

Reforms for an Ageing Society

SOCIAL ISSUES



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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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FOREWORD

In 1998, OECD and G7 Ministers asked for a report on national progress in implementing the policy principles set out in *Maintaining Prosperity in an Ageing Society*. A questionnaire was sent to Member countries in 1999 asking them to report on recent reforms. A benchmarking device was used where countries were asked to compare actual reforms against a set of ambitious, hypothetical reforms that were described in the questionnaire. Countries were also asked to identify lessons arising from these reforms that could be shared with other countries.

Many reforms have been introduced that affect pensions, strengthening of work incentives, employability of older workers, the health and care needs of an older population, and the operation of financial markets in dealing with large increases in private pension savings. A critical challenge has been to slow, and eventually reverse, trends towards a shrinking portion of life being spent in employment and ever-longer periods spent in retirement. Fiscal consolidation has also been a major driver of reform and a more diversified system of retirement income will be the main outcome – more balance among private and public pensions, taxation and, especially, earnings.

When taken in the context of recent trends in work and retirement, recent reforms suggest that the ground is being laid for a possible transformation of the institution of retirement and its financing, including the role of governments in supporting retirement – a major change that needs to be confirmed and monitored.

The publication describes the many reforms and lessons that were provided by countries, sets them in the context of recent trends, and suggests main directions for reform monitoring at the international level. The book also contains a “chart book” that sheds new light on the pressures that ageing poses for each of the 29 OECD Member countries. It is published on the responsibility of the Secretary-General of the OECD.

TABLE OF CONTENTS

Introduction.....	7
--------------------------	----------

Part I

Progress in introducing age-related reforms

1. Retirement incentives – Policy on a new course.....	13
2. Employability of older workers – A workplace for all ages?.....	25
3. Fiscal consolidation – Obvious progress in many countries	33
4. Retirement income reform.....	43
5. Health and long-term care – A health and care system for all ages?.....	63
6. Financial markets.....	73
7. Strategic frameworks – Some practical considerations	81

Part II

Transition to retirement and active ageing

8. The transition to retirement	87
9. How people spend time in their working and retirement years	103
10. Individual and societal ageing – Scenarios in selected countries	111

Conclusion – Next steps at the international level	125
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<i>Annex 1. Note on the questionnaire</i>	<i>129</i>
---	------------

<i>Annex 2. The pressures of ageing in the 29 OECD Member countries.....</i>	<i>131</i>
--	------------

Australia	132	Hungary	161	Norway	191
Austria.....	135	Iceland	164	Poland.....	194
Belgium.....	138	Ireland.....	167	Portugal	197
Canada.....	141	Italy	170	Spain	200
Czech Republic.....	144	Japan	173	Sweden	203
Denmark	146	Korea.....	176	Switzerland	206
Finland.....	149	Luxembourg	179	Turkey.....	209
France	152	Mexico.....	182	United Kingdom.....	212
Germany	155	Netherlands.....	185	United States.....	215
Greece	158	New Zealand	188		

List of tables

Table 4.1.	Income composition in Denmark and Canada.....	45
Table 4.2.	Poverty indicators in selected OECD countries	57
Table 5.1.	Projections of publicly financed long-term care as a share of GDP to the year 2020, selected countries.....	64
Table 6.1.	Financial assets of pension funds as a percentage of GDP.....	74
Table 6.2.	Regulatory principles of employer pension plans recommended by <i>Maintaining Prosperity in an Ageing Society</i>	76
Table 8.1.	Employment/population ratio for older men in selected OECD countries 1983-1998.....	89
Table 8.2.	Employment/population ratio for older women in selected OECD countries	90
Table 8.3.	Net withdrawal rate for selected OECD countries	91
Table 8.4.	Part-time work.....	92
Table 8.5.	Self-employment.....	93

List of figures

Figure 1.1.	Demography and labour force participation over life.....	14
Figure 1.2.	Labour force participation rates for workers aged 55-64 in 1998	15
Figure 2.1.	Percentage of people in the labour force who are older, aged 45-59 and 60 and over, 1998.....	26
Figure 2.2.	Finland – A new look at the relationships between ageing and working life	27
Figure 3.1.	The fiscal pressure created by demographic and labour market trends.....	34
Figure 3.2.	General government liabilities, 1983-2001, OECD average	34
Figure 3.3.	Gross and net liabilities in 1997.....	35
Figure 4.1.	Older people's sources of income	44
Figure 4.2.	Incomes of older people in relation to incomes before retirement	56
Figure 6.1.	Average annual growth rate of total asset holdings by pension funds, by region, 1990-96.....	74
Figure 8.1.	Retirement patterns of older men by employment and pension status, mid-1990s.....	95
Figure 8.2.	Size of households containing people aged 55 to 69	98
Figure 8.3.	Proportion of young adults living with parent(s).....	99
Figure 8.4.	Reallocation of activities following reduction in time spent at work.....	100
Figure 9.1.	Time use by sex and age group, 7 country average and selected country comparisons	104
Figure 9.2.	Time use and retirement patterns by education level, Canada, 1992	106
Figure 9.3.	Time use by sex and age group, selected countries	107
Figures 10		
	Number of years in and out of employment (male and female).....	112/115
	Share of total population that is in the labour force and in employment	116/119
	Share of the total population that is employed (country and OECD average).....	116/119
	Ratio of persons 65 and over to the number of employees (3 scenarios).....	121/124
	Share of the total population that is employed (3 scenarios).....	121/124

INTRODUCTION

Executive summary

For many decades, demographic and labour force participation trends have provided a favourable economic environment in OECD countries. The percentage of the population at work has been growing. This has happened despite a dramatic fall in the number of years that men spend in work over the course of their lives. Men have been retiring earlier and living longer once retired. This has, however, been more than offset by a trend towards more lifetime years spent in work by women and, especially, by population ageing. The baby-boom generation has been of working age during recent decades.

If existing patterns continue, the favourable trends could start to reverse in about 5 to 10 years time. The baby-boom generation will reach retirement age and the percentage of the population in the labour force could begin to fall. There would be relatively fewer people producing the goods and services needed to support a population that includes many more retired people. In 1998, in *Maintaining Prosperity in an Ageing Society*, the OECD pointed out the implications of these trends for fiscal, economic and social policy.

The present report gives an updated picture of ageing pressures in individual OECD countries, with emphasis on the potential effects of changes in retirement ages and of the state of reform in response to these pressures. It is based on a survey of OECD countries which reveals many recent reforms, often major ones.

Many reforms have been introduced in many countries to support the employability of older workers, to respond to the health and care needs of an older population, and to improve the operation of financial markets in dealing with large increases in private pension savings. Taken one at a time, these are often smaller reforms designed to make existing systems work better. Most reform agendas assume that labour markets, financial markets, and health care systems are largely capable of adapting to the needs of an ageing society – with incremental help from policy reform.

On the other hand, larger changes have taken place in policies that affect the work-retirement transition and the structure of retirement income financing. The critical challenge in many countries has been to slow, and eventually reverse, trends towards a shrinking portion of life being spent in employment and ever-longer periods spent in retirement. Fiscal consolidation has been a major driver of reform and a more diversified system of retirement income will be the main outcome – a better balance among private and public pensions, taxation and, especially, earnings.

Greater use of private pensions is already showing up in the income statistics for older people. Recent reforms suggest that income from capital will become increasingly important in the future. However, earnings are still declining in importance in the income of current older people, as a result of past trends to early retirement. This is likely to change. Trends towards earlier retirement appear to have levelled off in the past few years, or reversed in some countries, and recent reform trends suggest that earnings may play a significantly larger role in the future. Indeed, the ground is being laid for what appears to be a transformation in the way retirement is financed and in the public role in that financing.

Recent reform agendas related to ageing have been driven mainly by fiscal agendas – to adjust systems to the coming retirement of the baby boom generation. That is still a main concern for many countries. Once the needed fiscal action has been taken, the new, emerging agenda appears to be centred on reversing trends towards longer lifetime years being spent in retirement and fewer lifetime years in employment.

The scale the changes that are taking place and the shape of this new policy agenda warrant close monitoring and examination. For example, while trends to earlier retirement appear to have come to an end in many countries, it is entirely possible that this is simply a temporary result of the economic upturn. The underlying trend may still be negative. There is little evidence yet of a trend towards later retirement, except in a few countries. There is also little evidence that retirement has become more flexible. Further, the data suggests that retirement and “active ageing” are not yet going hand in hand. Older people, it appears, are not living more active lives. The time that older people formerly spent in work is, for the most part, used passively after retirement – often in more television-watching and sleep.

Familiar policy debates – such as the balance between public and private pensions – need to be recast and expanded in their scope to take account of the likely future growth in the role of earnings in the retirement income system. This increasingly will include the earnings of both partners in a two-earner couple. As well, interesting new questions arise. In the longer-term future, what should be the role of government policy in influencing the balance between work and leisure in older years? What priority should be attached to policies that support very long periods of passivity in the last third of life?

At the international level, including at the OECD, there is a useful role in monitoring these underlying trends and in providing a forum for governments to share experiences as they develop answers to these difficult questions. The focus for such monitoring could be the institution of retirement, defined in broad manner that addresses the central issue of the balance of time that is devoted to employment and to retirement. A crucial next step must be to address the large data gaps – particularly comparable system-wide information – needed to sustain effective reform.

Purpose of this report

The first purpose of this publication is to provide an early report on progress in implementing age-related reforms in light of the seven principles for action set out in *Maintaining Prosperity in an Ageing Society*. These principles are the following:

1. Public pension systems, taxation systems and social transfer programmes should be reformed to remove financial incentives to early retirement, and financial disincentives to later retirement.
2. A variety of reforms will be needed to ensure that more job opportunities are available for older workers and that they are equipped with the necessary skill and competence to take them.
3. Fiscal consolidation should be pursued, and public debt burdens should be reduced. This could involve phased reductions in public pension benefits and anticipatory hikes in contribution rates.
4. Retirement income should be provided by a mix of tax-and-transfer systems, funded systems, private savings and earnings. The objective is risk diversification, a better balance of burden-sharing between generations, and to give individuals more flexibility over their retirement decision.
5. In health and long-term care, there should be a greater focus on cost-effectiveness. Medical expenditure and research should be increasingly directed to ways of reducing physical dependence, and explicit policies for providing care to frail older people should be developed.
6. The development of advance-funded pension systems should go hand-in-hand with that of a strengthening of the financial market infrastructure, including the establishment of a modern and effective regulatory framework.
7. Strategic frameworks should be put in place at the national level now in order to harmonise these ageing reforms over time, and to ensure adequate attention to implementation and the build-up of public understanding and support.

A questionnaire was sent to OECD countries in the spring of 1999 asking them to report on reforms in each of these seven areas. The questionnaire also asked countries to compare actual reforms against an arbitrary reference set of reforms that was described in the questionnaire. This was a crude device, but one that allowed rough comparisons across countries in terms of the scale both of the challenges that were seen and of national responses.

Note that the importance of an issue and the scale of recent policy reform do not necessarily go hand-in-hand. Where existing policies are already strong as the result of past reforms, new reforms may not be needed, or they may be more incremental in character. The text does provide some examples of existing arrangements that worked well. However, as there was not a specific question on this topic, these examples tend to be rather scattered. The focus of this document is on examining new reform trends particularly those since 1997. It does not attempt to be a comparative analysis of the full range of policy responses to ageing.

Part I of the report outlines the main findings. As noted, reforms have been well launched and, indeed, appear to be leading to a transformation in the way that retirement is conceived and financed. As well, the seven principles have proved to be sound, although in need of some fine-tuning.

