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Session 3
Paying for the Past, Providing for the Future:
Intergenerational Solidarity
OECD MINISTERIAL MEETING ON SOCIAL POLICY
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BACKGROUND DOCUMENT

SESSION 3.

PAYING FOR THE PAST,
PROVIDING FOR THE FUTURE:
INTERGENERATIONAL SOLIDARITY

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“Intergenerational solidarity” means different things to different people. To some, it simply means that different age groups have a positive view of one another, which raises the important issue of the degree to and the way in which different generations interact. Others stress the importance of consensus between generations on the best way forward.

These are examples of the view that intergenerational solidarity is a desirable value in itself. Another perspective is that intergenerational solidarity is a means to an end: a mechanism for supporting mutually beneficial exchanges between generations. In addition, involving multiple generations allows rights, responsibilities and risks to be shared. Because needs and resources vary across the lifecycle, each generation potentially gains from such exchanges. They can go in both directions. Forwards, towards younger generations, are investments in child-care and education, infrastructure, innovation and environmental protection. Backwards, to older generations, are pensions and care for older people.

This perspective on intergenerational solidarity highlights the social and economic policy issues. The family and the government are the best institutions for making this intergenerational exchange work. The market is less able to do so because youngsters and the unborn cannot sign contracts. However, the “third sector” – charities, voluntary associations and so on – can also help foster intergenerational solidarity. This document examines the nature and degree of the transfers, both monetary and non-monetary, between generations and how this is affected by public policy (section 3).

Intergenerational solidarity is under threat. The two-way exchange of time and money between generations works best in times of demographic balance. But we are not in such a time. Population ageing – a result of fewer babies and longer lives – could prove a particular stress point (section 1). The two-way exchange of time and money between generations works best in times of demographic balance. Social and economic changes might also imperil intergenerational solidarity. Labour-force participation of women has increased. And families are not only smaller, but also more complex: a result of divorce, remarriage and lone parenthood. These developments weaken the bonds between family members and reduce opportunities for transfers of time and money. This document examines whether demographic, social and economic change is indeed affecting perceptions of intergenerational solidarity (section 2).

Although intergenerational solidarity underpins many policies, two key areas have been chosen for analysis. Pensions and long-term care are among the largest areas of social expenditures and are also those most affected by population ageing (sections 4 and 5). Section 6 wraps up the discussion, pointing out the wider costs that an unravelling of intergenerational solidarity would entail.

1. The fiscal impact of population ageing and intergenerational solidarity

The latest information on the fiscal cost of ageing populations in the major advanced economies is presented in Figure 1. The chart shows public expenditure as a percentage of gross domestic product (GDP) in three major areas affected by population ageing: pensions, health and long-term care. About half of age-related government spending typically goes on public pensions.

Most of Europe is already demographically old. In 2010, France and Italy spent 13.5% and 14% of GDP, respectively, on public pensions. Public-pension expenditure was around 10% of GDP in Germany and the EU27. However, public pension spending is much lower in the United Kingdom: less than 7% of
GDP. European countries show the highest projected age-related spending in 2010 and 2050. Japan has been the demographically oldest country since 2005: age-related expenditure there is already the highest outside Europe and is expected to remain so. Korea is ageing rapidly, moving from being the third youngest OECD country now to the second oldest in 2050. Furthermore, the public pension scheme was only introduced in 1988. Current retirees have only small entitlements, and so pension spending is expected to grow rapidly in the coming decades. The same is true of health and long-term care expenditure.

Figure 1. The fiscal pressure from ageing populations is large and growing

![Figure 1](image)

Note: Countries are ranked from left to right in terms of the highest to the lowest public fiscal cost in 2050.


In contrast, Australia, Canada, Mexico and the United States are all in the demographically youngest half of OECD countries and are projected to remain so by the middle of the century. In these countries, the main drivers of rising costs of ageing populations are health and long-term care. Turkey is the youngest OECD country and the projections show it maintaining this position until 2050. However, expenditure in all three areas is projected to grow nearly to the level of Japan and well ahead of Korea by 2050, despite these countries’ much less favourable demographics.

In addition, some cross-country variation in the fiscal pressure from ageing populations is a result of differences in the role of the public sector. Private pensions play a very important role in providing old-age incomes in Australia, Canada, the United Kingdom and the United States, for example, and will increasingly do so in Mexico. Public support for private retirement savings – 1.2% of GDP in the United Kingdom and 0.8% in the United States, for example – takes the form of foregone revenues and so is not included in the expenditures in Figure 1.

