits to current retirees and so intergenerational solidarity is crucial.

OECD countries will spend, on average, around 8.5% of national income on public pensions in 2010. Demographic pressures alone could approximately double that proportion by 2050, although expenditure trends differ substantially between countries. However, recent pension reforms could well restrain the growth in spending to 11.5% of national income. Emerging economies are facing a much more rapid pace of population ageing: the demographic transition that took a century in Europe will take them less than a generation.

Many pension reforms will result in large cuts in benefit levels at a given retirement age and might risk a resurgence of old-age poverty in the future in some countries. This risk is heightened by the growth in earnings inequality in OECD countries, which feeds through into greater inequality in retirement. Countries are facing the challenge of balancing social adequacy and financial sustainability of pension systems.

Nevertheless, if public pensions are at risk of being inadequate, there will be pressure for ad-hoc increases in pensions or higher demand for other kinds of benefit. Similarly, if a pension system is financially unsustainable, the scale of changes needed in the medium or long term will be more sudden and painful. How can governments maintain retirement-income adequacy without jeopardising financial sustainability? A key solution is longer working lives. Half of OECD countries are already increasing pension ages or will do so. However, most of these hard-won increases will be outpaced by increases in life expectancy. This is why a growing number of countries are opting to link benefit eligibility or levels automatically to life expectancy. An increasing number of countries are also strengthening the link between contributions paid into pension systems and

benefits paid out, which increases incentives to work more and longer. A number of countries have also introduced greater diversification of sources of retirement incomes, giving a greater role to private pension arrangements.

Around half of OECD countries' pension reforms involve greater targeting. This has occurred either through sparing lower-income workers from the full force of pension reductions or by increases in safety-net benefits. Targeting offers a second way of improving both adequacy and sustainability. But it would, of course, further weaken the link between pensions and contributions, which is already being powerfully tested by demographic realities.

Caring

Help wanted

Most of the time spent caring – for both children and older people – is carried out informally, usually by other family members. For example, between a fifth and a quarter of care for children under 5 is provided by grandparents in Australia, Korea and the European Union and still more for children under 2 in the United States. Some 80% of care for older people is family provided. Because of this two-way flow, caring is vital in buttressing intergenerational solidarity.

Grandparents' important role in caring for young children has been recognised in some countries by, for example, enabling them to register formally as the carers of their grandchildren and paying them cash benefits. This is particularly important when parents have to work long or unsocial hours; particularly in emerging economies grandparents often take over the main caring role when parents migrate for work – either domestically or internationally – and leave their children behind.

Most OECD countries have been strengthening their formal long-term care systems. Formal long-term care arrangements should provide universal access but target care benefits where needs are highest. A clearer definition of the levels of need that trigger entitlement and the services included is also needed. While it is desirable to have universal long-term care coverage, it is inevitable that the cost of care be shared, with an individual participating particularly for

board and lodging cost. Policy should also aim to keep people in their own homes as long as possible, making use of advances in information and communication technology.

Policies are also needed to better support informal carers and improve the efficiency and financing of formal long-term care arrangements. A range of policies for informal carers could be considered:

well-designed cash benefits minimising the risk of being trapped into low-paid roles in a largely unregulated part of the economy, with few incentives for participating in the formal labour market; more choice and flexibility for carers to manage their work-life balance; and support services, such as respite care, training and counselling. ■

Issues

1 Uniting generations

- How are social and labour market policies dealing with population ageing and what effects do they have on intergenerational solidarity?
- How can we best combine the resources (skills, time and money) of all age groups and generations to meet society's needs without creating disproportional demands on any one group?
- How can policy strengthen intergenerational solidarity and unite generations?

2 Pensions and retirement

- What are the main challenges to achieving a good balance between adequacy and sustainability in public pension provision?
- Will encouraging people to work longer and greater targeting of public retirement benefits help to improve both adequacy and sustainability?
- What are the main obstacles to adopting these policies?

3 Caring

- What are the best ways to combine intergenerational family supports with government support?
- What measures can governments take to support childcare arrangements within families?
- What supports do family caregivers for older people and for people with disabilities and mental illnesses need and how can they best be provided?

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