The second purpose is to provide statistical information from selected countries that sheds light on the key topics – the work-retirement transition and active ageing, including information on gradual retirement and on how people actually spend their time during their working years and after retirement. This information, found in Part II, is an early product of a comparative study of retirement income policies in nine OECD countries that is currently being undertaken by the Secretariat. Part II goes on to compare trends in those countries in areas that can be addressed by policy (the time that individuals spend in and out of employment over the course of life) with those that are hard for policy to address (population ageing). It concludes that there is nothing inevitable about the effects of population ageing. Policy can make a difference.

The third purpose is to provide updated information on ageing trends in individual countries. Annex 2 of the paper is, in effect, a country-by-country chart book of basic data that explores the inter-action between demographic and labour trends.

A final purpose was to supplement this publication with a more detailed database that would help analysts learn from the practical experiences of other countries as they tackle age-related reforms. To help in this, the individual responses to the questionnaire can be accessed on the OECD web site (www.oecd.org/subject/ageing) along with a description of the process that was followed in developing this report. The web site descriptions often contain references to sources of further information for those interested in following-up.¹

1. See OECD (1999), *A Caring World: The New Social Policy Agenda*. This covers reforms up to about 1997. A related background paper can be found on the Internet at http://www.oecd.org/subject/ageing/awp3_4e.pdf

Part 1

PROGRESS IN INTRODUCING AGE-RELATED REFORMS

RETIREMENT INCENTIVES – POLICY ON A NEW COURSE

Summary and main results

In 1998, *Maintaining Prosperity in an Ageing Society* concluded that pensions and other public transfers should be reformed to remove incentives towards earlier retirement (see Box 1.1). The policy directions reflect concern about trends that could cause a fall in the number of workers compared to the number of retirees – with negative economic, social and public finance consequences. They also reflect a desire to provide people with more real choice in their retirement decisions.

In many countries, fiscal problems will arise as result of the relative shrinkage of workers making pension contributions and the growth of those drawing pension benefits. In all countries, relatively fewer people will be producing goods and services, resulting in a slowing down in the rate of real economic growth. This would, perhaps, not be a major problem if it simply reflected a choice on the part of individuals in favour of more leisure through early retirement. However, in reality, that choice is constrained by incentives in public programmes and workplace arrangements that favour earlier and abrupt retirement. Individuals should be as free as possible to decide when they retire. What is at issue is the role of public policy in supporting arrangements that result in a growing portion of leisure being concentrated in the last third of life.

In theory at least, the best solution would be to slow and reverse trends to early retirement and to provide people with more real choice in their retirement decisions. In practice, there have been many such reforms in the last few years. Almost half of the countries identified this as a major challenge for public policy. In these, the reforms were correspondingly ambitious.

Work incentives in pensions are being strengthened. Other pathways to retirement, such as disability insurance, are being closed down or restricted. New pathways are opening up, particularly via gradual transitions from work to retirement. Many initiatives have been initiated which will support the process of reform including those directed to research, planning, co-ordination and consensus-building.

The policy tide has shifted. Until recent years, public policies that directly or indirectly encouraged earlier retirement were not seen as a major problem. Often they were viewed positively because of their alleged effects in reducing the pressure of unemployment. While the scale of reform varies considerably from country to country, the unambiguous thrust of policy is now to encourage later and, in some cases, more gradual transitions from work to retirement.

A clear picture has not yet emerged on whether the goal for public policy is simply to remove disincentives or whether policy should provide new incentives that positively encourage working longer. The answer will depend, in part, on the effectiveness of this initial round of reforms. However, it is not easy to assess these effects with any precision. Their full impact will depend on the cumulative effect of a series of reforms over a number of years. It will also depend on the responsiveness of labour markets to changing economic as well as demographic circumstances. Nevertheless, the “first wave” reforms described in this chapter are expected to significantly slow down recent trends towards ever-longer retirement and, in some countries, reverse them.

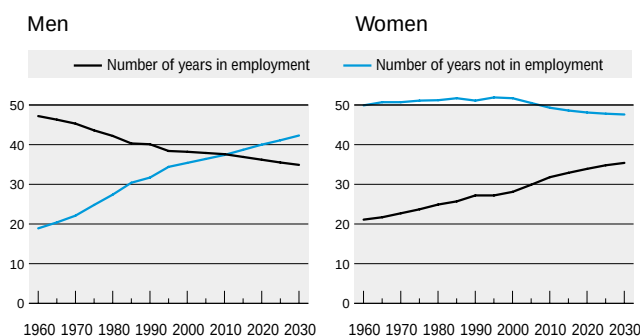
The present situation

In most OECD countries, ageing will begin having its largest effects on public policy between 2005 and 2010, when demographic and labour market trends are likely to result in shrinkage in the number of people in the labour force – relative to those who are retired. People are retiring earlier and living longer once retired. In addition, the baby-boom generation will reach retirement age during that period. If existing trends were to continue, there would be fewer people producing goods and services and paying taxes, and more people in receipt of pensions and other age-related benefits.

Figure 1.1 provides the basic data for the OECD as a whole. It also shows that projections depend greatly on assumptions about a possible reversal of trends to early retirement. Three scenarios are shown with different assumptions about male participation rates (the scenarios are explained in Chapter 10). The effects of population ageing could be largely offset if men's participation were to gradually return in 1960.

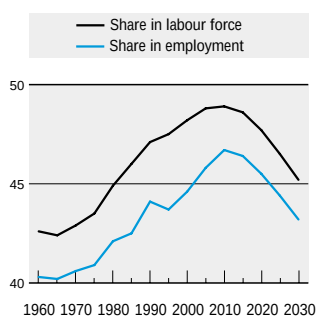
Figure 1.1. Demography and labour force participation over life

A. Expected lifetime years in and out of employment



Men are working for much less of their lives. Across the OECD as a whole, men have been spending much less of their lives in paid work. Much more time is being spent in retirement, in particular. In an average OECD country in 1960, men would have lived on average to about 68 years with about 50 of those years in employment. Today life expectancy is about 75 with nearly half that time spent out of work. Men are decreasing the number of years in employment while women are increasing the number of years in employment

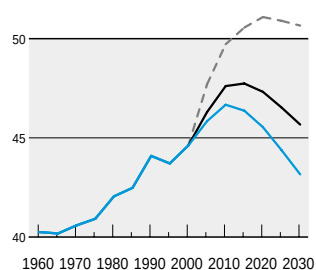
B. Share of total population



The trends, together with population ageing have resulted in a favourable demographic climate. In terms of employment, the declining amount of time that men work has been more than offset by the increasing work of women and, especially, by population ageing. The post-war baby-boom generation has been in the labour force. The result is that employment has been growing as a percentage of total population – with a greater percentage of the population producing goods and services.

Employment will start to fall after about 2010. In about a decades time, if existing trends continue, a major reversal will occur as the baby-boom generation reaches retirement ages. The share of the population at work could begin to fall.

C. Share of total population in employment, under different scenarios

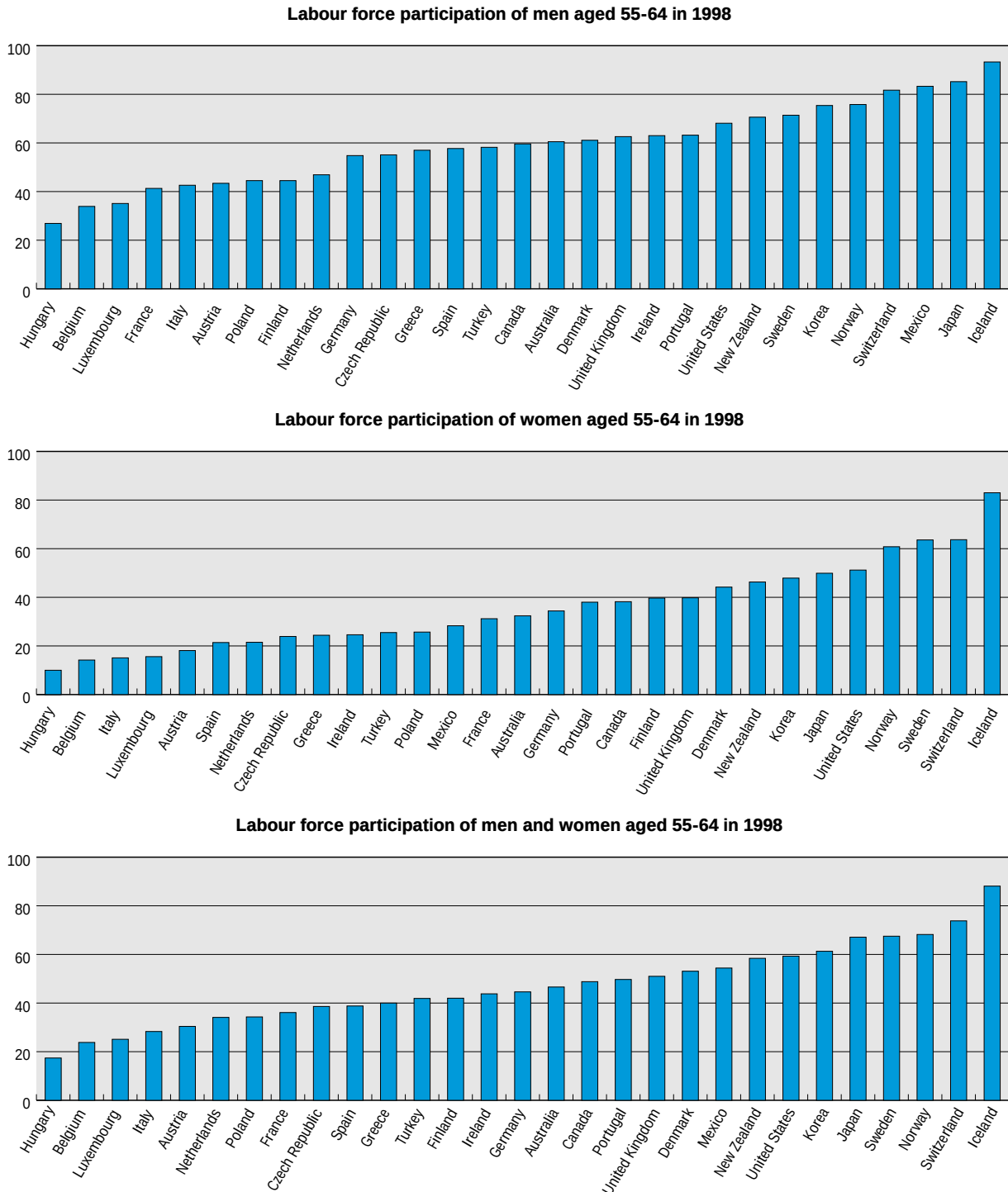


Employment trends are very sensitive to assumptions about men's participation patterns. The bottom line is the same as in Chart B. It shows a projection assuming existing trends were to continue to 2030. The middle projection, which shows a lesser decline in employment, assumes that male participation rates stay constant at today's levels.

The top line, on the other hand, shows what would happen if male participation rates reversed their pattern and returned to the levels they were in 1960. This would nearly offset the effects of population ageing. The share of the population in employment would grow even more rapidly over the next two decades and would then plateau.

The trend towards earlier retirement in most OECD countries has led to reduced levels of participation among people over age 55. However, there is much variation across countries, as is shown in Figure 1.2. In Japan, Sweden, Norway and Switzerland, 60% or more of the people aged 55 to 64 participate in the labour force. In Iceland it is more than 80. On the other hand, only about 30% or less of older people are in the labour

Figure 1.2. **Labour force participation rates for workers aged 55-64 in 1998**



Source: OECD.

force in Hungary, Belgium, Luxembourg, Italy, and Austria. Part II explores recent data on work-retirement trends, including recent trends towards more work by older people in some countries.

The scale of the challenge and of national policy responses

Projections of the labour force participation of older people (as well as projections of the future effects of policy changes) must deal with factors that are, at core, unforeseeable. For example, Figure 1.1 shows the wide band of uncertainty that exists when a range of plausible alternative scenarios is examined. There should therefore be humility in any discussion of the scale of the challenges and of the effects of public policy in this area.