The fiscal pressure from ageing populations is large. Pension, health and long-term care spending is forecast to grow faster than national income in all 12 of the economies in Figure 1. On current policies, it
will exceed one fifth of GDP in seven of them in 2050. Finding the additional resources to meet these demands on the public finances will be a huge challenge for governments and tax payers everywhere.

2. The state of relations between the generations

Future generations may be less willing and able to pay continually rising taxes to support a growing share of economically inactive people. But a dramatic shift in the state’s role in providing services and transferring money between different age groups could also provoke a response from individuals and families, undermining the nexus of family relations between generations.

It is very difficult to measure intergenerational solidarity. Nevertheless, relations between generations today appear to be positive, according to attitudinal surveys. One such survey, by Gallup on behalf of Eurobarometer, 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 2). There are few signs of intergenerational conflict over resources in these responses.

Figure 2. Positive attitudes to older generations prevail

“Are older people a burden on society?”, percentage of respondents


Men are slightly more likely to disagree that older people are a burden than women (Figure 3, upper panel). This might reflect the fact that women provide a great deal of informal care to older people and so have a greater personal sense of the potential obligation. Age has a powerful effect. 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 proposition. The impact continues to get stronger with age.

There are also significant differences in attitudes between countries. People in the countries towards the top of the two charts (Figure 3, lower panel) are more likely to agree that older people are a burden. Signs of intergenerational solidarity are stronger in countries towards the bottom. The percentage of 60-64 year-olds in employment has a sizeable and statistically significant effect: people in countries with more older workers show greater intergenerational solidarity in response to the “burden” question (left-hand chart). People are less likely to perceive older people as a burden in countries – such as Denmark, Ireland, the Netherlands and the United Kingdom – where private pensions and income from working play an important role in providing income in old age. In Belgium, the Czech and Slovak Republics and Hungary, in contrast, the state is the dominant provider of incomes in old age today. In these
countries, people are more likely to hold the view that older people are a burden on society, although this correlation may have broader explanations.

Figure 3. Patterns of intergenerational attitudes

Impact on responses to the question: “Are older people a burden on society?”

Individual characteristics

Retirement-income systems

Labour-market conditions

Note: Responses converted to an index varying from -2 (strongly disagree) to +2 (strongly agree). The vertical axes of the charts show the effect on this index.

Source: See note to Figure 2.

The findings for other aspects of intergenerational solidarity follow a similar pattern. People are more likely to agree with the statement “Young people and older people do not easily agree on what is best for society” in countries where the employment rate of older workers is low and where retirees rely on public transfers for a large share of their incomes. They are more likely to see consensus between generations both when current public expenditure on pensions is low and projected expenditure in 2060 is low.

Unfortunately, there is no comparable survey evidence for countries outside of Europe. Nevertheless, the European countries provide a full range of experiences. They include demographically young countries (such as Ireland), societies that are ageing rapidly (such as the Eastern European countries), as well as a very wide variation in both the employment rates of older workers and the role of the state in providing retirement.
3. Transfers between generations: time and money

Public transfers between generations – in the form of retirement benefits, health, long-term care and other services – are not the end of the story; there are also substantial private transfers. These involve both time – caring for children or frail older people, for example – and money.

Figure 4 shows the extent of involvement in such transfers over a one-year period of people aged 50 and over. The left-hand chart shows gifts from 50+ year-olds and, the right-hand chart, receipts by them. It is immediately clear that older people are much more likely to be givers than takers. On average, more than 30% of them give time – typically in the form of child care – and the same proportion give money. (Monetary transfers are defined in the survey as at least EUR 250 in cash or of that value in goods, excluding loans and sharing of living expenses.) Less than a quarter of older people benefit from time given by others, and less than 7% receive money.

Gifts of cash are significantly more important than time in Greece, Israel, Italy and Poland. The reverse is true in Belgium, the Czech Republic, Denmark, France, Ireland and the Netherlands. Receipts of cash are rare: only in the Czech Republic and Greece do more than 10% of 50+ year-olds get money from others. The proportion receiving help in time terms is much greater, ranging from 14% in Spain to over 30% in the Czech Republic. In the United States, 38% of older people gave money to children or other relatives, according to the Health and Retirement Study. This is rather higher than most European countries. Only 9% received cash help from their relations. In Korea, in contrast, 41% of older people received cash from their children, much higher than other countries. Only 9% gave cash. Time transfers were rather closer to the international pattern, with 18% receiving help from children and 30% giving.