The responses to the questionnaire nevertheless allow a rough comparison across countries. Retirement incentives were a major challenge² for public policy in almost all of the countries. These countries are identified in Annex 1.

Where the challenge has been large, countries have usually introduced reforms. A few countries indicated that major reform was not needed because existing arrangements worked well. In some countries, reforms were small individually, but collectively appeared to signal a major policy trend.

Reform trends

Research, planning, and consensus-building

In most countries, there have been initiatives directed to a better understanding of the challenge and of the options that are open. For example, in the Netherlands, the government has asked the main tripartite advisory board in the country for advice with respect to a particular policy package for older people. An outline of conceivable policy measures was included in the package. The package, in total, must lead to an increase of the employment rate of the 55-65 population from 25-30% at present and to 50% in 2030.³ The Dutch initiative is somewhat unusual in its primary focus on age of retirement. In most cases, these development activities were part of a larger package that covered other ageing or pension issues.

The United States regards good data regarding the work-retirement transition as critical to policy-making. America is a leader here, especially in developing longitudinal data that provides information about the situation of people at different stages of their lives, including more integrated approaches to measuring the health, income and labour market situation of people as they become older (see Box 1.2).

Repairing the work incentives in pensions – age of entitlement reforms

Since life expectancy is growing, a fixed (or falling) age of retirement means that the time spent in retirement is growing in comparison with time spent in work. That has negative social and economic consequences and, in some cases, creates problems for public finance. As shown in *Maintaining Prosperity in an Ageing Society*, the design of pensions is partly responsible for both the abrupt nature of most retirement transitions and for retiring at earlier ages.

One response has been reforms that have increased the age at which people are entitled to receive pensions. For example, in its answer to the questionnaire, New Zealand highlights a reform that increased the age of eligibility to its basic pension and where, in direct consequence, participation rates rose significantly (see Box 1.3).

Other countries are following this route as well, although the large effects found by New Zealand are usually not anticipated. Often reform has involved bringing women's eligibility ages in line with men's. In other

2. In this case, the arbitrary benchmark involved comparison against a set of reforms that would completely offset recent OECD-wide trends that have resulted in an increase in the duration of retirement at the rate of three years per decade.

3. This is roughly equivalent to the benchmark used in the questionnaire on which this report is based.

cases, it has involved increasing the age at which income support for early retirement becomes available. Examples of these reforms are shown in Box 1.4.

Repairing the work incentives in pensions – linking contributions and benefits

Another set of reforms is designed to remove the financial penalties against working longer that have existed in many pension formulas. For example, the level of the benefit is often heavily influenced by the most recent, or highest, level of earnings. In some cases, work beyond a certain age brings no increase in pension benefits at all. Reforms tend to link lifetime contributions more closely with lifetime benefits and therefore ensure a financial reward for working longer. Box 1.5 provides selected examples of these reforms.

In some cases, raising retirement ages is an integral part of a larger reform package, with various elements supporting each other. Several examples are shown in Box 1.6.

Closing or restricting some pathways to retirement

The standard pension pathway has always been supplemented by alternative routes – such as disability or unemployment paths – that bridge the gap between work and receipt of public pensions when required. In many countries, early retirement pathways were specifically created in order to facilitate the exit of older workers in firms affected by industrial re-structuring. However, with high overall levels of unemployment in recent decades, many of these supplementary pathways to retirement became swollen, and took on functions for which they were poorly designed. Box 1.7 shows a typical pattern of shutting down the special early retirement schemes and restricting access to others. Many countries have taken action in this area.

Many countries face problems of over-use of invalidity insurance and disability pensions. Box 1.8 highlights the United Kingdom reforms to their disability programme.

Strengthening new pathways to retirement – often involving gradual transitions

A number of initiatives have been designed to promote a more gradual transition to retirement – that allow older people to work fewer hours or take on less onerous (and less well paid) work. The reforms above that result in a tighter link between lifetime contributions and pension benefits help here. They remove or reduce the disincentives that are often built into older formula that link benefits to the level of earnings in the years immediately preceding retirement.

Box 1.9 describes other reforms that are intended to achieve more flexible transitions to retirement. Some of these make provision for receiving a partial pension along with part-time work. Others subsidise or simply encourage part-time work.

Other ways of increasing participation rates

As described in Figure 1.1, the demographic and labour market situation in most OECD countries is such that, if the goal were to increase the percentage of the population that is employed, then retirement patterns would have to change. The timing of retirement is by far the largest factor that is susceptible to government action. However, a complete national strategy is likely to contain more than one element. Reducing unemployment among people of all ages is, of course, a critical element. In some cases, migration or encouraging higher participation by women plays a role. Although such reforms were beyond the scope of the questionnaire, a number of countries emphasised their importance and the need for coherence across the policies of several ministries.

Box 1.1. Retirement incentives and labour supply – A policy principle of *Maintaining Prosperity in an Ageing Society*

Principle 1. *Public pension systems, taxation systems and social transfer programmes should be reformed to remove financial incentives to early retirement, and financial disincentives to later retirement*

Maintaining Prosperity in an Ageing Society analyses the incentives to early retirement that are now common. In the longer-term, the central pension reform must be to increase the average age of full public pension entitlement. This increases the length of time in which contributions can be made and reduces expenditure. It would slow or reverse trends towards ever-longer periods of healthy life being spent in retirement.

However, public pensions systems interact with other social transfer programmes and multiple reforms are needed to accomplish the basic objective of providing an incentive structure that will increase the time spent at work and slow or reverse the trends towards ever-longer retirement. Reforms include:

- Increasing length of the contribution period for full benefit and generally linking lifetime benefits and contributions. At a minimum, benefits should continue to accrue with every year that is worked.

- Removing pension earnings rules and other penalties for working later.
- Increasing the average age of entitlement to full pension as a one-time policy change or by formulae that automatically tie pensions to longevity. Increasing the lower age limit for early retirement.
- Moving strongly in the direction of actuarial neutrality of pension benefits for people who retire earlier or later than the standard age.
- Aligning more closely early retirement ages in occupational pensions and public old-age pension systems where the private and social costs and benefits associated with earlier retirement differ.
- Phasing out programmes that encourage early retirement for labour market reasons.
- Phasing out preferential treatment for older people in disability, unemployment insurance and other social programmes, *i.e.*, ending their role as quasi-early retirement programmes.

Box 1.2. The United States leads in empirical understanding of the retirement transition

The United States government fields a number of household-based surveys in addition to conducting a decennial census that collects information on changes in the labour force participation of older workers and recently retired individuals. For example, the Current Population Survey and Survey of Income and Program Participation provide intercensal information on trends in employment and retirement in the U.S. population.

Such data exists in many countries. However, the American basis of survey information has been greatly expanded in recent years in ways that will allow a better understanding of the retirement process in the United States than will be possible in other OECD countries. For example, the government-sponsored Health and Retirement Survey (HRS) collects information on a national sample of older persons to inform policy makers of the important factors

affecting retirement, health insurance, saving, and socioeconomic well-being. The original sample included persons who were aged 51-61 in 1992 (and their spouses) and these have been surveyed since then on a biennial basis. New cohorts have been added over time and the HRS has been merged with an ongoing survey of persons aged 70 and older (the Asset and Health Dynamics Among the Oldest-Old Study) in order to provide continuous information for the entire non-institutionalised U.S. population aged 51 and older.

Taken together, these data provide critical information on trends in labour force participation, retirement behaviour, and pension and health dynamics that can form a concrete scientific basis for discussions about tax policy and programme modification and development.

Box 1.3. Raising the age eligibility for New Zealand Superannuation had a substantial effect on employment rates

The main form of retirement income for most retirees in New Zealand is New Zealand Superannuation. This is a non-means-tested universal pension paid at standard amounts. The amount for a married couple is a minimum of 65 per cent of the average wage. It is funded from general taxation on a pay-as-you-go basis. Because New Zealand Superannuation is paid irrespective of a person's employment status or earnings, it does not provide direct disincentives to work. Furthermore, because the plan is funded from general tax revenue, rather than an earmarked payroll

tax, there are no specific tax-related labour market distortions. However, the availability of a source of retirement income such as New Zealand Superannuation from the age of eligibility may influence retirement decisions. There are no penalties for working late and no gains from retiring early.

The age of eligibility for New Zealand Superannuation is being phased up from 60 to 65 over nine years, ending in 2001. This increase in the age of eligibility has been relatively well received by the New Zealand public, despite little

Box 1.3. Raising the age eligibility for New Zealand Superannuation had a substantial effect on employment rates (cont.)

advance notice before implementation commenced and a relatively fast period of transition.

Part of the reason for this success may be the transitional measures introduced to soften the impact of this policy change on those most affected. To recognise the circumstances of people who were approaching age 60 at the time of the announcement, and whose expectations were changed by the legislation, a new Transitional Retirement Benefit was provided. The Transitional Retirement Benefit is an income-tested benefit that is available for a limited period of up to 3 years prior to a person becoming eligible for New Zealand Superannuation. The Transitional Retirement Benefit is a temporary measure, and will begin to phase out once the age of eligibility for New Zealand Superannuation reaches 65.

Raising the age of eligibility for New Zealand Superannuation has had a substantial impact on the employment rates for the age groups affected. For example, over the period between March 1991 and March 1996, the percentage of 61-year-old males in employment increased

from 38.1 per cent to 58.5 per cent, a gain of some 20 percentage points. In comparison, the employment rates for males in their late fifties increased by 3 to 7 percentage points. A similar, but less extreme pattern occurred among females in the affected age groups.

The fiscal gains caused by the increase in the age of eligibility have also been significant. By 1997, the age of eligibility had reached 63 years. Because of this, 55 000 fewer people were receiving New Zealand Superannuation or the Veteran's Pension in 1997 than in March 1992, when the transition started. This reduced the total costs of New Zealand Superannuation and Veteran's Pension by more than NZ\$600 million in 1997, approximately 2.5 per cent of GDP. This was partially offset by the cost of paying social security unemployment or invalidity benefits to some of those aged 60 to 63.

Raising the age of eligibility has preserved the expected number of years in retirement. The corollary of this is that gains in life expectancy have translated into extra years of working life. However, there is no policy currently to link the age of eligibility to life expectancy.

Box 1.4. Examples of reforms that increase the age of pension eligibility***Japan gradually raises age for flat-rate pension first, and then for earnings-related pension***

The 1994 Pension System Reform raised the pensionable age of the flat-rate portion of Old-Age Employees' Pension from 60 to 65. This will take place gradually during the period from 2001 to 2013. A new bill now proposes to gradually raise the pensionable age for the earnings-related portion of the Old-Age Employees' Pension from 60 to 65 during the period from 2013 to 2025. For both flat-rate and earnings-related pensions, the change of the pensionable age for women will be five years later than that for men.

The United Kingdom increased the pension age for women without strong opposition

An increase in the female pension age in the United Kingdom has, contrary to expectation, provoked almost no opposition. It was introduced after a long period of public debate, with long lead-in times and complete protection for existing recipients of state retirement pensions. The lesson is that extensive consultation and advance notice may reduce opposition to potentially unpopular changes.

United States increases age of entitlement gradually and with long advance notice – but the effect is not expected to be large

A 1983 reform (the Social Security Amendments of 1983) starts to take effect in 2000. This reform gradually reduces the benefits that will be available to workers retiring at the earliest age (age 62) and gradually increases the age at which full retirement benefits can be received from 65 to 67. These changes will be phased in over a roughly 20-year period. This reform may have a slight effect of raising the age of retirement. More extensive reform efforts appear not to be necessary at this time.