Figure 5 looks in more detail at the family relationships involved in transfers of money (Panel A) and time (Panel B). The left-hand side of each chart shows transfers given to 50+ year-olds and the right-hand side shows transfers made by these older people. At the top of each chart are relations with parents. In the middle are horizontal transfers, to spouses and siblings, who will generally be of similar age. At the bottom are vertical transfers to younger generations of the family: children and their partners and grandchildren. The size of the arrows varies with the proportion of total transfers of each type and going in each direction.

Older people receive money mainly from their children, although their parents are also a substantial source. Very few financial transfers are upwards – to parents – or horizontal, to siblings or spouses. Children account for two-thirds of cash transfers made by older people.

The survey also provides evidence on the scale of transfers. The average amount given in the 15 OECD countries covered was EUR 6 000 in the 2006-07 wave of the survey and the average received was EUR 3 900. Transfers in both directions were typically of larger value towards the north of Europe (Belgium, Denmark, France and Sweden) and smaller in the south and east (the Czech Republic, Greece, Italy, Poland and Spain).

Time transfers follow a different pattern to movements of money, coming mainly from children. Other relatives provide little of their time to this age group. A third of receipts of time is from non-relatives, a sharp contrast with monetary exchanges. Similarly, 50+ year-olds give the largest share of their time to non-relatives, closely followed by the proportion they give to their parents. The numbers of hours given averaged 0.8 a week (over a one-year period) while the number received was 0.6 a week.
Figure 4. Older people are much more likely to be givers than takers: transfers of money and time

Gifts of time and money from 50+ year-olds

Time and money transfers to 50+ year-olds

Note: Data are averaged across the two waves of data collection (2004 and 2006-07) for the 13 countries that participated in both waves.

Information on data for Israel: http://dx.doi.org/10.1787/888932315602.

Source: OECD analysis of Share data (Survey of Health, Ageing and Retirement in Europe).

A key driver of the amount of time older people give is whether they have grandchildren: nearly 50% of those with grandchildren spent some time caring for them (Figure 6). In Denmark and Sweden, more than half of grandparents look after grandchildren, but only 2% on a daily basis. In contrast, only around a third of Spanish grandparents provide some care, but a quarter did so daily. This suggests that grandparents act as a complement to parental and formal childcare in the Nordic countries where public childcare support is widespread. In Southern Europe, in contrast, grandparents are often a substitute for parental care and formal childcare is not widely available or used. The proportion of grandparents caring for their grandchildren is rather lower in the United States than Europe, at 30% and much lower in Korea: 9%. However, these data are not directly comparable with Figure 6 because different thresholds of time spent caring for grandchildren are used.

Policy makers in a few OECD countries explicitly recognise grandparents’ role. The Australian government introduced a grandparent childcare benefit in 2005, which pays money to grandparents solely or mainly responsible for the child to cover the full cost of fees charged by approved childcare providers for up to 50 hours a week. Parental benefits can be taken by Czech, Russian or Slovenian grandparents or others if they provide childcare and the parents agree to transfer their entitlement. In Portugal, working grandparents are entitled to 30 days leave following the birth of a grandchild to an adolescent still living at home.
Figure 5. Money goes mostly to children, while time goes mainly from children to parents

A. Transfers of money, percentage of total receiving or giving

Note: Other relatives account for 8% of time transfers both given received and 5% and 4% of money transfers respectively. Other, non-relatives comprise 32% of receipts and gifts of time and 7-8% for monetary transfers. These categories are not shown in the chart. The percentages shown in the chart represent the average across the countries participating in SHARE.

Source: OECD analysis of SHARE data (Survey of health, ageing and retirement in Europe) for 15 countries.

Figure 6. Many grandparents spend time caring for their grandchildren

Source: OECD analysis of SHARE data (Survey of health, ageing and retirement in Europe) for 15 countries.
4. **Pensions: adequate and sustainable retirement income provision**

Public benefits remain the backbone of retirement-income support in OECD countries, accounting for 60% of old-age incomes on average (according to the OECD income-distribution database). Most public pensions are financed on a pay-as-you-go basis: contributions and taxes from current workers pay benefits to current retirees. Intergenerational solidarity is crucial to these arrangements. Upcoming generations are needed to pay for the future retirement benefits of today’s workers: reciprocity for them having paid for their parents’ generation’s pensions.

Many pension reforms will result in large cuts in benefit levels at a given retirement age. The changes in 15 countries analysed in detail by the OECD will reduce benefits by an average of nearly 20%. This might risk a resurgence of old-age poverty in the future. This risk is also heightened by the growth in earnings inequality in OECD countries, which feeds through into greater inequality in retirement incomes.

Pension policy involves a delicate balance between adequacy and sustainability in pension systems. It is this trade-off that could prove a flashpoint for intergenerational conflict.

First, public benefits might be too high and so unaffordable. Delaying reform merely makes the necessary adjustment more sudden and painful. Greece, Hungary and Ireland have all recently had to undertake substantial retrenchment of public-pension benefits as part of the fiscal consolidation required for international bail-outs. Such sudden changes – although inevitable under the circumstances – make it very difficult for individuals, especially those in mid and late careers, to change their work, retirement and savings decisions to reflect changing financial realities. Secondly, however, reductions in public pensions might leave large numbers of retirees in poverty or with inadequate income. There would then be pressure for ad-hoc increases in pensions or supplementary retirement benefits which would have to be paid by the working population.

How can governments maintaining retirement-income adequacy without jeopardising financial sustainability? Achieving a balance between the two is essential in maintaining intergenerational solidarity.

The first part of the solution is longer working lives. Most OECD countries have dismantled or curtailed incentives to retire early embedded in their pension systems. And half of them are already increasing statutory pension ages or will do so in the coming decades. Pension eligibility ages for men currently average 63 in OECD countries and, for women, 62. These will increase to nearly 65 by 2050 for both sexes on current plans. However, increases in life expectancy are expected to outstrip these hard-won changes: by about 2 years for men and 1.5 years for women between 2010 and 2050 on average. In only five OECD countries (Hungary, Italy, Korea, Turkey and the United Kingdom), will increases in pension age keep the projected time in retirement stable over the next four decades.

Participation rates of workers aged 50-64 in most OECD countries declined during the early part of the period 1970-2008, but this trend has been reversed. In only five countries – France, Greece, Hungary, Poland and Turkey – were participation rates lower in 2008 than they were in 1970. Moreover, participation rates of older workers resisted the recent recession comparatively well. Nevertheless, older workers face a range of barriers to finding and retaining jobs. Societies need to act on negative attitudes towards older workers and provide more training opportunities and working conditions adapted to their needs. In the present jobs crisis, governments should not revert to failed past policies of pushing older workers off the unemployment rolls and into *de facto* early retirement, in particular, through long-term sickness or disability benefits. Keeping older workers in the labour force does not reduce job opportunities for the young (see Box 1).

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2. See Table 2.3 in OECD (2009), *Pensions at a Glance: Retirement-Income Systems in OECD Countries.*
Box 1. Jobs for younger and older workers

One concern often voiced in the debate about encouraging people to work longer and defer their retirement is that this will deprive youngsters of jobs. Economists call this the “lump-of-labour fallacy”.

The idea that public policy can re-shuffle a fixed number of jobs between workers of different ages is simply not true in anything but the very short-term. This is clearly demonstrated in Figure 7, which compares employment rates of older (aged 55-59) and younger people (aged 20-24). The relationship between the two is positive and highly significant in statistical terms. More sophisticated econometric analysis of changes in employment rates over time confirms this snapshot picture. The lump-of-labour hypothesis is indeed a fallacy.

Figure 7. Encouraging people to work longer and defer retirement does not deprive youngsters of jobs: the “lump-of-labour” hypothesis is indeed a fallacy

As an alternative to higher pension ages, seven OECD countries have introduced an automatic link between pension levels and life expectancy. But their effect is different: benefits will fall as people live longer, unless they choose to retire later. OECD calculations show that these provisions will typically result in benefits being 15-20% lower for people retiring in 2050 compared with those drawing their pension in 2010 at the same age. While stabilising the finances of the pension system, the adequacy of benefits may be jeopardised in the long term. Moreover, some of the fiscal gains may be offset by additional expenditure on safety-net benefits. It is surprising, however, that the alternative approach of linking pension ages to life expectancy has not been more widely adopted. This policy would provide a clear signal of the need to work longer. And it would allow annual benefits to be maintained at a higher
level than if people continued to draw their pensions at the same age while life expectancy continues to increase.