Even Iceland, where the actual retirement age is already very high, takes measures

In 1997, the possibility for government employees to claim pension from the age of 60 years was abolished. The overall situation on Iceland is favourable due to a great demand for labour and strong work ethic. The structure of the pension system is such that pension rights accrue at the same rate over one's working life and full pension is earned at the age of 70. By the pensions act of 1998 the pensions increase by 0.8 per cent per month from 65 years to 70. Furthermore, the level of social security benefits is low and means-tested. The thresholds are set in such a way that pensioners always benefit from work.

In *Belgium*, the retirement ages of men and women are being aligned gradually, by increasing progressively the normal age of retirement from 60 to 65 for women. In the same transitional period 1997-2009, the calculation of female pensions will change from a 40 to a 45 years base for a full career. Early retirement can be applied, provided that a standard of a minimum career is satisfied; this minimum career will be increased annually to reach 35 years in 2005. To support retirees who held low paid jobs, a new minimum-claim scheme is provided for each year in the career, provided that it amounts to a minimum of at least 15 years. This measure is financed by slightly reducing future benefits related to working periods between 1955 and 1974. To adapt the pension scheme to the recent flexible work programmes, some periods of inactivity and part-time work will now be taken into account for the pensions. The pre-pension retirement age has been raised to 58 years.

France uses a mix of measures in reforming the pension schemes

Reforms to the private sector in France started in 1993 and contained three main elements: first a gradual

Box 1.4. Examples of reforms that increase the age of pension eligibility (cont.)

lengthening of the reference period when calculating benefits – the reference salary will be prolonged from 10 years to 25 years when the reform is fully implemented in 2008; second income as well as pension payments are indexed to prices; third and most important the contribution period is extended by one quarter per generation – in total from 150 quarters to 160 quarters. As for public servants the government has announced a reform within a pay-as-you-go framework. One possible solution could be a prolonged contribution period. However, the government is expecting the social partners to take up negotiations concerning these issues.

Early retirement age limits are raised in Finland

In Finland, the age limit for the early retirement pension will be raised from 58 to 60 years concerning those born after 1944. The age limit for the part-time pension remains at 56 years up to the end of the year 2002. Changes will first come in effect for private sector employees and later changes will affect the public sector. The act concerning improvement of the work ability of ageing workers will be made permanent.

Italian reforms of the pension system include different measures to make people work more years

Reforms of the pension system have gradually been introduced in Italy since 1992. Ingredients have included tightening of minimum eligibility requirements for old-age pensions and long-service pensions. For example, the eligibility requirements for public employees will be raised from 20 years of contributions to 35 years by 2010. The eligibility criteria for disability pensions will be tightened as well. These reforms are expected to raise the average amount of time spent in work.

Australia has introduced a range of measures to encourage later retirement

The detailed Australian response to the questionnaire describes several measures to encourage later retirement including a tax-free bonus to people who work beyond pension age (currently 65 years for men and 61.5 years for women) and requirements that occupational benefits must be maintained in a fund until the person reaches retirement age and has permanently retired. This age is currently 55 years but will gradually increase to age 60 by 2025.

Many countries simply raise the pension age

In **Portugal** as well, the official retirement age is increased from 62 to 65 for women.

Under **Greece's** new system, both men and women, regardless of sector of employment, face a retirement age of 65.

In **Hungary**, the official retirement age will be increased for both men and women to 62 years of age. In the interim, early retirement will gradually be dealt with by reducing benefit levels.

Korea has decided to increase the average age of full public pension entitlement from 60 to 65. The law will gradually raise the age of full entitlement with a start in 2013. That is, the full entitlement age will be 61 at 2013 and will be raised by one year, every 5 years to be 65 in 2033.

Switzerland has implemented reforms and has plans to continue with new adjustments aimed at increasing the retirement age for both men and women. Reforms are expected to be implemented gradually through to 2009.

Box 1.5. Reforms that increase work incentives through benefit and contribution changes

Linking pensions to total lifetime income plays a role in very high participation of older workers in Iceland

Iceland has a unique position with favourable demography and high labour participation. The structure of the pension system has contributed to the situation since all incomes over the working life generate pension rights. Social security benefits are low and means tested, which also have contributed to strengthen the work incentives.

Radical Swedish reform is neutral in its work incentives and automatically links benefits to longevity increases

Under the major Swedish reform (described in Chapter 4) people can retire any time after the age of 61 and receive a pension that is directly linked to their lifetime contributions. In this respect, the public system acts very much like private individual pension accounts. The calculation of benefits at retirement includes a component for the expected longevity of people in that age cohort.

Ireland requires more years of contribution

Ireland is planning to increase the Pay Related Social Insurance contributions required for qualification for contributory Old Age Pension, from 3 to 10 years by 2012. This would lead to individuals working more years in order to qualify for old age pensions.

Austria extends coverage to work of all kinds

Austria's compulsory social insurance has been extended to cover new forms of work that have been appearing in the labour market. For example, marginal part-timers are now included for the first time. This means that all incomes from work are subject to compulsory social insurance. In addition, the period of assessment used for calculating pension benefits has been prolonged from the last 5 to 10 years of pre-retirement income. In addition the qualifying period for benefits was extended.

Box 1.5. Reforms that increase work incentives through benefit and contribution changes (*cont.*)***Lower benefits create incentives for work in Greece***

Under Greece's new system, maximum replacement rates are now 25% lower than before.

Dutch reforms strengthen economic incentives to work longer, including possible changes to unemployment contributions

In the Netherlands, the transition from VUT-schemes* into flexible pension arrangements, which at the moment is taking place on a large scale, provides a better balance between costs and benefits. The system of flexible pensioning leaves employees the option of pensioning earlier, but the costs of choosing that option are no longer shifted on to the collectivity, but on to the employee who retires before

the normal retirement age of 65. Furthermore, a differentiation of contribution for the Unemployment Act is under active consideration. This can possibly have a preventive effect on dismissals, since employers that “deliver” relatively many unemployed, have to pay a larger contribution and vice versa. These changes, if implemented, are expected to directly affect the participation of older workers. However, it is yet not clear whether age will be a specific factor in the differentiation.

Denmark pays a premium for workers over the age of 62

To increase incentives to later retirement in Denmark, as of 1999 a premium of 8 600 DKR was introduced for each quarter of full-time work beyond the age of 62.

* VUT-schemes for early retirement are separate from most pension schemes and came into existence in the early 1970s. They were the result of collective negotiations and were introduced as a means of curbing unemployment. VUT-schemes are based on a pay-as-you-go system and can be financed through book reserves or separate VUT-funds.

Box 1.6. Selected examples of pension reforms where raising the retirement age is an integral part of larger reforms

Greece introduced a minimum retirement age as part of a rationalisation of pensions

With the “New entrants system” introduced in 1993, the Greek pension system is evolving towards a more transparent system, where all labour market entrants (regardless of sector of employment) are subject to common legislation regarding contributions, retirement age, replacement rates and minimum guarantees. The new system is less generous than the old. This law introduced for the first time a minimum age for pension (42 years for women) – before that the public sector had minimum years in employment for eligibility criteria rather than a minimum age for retirement. For example people could retire at around thirty years of age and start a new career, while at the same time collect pension.

Czech Republic integrates step-by-step increases of the age limit as part of new reform package

In the Czech Republic, significant changes were made in the pension system. A new Act on Pensions Insurance was introduced in 1996. The pension will be calculated from

indexed incomes for a period of thirty years in 2015 (when the reform will have full impact). The act also grants equal rights to men and women for survivor pensions. However, the most significant change that they managed to carry is a step-by-step increasing of the age limit.

Turkey raises pension ages as part of initial reform wave

Turkey is in the midst of a large two-phase social security reform. The first phase, which has just been implemented, consists of a series of key reforms including increasing the minimum age of retirement, increasing minimum contribution period for maximum pension, reductions in replacement rates and other urgent and immediate measures. The second phase of the reform, which is expected to be implemented by the end of 2000, consists of administrative improvements of social insurance institutions, universal coverage for the health system, introduction of private pension plans.

There are many *other examples* as well in Chapter 4.

Box 1.7. Examples of reforms that close or restrict some pathways to retirement

Finnish initiatives concentrate on rehabilitation rather than disability pensions

In Finland, much effort has been put into supporting rehabilitation rather than giving out disability pensions. Blocking the unemployment pathway to retirement is also an important step towards increasing years in work – however Finland stresses the importance of patience, since these changes require time in order to change attitudes.

Norway, in collaboration with labour market partners, tightens its early retirement scheme

Norway has amended its Contractual Early Retirement Scheme, a central explanatory factor in the reduction in labour force participation among older workers there. This involved, among other changes, a tightening up of rules for part-time pensioners. The Contractual Early Retirement Scheme was established as part of collaborations between

Box 1.7. Examples of reforms that close or restrict some pathways to retirement (cont.)

labour market partners and the authorities. It was, and is, critical that reforms in the area of early retirement be considered in association with outcomes from the entire range of negotiations with the parties in the labour market.

In the Netherlands, the financing of early retirement benefits is being shifted to the employees who benefit from them

In the Netherlands, separate pay-as-you-go (VUT) early retirement schemes are being replaced on a large scale by flexible funded pension arrangements. This provides a better balance between costs and benefits. The system of flexible pensioning leaves employees the option of retiring earlier, but the costs of choosing that option are no longer shifted on to the collective scheme, but on to the employee who chooses to retire before 65 years of age.

Poland abolishes main early retirement scheme, but keeps some flexibility when restructuring needs are significant

The population of Poland is relatively young. The ageing problem is not particularly marked so far. Nevertheless, steps have already been initiated to better deal with the problem when it presents itself. The early retirement system has been abolished. The two pre-retirement benefits that still exist are reserved for restructured sectors of the economy where immediate and significant reductions in employment are necessary.

Criteria for claiming disability benefits have been tightened in Iceland

In Iceland, conditions for drawing disability pensions have been made stricter and disability will only be granted on standardised medical grounds. Furthermore, by that same legislation emphasis will be placed on rehabilitating the disabled as soon as possible after they have been granted disability status.

Germany has lowered the benefits for “unemployment” pensions...

Early retirement packages are being removed in Germany. With the Law to Promote Gradual Transition to Retirement, which became effective in 1996, the possibility for employees to claim old age pension in case of unemployment from the age of 60 has been modified. This type of pension has been transformed into a pension due to unemployment or a pension following old age part-time employment, while the effective pension age was gradually raised at the same time. Employees still interested in claiming this pension at the age of 60 have to accept pension reductions based on their individual effective pension age.

...while Austria has abolished them...

Austria has eliminated the *allgemeine Sonderunterstützung*, a special pre-retirement benefit, in 1996 (under this scheme, certain workers were granted an unemployment insurance funded “pension” for one year prior to reaching the minimum age limit for early retirement).

...and Denmark cuts access to an early retirement scheme that had grown dramatically in size

In Denmark, the transitional allowance scheme, a special retirement scheme for long-term unemployed people between 50-59, was closed to new entrants as of 1996. People already receiving the allowances can continue until they turn 60, but the scheme will be entirely phased out by 2006. The earlier arrangements were popular and many people retired early in consequence. The purpose of the reform is to promote a later and more gradual withdrawal from the labour market by increasing incentives for continuing work beyond the age of 60 and by making it easier to combine work and part-time retirement.

Box 1.8. United Kingdom highlighted reform to disability programme

The proportion of the working age population drawing invalidity benefit increased rapidly during the 1970s and 1980s. By the early 1990s, approaching a quarter of men within 5 years of state pension age were drawing this benefit. This increase in the number of people drawing the benefit took place against a background where the general health of the population showed no signs of deterioration. From any viewpoint, having so large a proportion of the population drawing a non-work benefit for the disabled was disadvantageous:

- For the individual. Life on a disability benefit is likely to mean reduced income, compared with working, reduced ability to build up pension rights, and possibly, loss of self-esteem and social contacts arising from the work place.
- For the macro-economy. Having an increasing proportion of the potential workforce not working or competing for jobs reduces productive potential

and, for a given level of activity, is likely to create inflationary pressure.