Longer working lives foster financial sustainability by both reducing the period over which pensions are claimed and extending the time people spend as contributors and taxpayers. Adequacy is protected because the same lifetime pension receipt is spread over a shorter period.

A second way of achieving both adequacy and sustainability is through greater targeting of public retirement-income provision on the most vulnerable. For example, two of the countries with the lowest rates of income poverty in old age – Canada and the Netherlands – spend only 4-5% of their national income on public pensions, well below the OECD average of 7%. In contrast, more than one in five older people in Greece and Spain are poor while public pension expenditure is relatively high.

The key to explaining this pattern is greater redistribution within public provision of retirement incomes and extensive coverage of private pensions to complement public benefits. Of course, some countries would need to change the philosophy underlying their pension systems if they were to move in this direction, because it involves a weakening of the link between individual contributions and benefits. But this link is already being powerfully tested by demographic realities, which require public schemes to pay low implicit rates of return on contributions to maintain financial sustainability (see below).

Many countries’ reforms have indeed increased redistribution in their retirement-income systems. Finland, France and Sweden, for example, protected low earners from the full force of benefit cuts. Australia and the United Kingdom have used some of the fiscal space created by higher pension ages to increase benefit levels, and these increases have been targeted on low-income retirees. In contrast, Austria, Germany and Japan have cut benefits across the board, including for low earners. And Hungary, Italy, Poland and the Slovak Republic have tightened the link between contributions and benefits, significantly reducing redistribution.

The third solution is to encourage private-pension saving to make up for reductions in public benefits that are already in the pipeline or are likely to be required. Self-provision for retirement income does not undermine intergenerational solidarity (see section 2). There have been some significant policy successes in this area. The KiwiSaver scheme in New Zealand, which automatically enrolls people in private pensions unless they opt out, has rapidly expanded coverage of private pensions. The United Kingdom will follow this approach in 2012. Ireland also has plans to do so. The Riester pensions in Germany have also been widely taken up, notably among the young and low earners, groups that other countries have found hard to reach. However, Riester plans rely on relatively generous fiscal incentives rather than automatic enrolment to encourage take-up. Other countries have adjusted tax incentives for pensions, moving away from deductibility of contributions at an individual’s marginal rate of income tax towards government co-contributions. Again, this involves targeting of the government’s involvement on lower earners, even those that do not pay income tax.

Confidence in private pensions of both policy-makers and the public has suffered as a result of the financial and economic crisis. Private pensions and other savings currently provide about 20% of the incomes of over 65s on average in OECD countries. The reality of the public finances, faced with the fiscal costs of ageing population, is that private pensions will have to play a greater role in the future. Governments should keep open the option of mandating private pensions should automatic enrolment and other policies fail to deliver a permanent increase in private-pension coverage or the cost of fiscal incentives proves prohibitive.

The debate about pension policy has often been fractious, heated and ideological. An especially contentious issue has been the financing of retirement incomes.
Some have pressed for a shift from pay-as-you-go to pre-funding of pensions, under which contributions made by or on behalf of individual along with the investment returns that they earn are used to provide benefits. There are two main arguments underpinning this view. The first is that it makes sense to put money aside when times are good. In demographic terms, now is a relatively benign time: in 20-50 years’ time, there will be many more old people around needing pensions. The second is that capital markets are likely to deliver a better return – and so better pensions – than pay-as-you-go provision in the context of population ageing. The sustainable “return” on pay-as-you-go pensions is the sum of employment growth and productivity or wage growth. In real terms, this factor will probably be low, zero or even negative in the coming decades. It is therefore very likely to be lower than the return on a balanced and internationally diversified portfolio has consistently delivered positive real returns over the long investment horizon of pensions.