- For government finances. Spending on the main disability benefits tripled in a period of not much over 20 years and has now reached around 3% of GDP. This increase, which was forecast to continue if there had been no policy change, was not good use of the scarce resources available to the public sector.

The policy response

In the last 5 years a number of measures have been introduced intended to reduce the financial incentive to claim disability benefits and to help disabled people and older workers in general to gain or retain work.

The *Social Security (Incapacity for Work) Act, 1994* introduced Incapacity Benefit from April 1995, in place of

Box 1.8. **United Kingdom highlighted reform to disability programme** (*cont.*)

Sickness Benefit and Invalidity Benefit, as the contributory benefit for people not working due to illness or disability. The new benefit addressed incentives towards earlier retirement in two ways. First, changes to the benefit structure have meant that average rates of Incapacity Benefit are lower than Invalidity Benefit rates (in particular because the earnings-related component of Invalidity Benefit was not carried forward into the new benefit). Secondly, entitlement to Incapacity Benefit (and other provisions linked to incapacity for work) depends on satisfying a more objective test of the effects of illness or disability on functional capacity, in a series of work-related activity areas. The test is designed to assess whether a person reaches a level of incapacity at which he/she is not required to work, or seek work, as a condition for receiving social security benefits. It is restricted to medical factors alone. This was a fundamental change from the previous system where other factors for example, age, skills or experience were taken into account. Since the reform was introduced with a Grandfather clause its effect was expected to be to reduce the inflow to the new benefit compared with the inflow to the old benefit.

The New Deal for Disabled People. During 1999-2000 the New Deal for Disabled People is piloting a range of measures to help people on incapacity benefits, suffering from long-term illness and disability, into work and training. Half of the people on incapacity benefits are aged over 50: research indicates the incidence of disability increases significantly with age.

New Deal 50+. The New Deal 50plus is a new package of back to work help. It will include a cash employment credit of £60 per week paid for up to a year for those peo-

ple or their dependent partners entering full-time employment (£40 for part-time work) who are fifty or over and have been out of work and on benefits for more than six months. It will also offer employment guidance from a personal adviser, job search support and a training subsidy, to support upskilling and on-going lifelong learning. The package applies to full-time and part-time work and self-employment. The programme is voluntary. Pathfinders will be in place from October 1999. The principle aim of these pathfinders is to ensure the delivery systems work effectively. The programme will then be introduced nationally by early 2000. An estimated 110 000 individuals will attend the personal advisor stage with 45 000 individuals expected to receive the employment credit.

In addition to the above changes the government has also sought to change the climate of opinion by issuing a "Code of Practice for age diversity in employment" which seeks to reduce age discrimination by employers and a project on "active ageing" has been launched by the Prime Minister which should encourage the employment of older people.

Early outcome

In the most recent years, there has been an increase in employment rates amongst older men of several percentage points. This is the first such increase in the post-war period. Part of the increase is presumably due to the buoyant state of the economy but previous economic upturns have not been marked by such an employment rate increase so the changed policy climate seems likely to be having a noticeable impact.

Box 1.9. **Examples of reforms that strengthen new pathways to retirement*****German law to promote a gradual transition to retirement has been popular***

The German response describes their Law to Promote Gradual Transition to Retirement. It has several elements including the possibility to pursue old age part-time employment. This allows employer-employee agreements where employees over 55 can work half time, with wage supplements for employers to compensate both wages and pension contributions. Employers are in turn compensated by the government if the resulting vacancies are filled by the unemployed or new school graduates. This has proved popular and is turning into an important element of companies' staff policy. Collective agreements now exist in most areas of the economy, usually providing higher levels of income than that called for in the law.

It is important to put such reforms in context, including the labour market situation. In isolation, encouraging part-time work could reduce the total amount of work of older workers. In reality this is part of a group of reforms that will increase lifetime work – due to the increase of retire-

ment ages for women from 60 to 65 years (2000-2004), and for long-time insured (from 63 to 65 in 2000/2001). The increase of retirement age for severely disabled persons was suspended temporarily by the government; the issue is to be solved within a wider reform concept.

Australian pension arrangements encourage a gradual retirement

The structure of the Australian age pension lends itself to a gradual-work retirement transition. First, the prime aim of the pension is poverty alleviation, not income replacement. Thus it provides no over-riding financial incentive to stop working when one reaches retirement age. Second, the pension means test is structured to reward people who can help fund their retirement with their own private income or assets. This is achieved through a "tapered" income test (see www.oecd.org/subject/ageing) which will be further reformed when Goods and Services Tax is introduced in July 2000. The Australian response notes that other factors, including health problems, may prevent the continued employment of some workers past retirement age.

Box 1.9. **Examples of reforms that strengthen new pathways to retirement** (cont.)

In the United States bridge jobs makes policy more complicated, but provides more individual stability

In the United States, there is a trend towards some workers retiring in their late 50s from their career job and taking on other employment – perhaps as a consultant working full time for themselves, or perhaps seeking a less stressful (or even a part-time) job as a bridge, or transition, to retirement. This latter arrangement may involve the worker receiving both a pension from the career job and a wage from the other bridge job. The receipt of both a pension benefit or social security benefit and wages is more common in the United States than in most other OECD countries. This combination of Social Security *plus* pension *plus* an individual's own savings and investments is called a “three-legged stool” and complicates any one method that could be used by government to impact retirement decisions. However, having three components also provides more individual stability.

Ireland brings women back to work through conditional pension entitlements

A disregard (or credit) of 20 years for pension purposes has been introduced for years spent with children. However, in order to qualify for the disregard, the person must return to work.

Partial retirement – or part time work – is becoming more common as to smoothing the transition from work to retirement in many countries

In **Luxembourg**, the *Plan d'Action national pour l'emploi 1998* promotes older workers reducing their working hours grad-

ually along the path from work to retirement. For older workers hired as a result of this measure, the social contributions are subsidised by the government.

In **Belgium**, gradual transitions from work to retirement are being promoted via part-time work programmes for workers over 50.

Dutch bill expected to raise participation of older people by enacting rights to work more or fewer hours

Recently a bill has been accepted in the Netherlands that gives employees the right to work fewer or more hours per week. Employers are obliged to accept shorter or longer work hours per week if an employee requests it. This also goes in a favourable direction to create job opportunities for older workers – this together with flexible pension (part-time, etc.) is expected to raise the labour participation of older workers.

Also **Spain** has introduced a system of *partial retirement*, in order to promote a gradual transition from work to retirement. Part-time employment is promoted in the years prior to the legal retirement age, as a means of making compatible a period of part-time employment and receipt of a portion of the retirement pension that one would have been entitled to at 65 years old.

EMPLOYABILITY OF OLDER WORKERS – A WORKPLACE FOR ALL AGES?

Summary and main results

There is little point in removing disincentives to working longer if the demand is not there for older workers to find – and especially keep – jobs. The second principle described in *Maintaining Prosperity in an Ageing Society* therefore addresses the employability of older workers (see Box 2.1). The success of ageing reforms will be greatly influenced by the overall unemployment situation.

There is much variability across countries in the extent to which people over the age of 55 participate in the labour force and, hence, in the extent to which the employability of older workers is seen as a policy priority. There has been considerable reform activity directed to retain older workers in employment, to help older workers without work to find employment, and to encourage the appropriate treatment of older people in general employment programming.

However, on balance, most reform has been addressed to removing work disincentives as described in the preceding chapter, and has been less focused on the employability of older workers *per se*. This appears to reflect a view that, if the incentives to retirement are right and if the labour market is working well overall, then there will be less need for policies specifically targeted to older workers.

The most important policy levers are those that are addressed to workers of all ages. These include, clearly, economic and employment policies that reduce overall unemployment. Policies directed towards older workers *per se*, such as those directed to age discrimination or legal retirement ages, can be important supporting tools but are unlikely to have large effects taken in isolation. Lifelong learning for all is a dominant theme and new attention is being paid to workplace health and rehabilitation issues.

The present situation

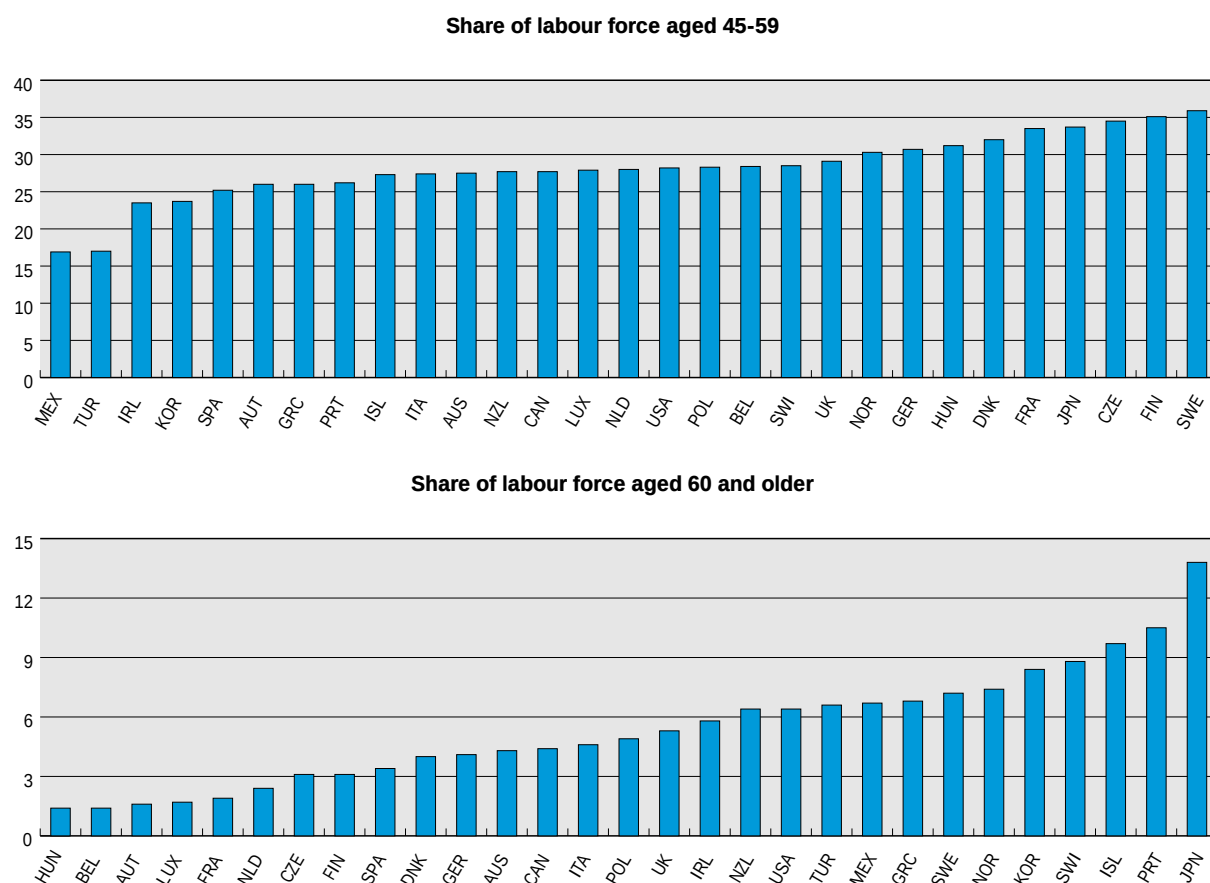
The trends towards earlier retirement discussed in Chapter 1 will play a large role in determining the share of older people in the labour force. Figure 2.1 illustrates the large differences across countries in the age structure of the workforce.

There are many age-related barriers in the workplace that need to be overcome. However, as *Maintaining Prosperity in an Ageing Society* points out, the evidence does not suggest any basis for concern in the longer term – provided that systems of lifelong learning are in place and used by people of all ages.

The scale of the policy challenge and of national responses

Not surprisingly, countries where older worker participation rates are low tended to be those that identified the employability of older worker as a particularly important challenge⁴ for policy. Reforms

4. Here, again, the reference point was quite arbitrary, and allows only rough comparisons in the scale of reforms across countries. A major challenge was identified as one that established a process of monitoring, review and reform such that, during the period after 2010, there would be no significant difference in the employability of workers aged 55 to 64 and workers in their 40s and 50s. See Annex 1 for a general explanation of how major challenges and effects were measured.

Figure 2.1. **Percentage of people in the labour force who are older, aged 45-59 and 60 and over, 1998**

have not been limited to these countries alone, however. There has been action in many countries as shown in Annex 1.

Reform trends

Retaining older workers

In this category were reforms that dropped mandatory retirement ages and that penalise employers who lay off older workers or who otherwise discriminate against older persons. Information campaigns directed to workers and employers played a role – whether to promote the concept of working later, or to provide case studies or best practices. There has been considerable work in this direction at the level of the European Union including the compilation of best practices.⁵ Box 2.2 describes selected national reforms.

Helping older people find new jobs

Australian experience illustrates the higher levels of labour market disadvantage experienced by older job seekers. Access to Australia's comprehensive labour market assistance is facilitated by a statistically-based

5. For example, see "Combating Age Barriers in Employment", European Foundation for the Improvement of Living and Working Conditions, 1997.

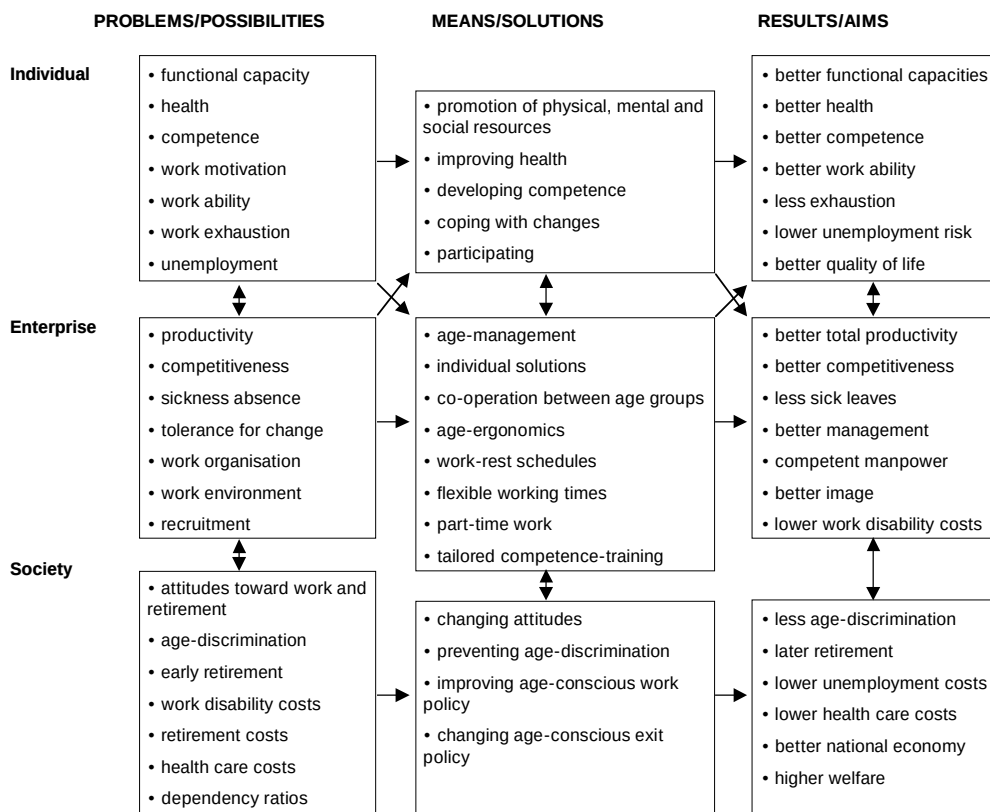
device that seeks to measure job seekers' relative difficulty in finding work. Points are assigned to unemployed clients based on 18 factors (including age) in order to help determine what kind of assistance is required and at what level of intensity. People aged 25 to 39 get 3 points, those 50-54 get 7 points, while those 55 and over get 9 points. As well, men aged 45 years and over receive additional 3 points in recognition of their greater levels of disadvantage compared to females aged 45 years and over.

Box 2.3 provides examples of reforms that help older people without jobs to find new employment. These are variations of familiar active labour market programmes but are adapted to the needs of older workers.

Promoting a work force for all ages

A large set of reforms, including the Australian model, was premised on the concept that employment policies and practices should, in the main, be directed to the entire labour force – to workers of all ages. Lifelong learning, for example, should be pursued because it is good for all workers and will help ensure that workers,

Figure 2.2. **Finland – A new look at the relationships between ageing and working life**



Note: Finland has one of the lowest rates of labour force participation for older men. One way of addressing this has been the development of an ambitious strategy for older workers. The Finnish National Programme for Ageing Workers 1998-2000 aims to re-enforce the position of those over 45 in the labour market. The reform is of particular interest because of its very wide scope and conceptual under-pinning. It is an ambitious programme consisting of many initiatives that centre on the concept of "work ability". This is a more basic concept than the employability concept used in most countries. It encompasses, for example, an individual's health and work environment and programming addresses these along with the more familiar training, anti-discrimination and information campaigns. To develop promotion and maintenance of work ability is an active strategy for ageing and ageing workforce.

when they become older, will have up-to-date skills. The work force flexibility that could allow older workers to work part-time, should also help younger workers adjust their work schedules to better fit with child-rearing responsibilities.

The Finnish authorities have developed a conceptual model that provides a basis for a better practical understanding of the relation between ageing and “workability” – a concept that is broader than employability (see Figure 2.2).

Many of the needed actions in this category involve work place practices that are only indirectly touched by government policy. As well, their effects are achieved through an accumulation of small changes, rather than any big reform. As a result, countries did not attempt to report these working-life reforms in a comprehensive manner. Nevertheless, Box 2.4 outlines a selection of initiatives, mainly dealing with promotional campaigns. These have the objective of removing age discrimination in the workplace, and having policies and practices that recognise the varying needs and characteristics of workers of different ages.

The large number of promotional campaigns was, no doubt, due in part to 1999 being the United Nations Year of Older People. The initiatives were typically intended to combat “ageism” in all its forms – including at work – and to promote an active role for older people in the economy and society. These often involved efforts to better co-ordinate government policies that support these goals.

Two themes, in particular, emerged from recent reforms. First was an emphasis on lifelong learning. This has become a familiar theme in policy-making generally and has particular importance for older workers.⁶ As well, occupational health and rehabilitation measures received considerable attention. Programmes in this area have long histories, but they are taking on new importance in the context of extending productive working life to older ages.

6. As pointed out in *Maintaining Prosperity in an Ageing Society*, educational attainment, work experience and employability in older ages are closely linked. To the extent that new investments in learning are concentrated only on the young, the gap in skills between the young and old cannot be reduced.

Box 2.1. The employability of older workers – A policy principle of *Maintaining Prosperity in an Ageing Society*

Principle 2. *A variety of reforms will be needed to ensure that more job opportunities are available for older workers and that they are equipped with the necessary skill and competence to take them*

Measures that will result in an increased supply of older workers will need to be accompanied by policies to increase their employability. *Maintaining Prosperity in an Ageing Society* assesses the policy responses that are required. There are two issues: the overall demand for labour and special factors that would hurt the employment opportunities of older workers. As well, there is a need to provide retirees with the means to play a more active role in the society and economy. General directions for reform include:

- Increasing the priority to lifelong learning for all – the operational means of investing in human capital. A key challenge will be to gain a stronger empirical understanding of the linkages among learning, skills, productivity and wages as workers grow older.

- Increasing labour market information, including that related to means of achieving employability for longer working lives.
- Providing comparable information to support retirees in playing a more active role in the economy and society, including care-giving roles.
- Developing effective active labour market programming to help older workers find new jobs.
- Removing discrimination against hiring older workers.
- Maintaining and increasing action in response to *OECD Job Strategy* recommendations, which will contribute to the overall health of the labour market, including that for older workers.

Box 2.2. Examples of reforms specifically intended to retain older workers

New Zealand ends mandatory retirement

New Zealand introduced changes in 1993 that would generally make it discriminatory for an employer to require an employee to retire from employment by reason of that employee's age. The Human Rights Act took effect from 1994, but the specific provisions did not take effect until 1999. That is, compulsory retirement is generally no longer possible. The reform was deemed good for both older and younger workers, given the changing demographics of the labour market.

In the Netherlands, reforms deal both with discrimination and training

In the Netherlands, once steps have been taken to remove incentives on employees to retire early, it is planned to focus attention on attitudes of employers to older workers through the provision of information. Furthermore, a bill has been put forward in parliament to discourage discrimination on the basis of age. Direct distinction on the basis of age in situations of recruitment and selection and by offering education will be forbidden, unless this is allowed for by law or justified in view of the circumstances. In the Netherlands, all employers are now given a tax deduction for training employees, with specific emphasis placed on the training of older workers.

A caution from the United States on not over-estimating the effects of abolishing mandatory retirement ages

Mandatory retirement based on age has been abolished. It appears, however, that some companies have adjusted their pension benefit formulas to provide incentives to encourage early retirement at particular ages. For example, some companies provide for an "early out" by offering to pay all employees in a certain class (based on both age and number of years of service) an additional sum of money as a bonus for retiring. Employees are not required to take the offer and typically only do so if they perceive the value of the benefit as exceeding the value of their continuing to work.

In Austria older workers can work part-time as part of industrial restructuring

A "pact for older workers" negotiated by Austria's social partners will come into force in 2000. One element of this policy package is a reform of the subsidy to short-time work in favour of older workers. Currently, an employer may reduce the normal working hours to four fifths (averaged across a month) to retain workers in the event of major, though temporary, problems within the undertaking. Under the new programme, an employer may reduce working time down to one fifth if a major portion of the company's employees have completed their 45th year and are affected by such involuntary short-time work. The period of working short hours may then take up to one year. Furthermore, Austria introduced an incentive-disincentive system in 1996 that offers financial incentives for recruiting older workers and penalises the dismissal of workers over 50.

In France, the firms' responsibility for their older workers is stressed

The new Instruction of July 1997 in France reasserts the priority principle that older workers should be redeployed

internally. Furthermore, in 1987 the Delalande contribution was introduced, which made enterprises pay extra contributions to the unemployment insurance scheme, if they dismissed employees who were older than 55 years. In 1992, it was extended to apply to employees from 50 years and in 1998 the contribution was increased significantly. For example, dismissing a 50-year-old employee would cost the firm a two-month salary to the unemployment insurance. Furthermore, "external redeployment measures" have been taken, where retraining contracts have been introduced and offered to older redundant workers. Also redeployment units (subsidised for a period of 12 months) have been set up in smaller firms. The intention is to give advice and information and use the professional network of the firm in searching for new jobs. Finally, the State retraining contracts (four-month contracts) allow firms to take redeployment or training measures to speed up the process of finding new jobs.

Sweden has a "last-in first-out" law that helps older workers

The Swedish rate of employment in the age groups 55-64 years is relatively high compared to other OECD countries. To some extent this can be explained by employment protection legislation, which works in favour of older employees. In times of economic downturn when enterprises are forced to reduce staff, the principle "last-in first-out" will hold. This has been beneficial for the older employees because they often have been employed longer and thus are permitted to stay on. On the other hand, it may reduce mobility of older workers and may increase the risk for long-term unemployment among older workers. In order to prevent this, active employment measures are used.

Japan extends laws to increase retirement ages

Japan has legislation that encourages employers to set the retirement age at 60 or over. This was strengthened on several occasions in the 1990s – including an efforts-based obligation to re-employ people who wish to continue work after retirement age. Compliance is now close to 100%.