The principal objection to changing pay-as-you-go systems into mixed systems with substantial pre-funding relates to the so-called “transition costs”. Under pay-as-you-go, each generation pays for its parent’s pensions. Moving to pre-funding means that one cohort – the transition generation – has to pay for its own pensions as well. Such costs have proved a burden in some countries that have shifted from public, pay-as-you-go to mandatory private, pre-funded provision. In central and eastern Europe, for example, some countries have temporarily suspended or reversed such reforms. In other countries – such as Ireland and New Zealand – pre-funding of public liabilities has been wound back, again due to the fiscal consequences of the financial and economic crisis.

The second objection relates to the investment risk borne by individuals in the form of uncertain pensions. Nevertheless, investment risk is not implied by pre-funding per se. It arises most strongly with defined-contribution plans. The financial crisis has underlined the importance of promoting so-called “lifecycle investment strategies”. By moving to less risky assets as people get older, lifecycle investing can soften the impact of a major market downturn on retirement incomes. Investment risk should be seen as something to be managed, not an over-riding objection to pre-funding.

Pay-as-you-go pensions have proved attractive to governments for a number of reasons. First, they allow for pension benefits to be paid to older people relatively early. With funded pensions, one needs to wait decades before retirees have full pensions. Secondly, the sustainable return on pay-as-you-go pensions is very attractive when real wages and employment are growing strongly, as they were in much of the second half of the 20th century. Thirdly, pay-as-you-go pensions are able to share risks between generations.

The OECD’s position is that neither pre-funding nor pay-as-you-go financing of pensions is inherently superior. Relying largely or solely on either mechanism could prove imprudent in the face of the many different kinds of risk and uncertainty that affect pensions over the long time horizon inherent in retirement-income planning. Intergenerational risk-sharing has economic and social benefits; sustainable pay-as-you-go pension plans exemplify this. Taking the long view, diversification between pre-funding and pay-as-you-go is both a realistic prospect and a responsible policy in an uncertain world.

5. Long-term care: the policy frontier of demographic shift

While population ageing has driven pension reforms among OECD countries, the evolution of policies for long-term care of older people has, so far, been rather less affected by demographic developments. Policy attention has focused less on this area, largely because long-term care has primarily been provided by family carers. But ageing populations, along with advances in medical technology, and social and labour market changes will inevitably shift the policy agenda to long-term care in the coming years. The proportion of the population aged 80 or over in OECD countries is projected to increase from
4% in 2010 to nearly 10% by 2050. In a few countries – such as Germany, Italy, Japan and Korea – this figure will be around 15%.

Most care for older people is informal. And about two-thirds of informal carers are women. Typically, between 70% and 90% of people providing care for older people are family members. Although numbers are difficult to compare, the size of the family care workforce is at least double the size of the formal care workforce in OECD countries. In some cases – such as Canada, the Netherlands, New Zealand and the United States – the ratio of informal to formal carers exceeds ten-to-one. Intergenerational solidarity is vividly demonstrated for many families when an elderly relative requires care and with an increasing share of older people needing long-term care, sole reliance on family carers will be challenged.

Every OECD country has some form of publicly financed long-term care for older people. But there are major differences across countries: in their institutional structure, design and emphasis. Perhaps the most significant difference is in coverage, with countries providing a different mix of means-tested versus universal support. Cross-national analysis of long-term care is challenging, with added complexity because of the major role played by family support in the form of both time and money.

Figure 8 shows the pattern of usage of formal long-term care by older people in 16 OECD countries. There is, of course, a strong effect of age: 6.5 times as many women and 5.5 times as many men are in long-term care in the 80-and-over age group compared with 65-79 year-olds. Older women are more likely than older men to use long-term care, with rates 20% higher than men at age 65-79 and 35% higher at age 80+. This probably reflects women’s role in providing long-term care to their husbands, avoiding the need for institutionalisation. At age 65, women can expect to live an average of 3.5 additional years than men and married women are, on average, 2.9 years younger than their husband in OECD countries. But utilisation rates there are low for all age groups. Poland apart, usage of long-term care increases from left to right in Figure 8 between different demographic groups.

Fewer children in each family, increased family breakdown and more intensive labour-force participation by older workers reduce the supply of family carers. In turn, this will increase reliance on formal, including institutional, care. Higher wages and better working conditions for aged-care workers may result from greater demand along with slower growth or declines in the size of the overall caring workforce. But against these must be set forces that may reduce utilisation of formal and institutional long-term care. First, until the mid-1980s, differences in life expectancy between the sexes increased. Since then, life expectancy has converged and this is projected to continue for the next four decades, meaning that couples will survive together for longer. Secondly, changes in health technology might lead to “morbidity compression”: a reduction in the proportion of life during which long-term care is needed as people live longer. Thirdly, new information and communication technologies – especially “tele-care” – might allow people to stay in their own homes for longer, reducing the costs of accommodation in institutions.

Faced with these challenges, long-term care policy and provision in many countries appears disjointed. There is often little co-ordination between support for people in their own homes, independent or semi-independent accommodation, and residential or nursing care of varying intensity. This is sometimes institutionalised through divided bureaucratic, financial and budgetary control for the various services handled by different agencies. Institutions need to reflect the fact that a continuum of care is needed. This continuum embraces both the mix of services that might be required at any one time and management of transitions between services and settings as needs change over time.

3. Poland, where women are slightly less likely than men to require long-term care, is the only exception to the general pattern of long-term-care usage by gender.
An essential part of this new policy thrust is a greater emphasis on home care. Typically, the costs of home care are significantly lower than in an institution and there is wide agreement that it reflects the desires of older people themselves, even though it may not be an option for most people with very great care needs. And ageing in place needs to recognise and integrate informal carers into the process and provide them with adequate respite and other support for their well-being.

Public support for family carers. Significant reductions in family caring would put public systems of long-term care under severe financial strain and threaten intergenerational solidarity.

Support for family carers is often provided as recognition of the fact that they perform a socially useful and difficult task. But more than a gesture is needed. Supporting carers is an arrangement where all parties can benefit. There are at least three potential gains from supporting carers:

- For the care recipient, because they generally prefer to be looked after by family and friends.
- For the carer, because, despite the task being physically demanding and stressful, they care out of love or duty.
- For the public finances, because family care keeps publicly-provided, formal parts of the care system, affordable. The estimated economic value of informal caring exceeds that of formal care by a long way: one estimate for the United States put it at USD 375 billion in 2007, or around 2.6% of GDP.

Cash benefits for carers play many roles. They provide social recognition for their effort, compensate them for lost earnings and help with expenses incurred due to caring. Nevertheless, targeting support on those facing the highest health and labour-market risks, and defining the appropriate level of compensation, is a policy challenge.

First, there is a trade-off between how many carers can be compensated and the amount of the compensation that can be afforded.
Secondly, benefits should not be set so high as to discourage labour-market participation of carers or trap them in low-paid, part-time work. Means-testing and eligibility conditions may also produce work disincentives. Designing financial incentives for carers can be especially delicate when care needs increase or a relatively high allowance is needed to provide sufficient financial support.

Thirdly, defining who is the primary carer and measuring carers’ efforts are prone to errors. Strict and clear eligibility requirements help avoid abuse. But they are often costly to administer. They may be viewed as arbitrary in different circumstances.

Finally, cash benefits are not the only way of supporting carers. Cash benefits should be seen in the context of a comprehensive care plan, including basic training for the carer, help with reconciling work with care responsibilities and other support, such as respite care.

Informal care and the workplace. The workforce has been greying for some time, with the average age of employees increasing from 30 in the mid-1960s to 40 today. Employers will increasingly have to turn to older workers. One challenge they face is to design workplace arrangements that adequately accommodate caring responsibilities. A 1% increase in hours spent caring is associated with a 10% lower employment rate among carers and just over 1% fewer hours of work according to one study, although it might not be possible to generalise this result. Care leave and flexible work arrangements would help carers address the balance between their workplace obligations and caring responsibilities. Overall, this could lead to a greater supply of care among those in work and greater labour supply of people who would otherwise have to give up work to care.

There are statutory rights to leave to care for people with chronic health conditions, disability or other long-term needs in around half to three-quarters of the OECD countries for which information is available. But paid leave is available in only half of them and is often restricted either to less than one month’s duration or to cases of terminal illness. Together, these mean that use of these provisions is limited. As in the case of parental leave, it can be difficult to set the appropriate duration of statutory care leave. Long leave may damage the labour market position of the carers, while a short leave might not be enough and could encourage workers to withdraw from the labour force.

However, unlike caring for children, care for relatives with a disability or serious illness is unpredictable in both duration and intensity of need. Illnesses are often episodic and the availability of formal care can also change. Greater flexibility is needed, allowing carers to spread leave or change their working hours to accommodate their changing needs and those of their dependants.