In 1997, the **Danish** government set up the Senior Policy Initiative Committee to maintain older workers in the labour market.

...while Iceland is promoting greater supply of older labour

In Iceland, labour force participation is high for all age groups (for reasons described in Chapter 1). Still, in the Pension Act of 1998 workers over 70 years were exempted from paying contributions to pension funds.

In **Belgium** active measures are being taken to increase the participation rates of workers over 50. The *Accord Interprofessionnel 1999-2000* promotes continual training for older workers.

In Germany, a broader active ageing strategy includes issues concerning safety and health at work

The German Federal Plan for Old People does deal with employability issues particularly in safety and health at work. This is a broader plan that also supports senior citizens offices that bring older people in touch with organisations that need volunteers and that provide advice on setting up

Box 2.2. Examples of reforms specifically intended to retain older workers (cont.)

self-help groups. The intention is to encourage older people to share the knowledge they have accumulated.

Spain has just introduced assistance for older long-term unemployed

The programme is targeted at people over 45 who have finished receiving their unemployment benefit, have depen-

dants, and whose income is below a specified level. The aim is to improve employability through training and other active labour market measures. Beneficiaries must participate in activities offered by the Public Employment Service Income. Support is provided for a period of up to 10 months.

Box 2.3. Examples of reforms intended to help older people find new jobs

Japan has training facilities that are geared to older and middle-aged people

Japan reports that they have vocational training facilities that are especially geared to the kinds of jobs that older and middle-aged persons are likely to find, such as building management or gardening. This is one element of a range of programming direct to training and jobs for older workers, including a Lifelong Human Resources Centre, a comprehensive planning involving counselling and Silver Human Resource Centres, geared to temporary, community-level jobs.

Canada replaces income support for displaced older workers with evaluated active labour market programming pilots

Canada dropped a programme that mainly provided last resort income support for displaced older workers. Instead, it introduced a series of pilot studies directed towards the testing methods of re-integration of older workers into the workforce. Canada also reports on an initiative to provide job placements for older workers in the non-profit sector work. The results to date have been positive. The Canadian response to the questionnaire describes lessons that have been learned, including factors that are likely to make such projects successful.

Germany extends integration subsidies for older workers

In Germany, eligibility requirements for integration subsidies for older employees (labour cost subsidies paid to employers with the objective to reduce hiring disadvantages for older people) were relaxed, and employers' obligation to further employ people for whom subsidy payments have expired was abandoned. On August 1, 1999, the age limit for the integration subsidy was lowered to age 55 for a limited period until 2001. Subsidies for additional employees (structural adjustment measures) in industrial companies in Eastern Germany were focussed on employees with a particular need for support, including employees aged 55 or over. The term in which subsidies are paid for employing unemployed people aged 55 and over in the context of structural adjustment measures was increased from three years to up to five years in Eastern Germany and in regions with particularly high unemployment.

Frameworks to promote older workers have started in Mexico and Switzerland

The Mexican Labour Ministry is in talks with other institutions and the private sector to try to design programmes

to facilitate the access to training for older workers in areas such as technology.

Switzerland has created a sub-commission whose aim is to re-deploy unemployed older workers. The Lower House of the Federal Parliament has set up a sub-commission to examine what measures to take in favour of this category of persons. A report sets out the various possibilities offered by unemployment insurance (temporary employment, encouragement to take up self-employment, pilot projects, etc.). The Swiss Pro Senectute Foundation, subsidised by the AVS, also proposes activities and projects for unemployed older workers.

Greece has a pilot programme

In Greece, a pilot programme is directed specifically towards older workers (50-64). The programme subsidises the hiring of unemployed people in this age group for a period of 20 months, starting with a two-month on-the-job practice, aimed at adapting employees to working conditions.

Denmark is promoting demand of older employees by targeted subsidies

In 1999, an agreement was reached between the Danish government and the National Association concerning Senior Jobs. The implementation was scheduled to begin in December 1999. The goal was to give elderly workers who are long-term unemployed, a foothold in the labour market, using targeted subsidies for this purpose.

A package of reforms in Korea

In Korea, three job placement programmes for older persons were planned and implemented by the Division of Elderly Welfare. These programmes include the Elderly Job Placement Centre, Elderly Workplace and Elderly Employment Promotion (based on the Employment Promotion Law). Furthermore, the Employment Promotion Law encourages business firms to hire 3 per cent or more of its employees from among the population aged 55 and over. It is not compulsory and so far only a few businesses follow the guideline. In addition, this law stipulates that certain occupation categories should be allocated to older persons.

Reform in Belgium

Under a government agreement designed to raise the activity rate of persons aged 50 and over, the Belgian gov-

Box 2.3. **Examples of reforms intended to help older people find new jobs** (cont.)

ernment and the social partners have undertaken a process of defining new measures. Already, the unlimited reduction in time for employers' social contributions upon the recruitment of unemployed workers aged 50 and over has been confirmed; in addition, it was recently decided to adopt a new measure to guarantee unemployed older workers and pre-retirees who take a job that they can continue to be entitled to the extra allowances they receive at present in the event of a return to unemployment. What is more, an agreement was signed on 1 March 2000 in the federal health care sector by the government and the social partners allowing staff gradually to reduce their hours of work from 45 years of

age with full salary, in order to stop the massive departure of older workers in this sector.

France has developed measures to increase the demand for older employees

In the market sector, the Employment Initiative Contract gives the employer a 100 per cent exemption from the welfare contribution and recruitment premium, when recruiting an unemployed person aged 50 and over. Similar models exist for the non-market sector, where in addition to exemption from welfare contributions there are wage subsidies.

Box 2.4. **Examples of reforms intended to produce a workplace for all ages****Australia points out the risks of specifically targeted programmes**

Initiatives targeted to specific ages can distract government from fundamental policy reform in favour of short-term solutions that appear to achieve the stated target. A dynamic labour market, creating opportunities for the recognition and use of the skills and experience of older people, is the most effective way in which the government can assist mature workers to retain and re-gain employment. The government role is to improve labour market operations, address barriers and provide catalytic assistance when necessary. Australia introduced the Workplace Relations Act 1996 which has increased the flexibility of working arrangements between employers and employees.

In France, a 35-hour week has been introduced

In February 2000, a new framework was laid down, where firms are bound not to use the full State early retirement scheme. In exchange they get a subsidies, which are conditional to their setting up manpower and skill planning, when changing over to the 35-hour week. The purpose is to make the firms more aware of their responsibility to manage the career of their employees over the lifetime.

The United Kingdom introduces non-statutory measure to combat age discrimination

The United Kingdom introduced a Code for Practice for Age Diversity in Employment in June 1999. It is a non-statutory measure designed to combat discrimination based on age in many areas of employment. The United Kingdom has a package of measures designed to support older worker. The Prime Minister has commissioned a project on "Active Ageing", to improve the quality of life of older people by helping them to remain active. It includes identifying ways of increasing employment opportunities for older people, by examining the incentives for businesses to employ and retain people aged over 50.

Spanish reforms concentrate on preventing problems

In Spain, the labour market situation differs from situation in other OECD countries. The Spanish unemployment

rate is higher and the activity and employment rates are lower, above all among youth and women. Therefore, labour market policies pay special attention to those two groups. Nevertheless, Spain has introduced a package of employment reforms targeted to older people with the aim of incorporating them into the labour market and avoiding job loss. In addition to measures previously described, it includes training – particularly continuous training during the whole working life.

Many countries stress the importance of lifelong learning

In *Italy*, reforms of the educational system and lifelong learning were introduced in 1997 and 1999. *Norway* has implemented special reforms in the education system, aimed at promoting adult education. In *Iceland*, increasing emphasis is being put on lifelong learning and proposals will be introduced soon. In *the Netherlands*, measures are related to employability of older workers and proposed within the framework of the governmental request for advice to the Social Economic Council (SER). In *Sweden*, a new skill enhancement programme is planned for the period 2000-2002 in addition to the ongoing programme for adult education. In *Korea*, lifelong learning for all is a policy priority. Therefore, specific programmes to achieve "a society with lifelong learning for all" will be formulated in the near future.

"Flex jobs" as means of integrating weak groups in labour market in Denmark

The Danish government is working on programmes that create jobs on special terms, called flex jobs. 3 000 new flex jobs have been created since 1998. In addition to this, large efforts are being made to re-integrate long-time sick leave recipients into the labour market.

The *Belgian* government is actively working to increase the labour force participation of people over 50. Employers hiring unemployed workers over 50 benefit from laws that eliminate the corresponding social charges. Furthermore, a new measure was announced aimed at reducing benefit losses for older unemployed workers and early retirees who accept jobs instead of remaining without work.

Box 2.4. Examples of reforms intended to produce a workplace for all ages (cont.)

In Ireland reforms concerning lifelong learning are under consideration...

...and a Green Paper on adult education has been published with the establishment of a National Adult Literacy programme as the top priority, a co-ordinated third level mature access programme, and a Forum for Practitioner in Adult Education.

Germany stresses the importance of promoting a workplace for all age groups

Employability of older people plays an important role when it comes to safety and health at work. The federal government is aware of the fact that increasing technological challenges have to be mastered with an ageing gainfully employed population. By now, small and medium sized enterprises in particular have realised that important company resources were lost through massive lay-offs of older employees. In this context, measures and projects have been and are being initiated which support the development of working conditions adapted to the needs of the different age groups, i.e. through the "work & technology programme" which focuses on "demographic change and the future of gainful employment in Germany as an industrial location".

Working fewer hours is expected to raise participation rates among the old in Austria

In Austria, one element of the pact for older workers is to encourage part-time work of older workers. For this purpose, two new tools have been introduced. They will be in effect for a limited period of time, i.e. till the end of 2001. They differ in terms of legal claim, obligation to recruit substitute workers and age limits.

A broad policy approach is used in the Czech Republic to develop workplaces for older workers

In the Czech Republic, a number of labour market (and related) reforms have been announced that may facilitate

the situation for older workers. A "National Employment Plan" was decided in 1999, with four basic tasks: firstly, to support employability (this primarily involves the development of human resources – the development, extension and enhancement of education and retraining); secondly, to support the demand side of the labour market (this primarily involves employers and the development and support of business); thirdly, to enhance the dynamism and flexibility of the labour market (this primarily involves support for new forms of employment, new kinds of employment contracts and so forth); and fourthly, the eradication of all aspects of discrimination (both in terms of remuneration and access to employment, with regard to sex, age, ethnicity or religion, skin-colour, sexual orientation and so forth).

In **Poland** no comprehensive reform targeting the older workers has so far been undertaken. However, it has been a subject of active consideration and "Strategy for employment and human resource development 2000-2006" puts emphasis on the development of continuing adult education. Both infrastructure and training opportunities will be further developed.

Mexico is putting focus on retaining older workers with different strategies

In July 1998, the Mexican Ministry of Labour and Social Prevision created the General Direction for Equity and Gender, which is in charge of promoting and developing public policies for the integration of vulnerable groups to the labour market. Older workers are a major focus. The Mexican government has begun to develop public policies for maintaining and increasing job opportunities for the older population.

FISCAL CONSOLIDATION – OBVIOUS PROGRESS IN MANY COUNTRIES

Summary and main results

The need for fiscal reforms, including the need to anticipate demographic pressures, has been the subject of national and international attention for many years. *Maintaining Prosperity in an Ageing Society* concluded that the fiscal effects of ageing would be easier to manage if there were further fiscal consolidation and debt reduction over the next few years, including reforms to age-related programming (see Box 3.1). Also European Union countries have committed themselves to keep deficits (and public debt) low according to the Maastricht criteria.

Continuing a process that began in the early 1990s, most countries have introduced reforms that are intended to reduce the public debt, mainly through expenditure cuts. Almost half of the countries identified fiscal consolidation as a continuing major challenge for public policy, and reforms are correspondingly ambitious.