Public insurance for care cost. Family support is often forthcoming when an elderly relative requires long-term care, but the financial risk is considerable in magnitude and relatively high in probability. Even comfortably off families with an elderly relative who needs high intensity of long-term care for a long period may be financially challenged without government support. At the same time, private insurance for long-term care is almost non-existent. Even the largest markets at present for private insurance – France and the United States – are residual.

Homeownership and long-term care. Home ownership can provide a number of avenues to mobilise additional cash to pay, in full or in part, for expenses associated with long-term care, such as board and lodging. These range from obtaining a loan against this cost, to trading it down, renting or selling it. Housing equity is regularly used to pay for long-term care. But it is often in an unplanned way. And it can prevent older people from structuring transfers – either of cash or the home itself – in the way that they and their families want. Intergenerational solidarity would be strengthened if people could guarantee that any necessary long-term care provision were paid for while retaining title to the family home. This requires a coherent regulatory framework for financial instruments that, first, allow access to housing equity and, secondly, provide secure long-term care insurance. Such a framework should also allow for flexibility over the timing of sale of the principal residence. It should also ensure that, if wanted, the home would be
available to be occupied once more should the institutionalised family member recover, and allow spouses to continue living in the home.

The links between homeownership and long-term care raise a number of tricky policy challenges. Should means-tests to determine the level of cost-sharing between the individual needing care and the public system take housing assets into account? And what is the government’s role in helping people draw liquidity out of these assets? The private sector has taken the lead in this area through products such as reverse mortgages and long-term care life insurance products, but take-up has been very limited.

6. Policy implications: maintaining intergenerational solidarity in an ageing society

Intergenerational solidarity describes a complicated web of relationships between generations, both within families and in wider societies. This nexus allows for mutually-beneficial exchanges of time, money and risks between different age groups. If intergenerational solidarity breaks down, then all would lose.

A first challenge to solidarity between generations is public debt. The aggregate budget deficit of OECD countries is projected at just under 8% of GDP in 2010. The debts of the public sector in 2011 are expected to be larger by an average of 30% of GDP than the levels in 2007. The greater part of current deficits is “structural” rather than “cyclical”. On current policies, governments will still be spending more than they receive in revenues when the recovery is well entrenched. Without steps to correct fiscal imbalances, younger generations will be left an unmanageable legacy.

Population ageing compounds the threat from the current state of the public finances. Younger workers face a large and growing tax burden to pay for pensions and health care. Although reforms have slowed the growth of expenditure, pensions, health and long-term care expenditure is projected to grow 40% faster than national income between 2010 and 2050. An extra 5-6% of GDP is likely to be needed in 2050 to pay for these programmes.

But there are also important transfers of time and money going in the opposite direction. Available data shows that in many countries older people are net givers of financial support to younger generations. And grandparents often spend a substantial amount of time caring for their grandchildren, in some cases at the same time as they are providing long-term care to their own parents. The analysis of data on attitudes of generations toward each other shows that it is older persons themselves who are the most likely to think that older people are a burden to society. There is thus a role for policy to raise public awareness of these significant contributions older people are making for other generations to counter any negative attitudes towards older generations, including among older people themselves.

Intergenerational issues arise in most areas of public policy. Even within the social-policy arena, support for families and children is as much about relations between generations as are the two issues examined in detail here: pensions and long-term care.

On pensions, this document has proposed three ways of balancing adequacy of retirement incomes and long-term financial and fiscal sustainability: working longer, greater targeting of public benefits on those most in need and greater private retirement savings to make up for reductions in public pensions, themselves a result of previous pension reforms.

On long-term care, support for informal carers and the efficiency and financing of formal long-term care could be improved. Policies for informal carers include, first, cash benefits that minimise the risk of people being trapped into low-paid roles in a largely unregulated part of the economy, with few incentives for participating in the formal labour market. Secondly, there should be greater choice and flexibility for carers to manage their work-life balance. Thirdly, carers need support services, such as respite care, training and counselling. Formal long-term care arrangements should provide universal access but target care benefits where needs are highest. The levels of need that trigger entitlement and the services included
should be better defined. Although coverage should be universal, some costs – such as board and lodging – can be shared. The aim should be to keep people in their own homes as long as possible, making use of advances in information and communication technology.
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