One category of reform involves changes to existing benefit systems (mainly pensions and long-term care) such as lowering replacement rates, increasing the number of years for maximum benefits and increasing the proportion of means-tested benefits. Where public pensions are large, reforms have invariably been introduced to bring projected benefits in line with projected contributions. A second set of reforms involves more fundamental changes to the system itself, such as shifting the balance between pay-as-you-go and advance-funded elements of the system. A third category involves measures that do not aim at age-related spending in particular, but at the fiscal situation in general, and often deal with the budgetary process itself.

Results can be clearly seen. Trends that showed continuing deficits since the 1970s have turned and are now heading towards balance (or surplus) between expenditure and revenue, with possible reductions in the debt-to-GDP ratio in a foreseeable future in many countries. Nevertheless, in the absence of further fiscal reforms, which must often include reforms to pensions and other age-related spending, fiscal pressures will start mounting again in a few years time. The reform process is not complete, but has been well launched.

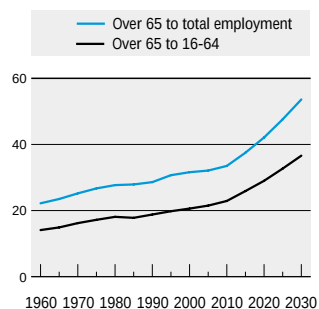
The present situation

Most OECD countries have experienced public sector deficits and rising debt-to-GDP ratios since the 1970s. Prolonged consolidation programmes and the pick-up in growth have contributed to reduce deficits in most Member countries.

If current demographic and labour market trends were to continue, in five to ten years there will be relatively fewer people producing goods and services and paying taxes, and relatively more people in receipt of public benefits. If nothing were to change, this would call for either a large increase in taxation and/or a large cut in public services. Figure 3.1 shows these relentless pressures on public finance. These pressures would continue under virtually any realistic scenario, including a reversal of trends to early retirement. The chart is for the OECD average. Similar charts for individual countries can be found in Chapter 10 and Annex 2.

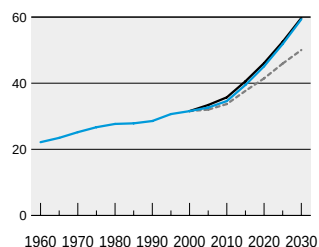
Figure 3.2 shows that the trend in gross and net financial liabilities (as a percentage of GDP) has levelled off, although with large variation across countries. Even so, Figure 3.2 shows that liabilities remain high on

Figure 3.1. The fiscal pressure created by demographic and labour market trends

A. Ratio of persons aged 65 and over to those of working age and to number in employment

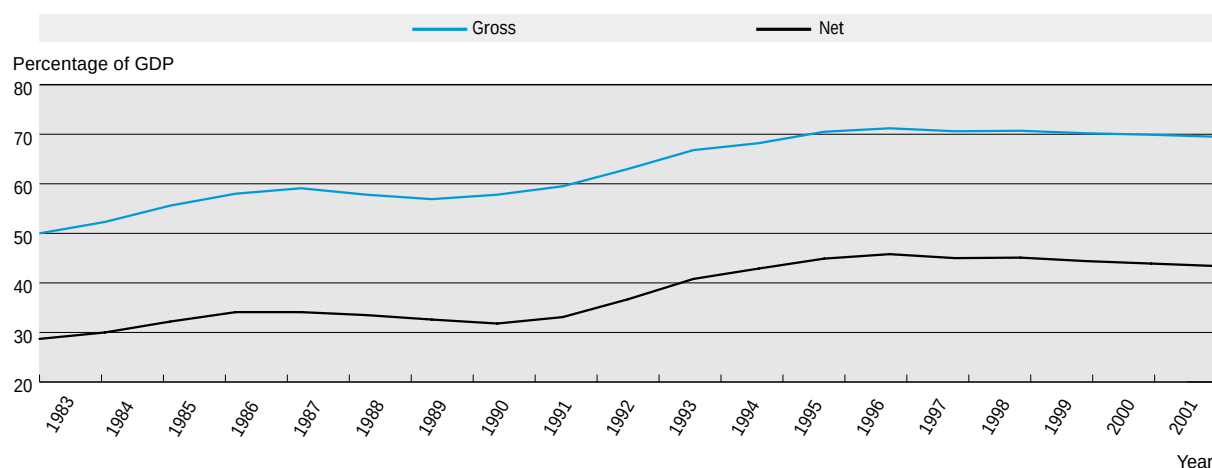
The bottom line is the familiar old-age dependency ratio that demographers used to illustrate the economic and fiscal pressures of ageing. It shows the number of people aged 65 and over as a percentage of those of working age (16 to 64). This gives a sense in the changing number of people who are producing goods and services and paying pension contributions when compared with the number of retired people who consume those goods and services and are in receipt of pension benefits. The ratio begins to rise quite noticeably after about 2010.

The old-age dependency ratio does not capture the fact that an increasingly smaller portion of the "working-age population" is actually at work. Men are staying in school longer and, especially, retiring earlier. More women are at work generally, but they too are staying in school longer and retiring earlier. The top line on the chart is an "adjusted" dependency ratio that compares the older population with the number of projected number of people who will be employed. The result is a sharper increase in the ratio after 2010 and even greater fiscal pressures. As indicated in Part II, even an adjusted dependency ratio can be weak measure for comparing fiscal pressures across countries. The numerator of the ratio fails to take account of the number of people aged 65 and under who are retired. It does not take account of the different public and private arrangements for financing pensions, nor does it take account of the fact that older people pay taxes. Other measures are explored in Part II and Annex 2.

B. Adjusted dependency ratio under three future scenarios

A similar chart in Chapter 1 showed that projections about the future varied considerably depending on what assumptions were made about male labour force patterns. This is also true, but to a lesser extent for the dependency ratio. The ratios rise in all scenarios. However, the bottom line in the chart shows what would happen in a scenario where male participation rates were to return to 1960 levels. The adjusted dependency ratio would still rise, but to a lesser extent. The other two projections assume that existing participation rate trends continue, or that rates remain constant at today's levels. Both have about the same effect on dependency ratios (see Chapter 10 for an explanation of these scenarios).

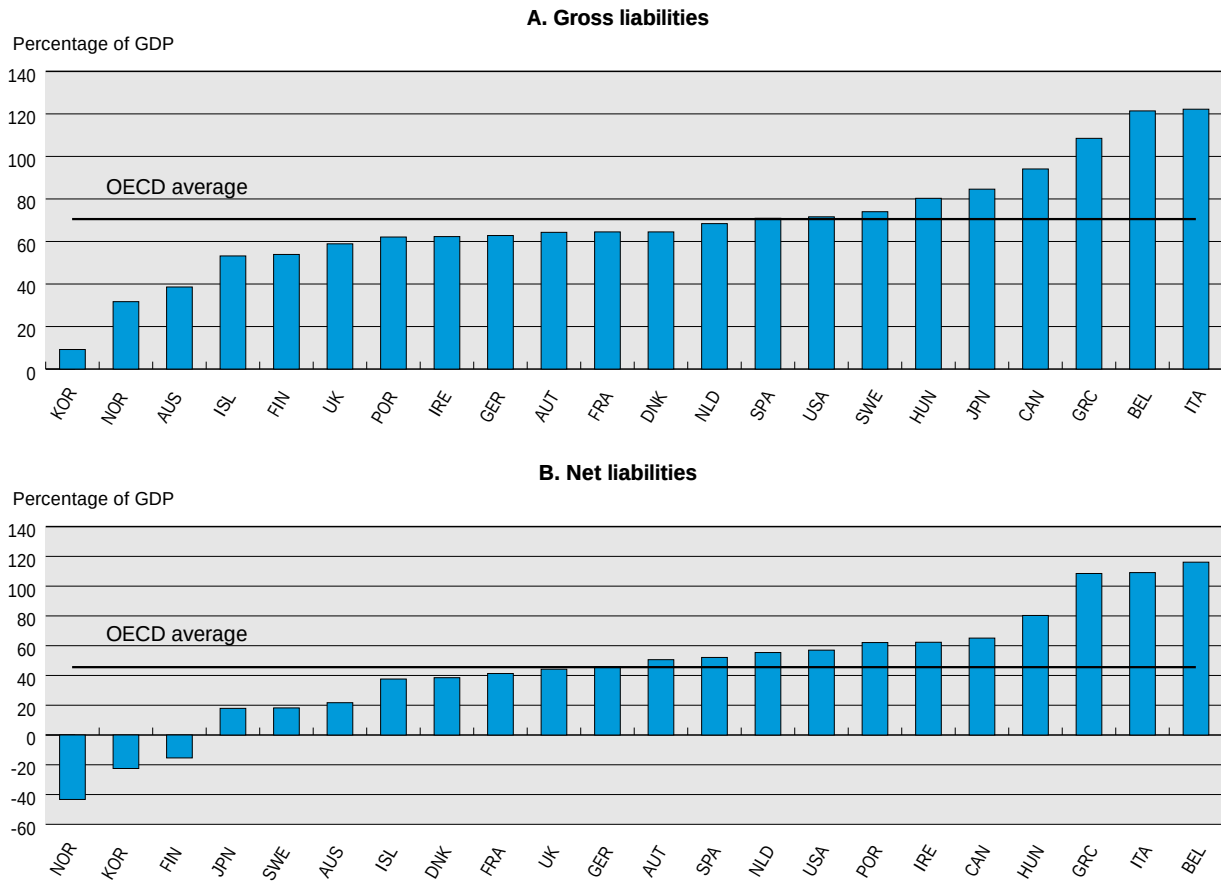
Figure 3.2. General government liabilities, 1983-2001, OECD average



Note: OECD average is based upon data for all countries, for which data is available.

Source: OECD, *Economic Outlook* (1999).

average. In some countries the trend has turned or peaked, while in some countries the peak is still to come. The level of liabilities varies substantially between countries as shown in Figure 3.3. The need for further reforms therefore also varies considerably. Work by the Secretariat, reported in *Maintaining Prosperity in an Ageing Society*, indicates that, in the absence of pension (or other public expenditure) reforms, debt ratios could soar again in the 2nd and 3rd decades of the new century.

Figure 3.3. **Gross and net liabilities in 1997**

Note: Data refers to 1997, or most current available year.

Source: OECD.

The scale of the challenge and of national policy responses

Fiscal consolidation was a major⁷ challenge for public policy in almost half of the countries (these countries are identified in Annex 1). However, nearly all countries have introduced reforms, with the extent of those reforms closely mirroring the scale of the challenge.

Reform trends

Cuts in expenditure or increases in contributions

Many countries have reduced replacement rates in their public pensions. The effective age of retirement has been raised, means testing has been extended, rules affecting early retirement benefits have been tightened, or the criteria for receiving a maximum pension have been tightened. Typically, a mix of methods has been used.

7. In this case, the arbitrary benchmark that was chosen was one where policy reforms are intended to result in a situation where projected public debt in 2030 would be no higher than in 1997 relative to GDP, and where there would be a significantly reduction in the projected growth of public age-related expenditure.

Many countries have chosen to increase contributions. Some have done this earlier than would be required by strict pay-as-you-go principles in order to anticipate the changing demography and reduce somewhat the need for increases in the future. In the United States, this strategy has been pursued since the 1980s. Also Canada is building up the funded reserve in its basically pay-as-you-go plan for the same purpose. Others (for example Ireland, Iceland, the Netherlands) have chosen the strategy of setting aside general revenue as earmarked for future pension expenditure.

Box 3.2 provides examples of the changes to contributions and benefits. These are in addition to the often-deeper reforms described in Chapter 1 that will extend the time people work and make contributions, and reduce the time spent in receipt of benefits.

For ease of presentation, Box 3.2 presents reforms one by one. In reality, a more integrated approach to reforms has often been followed. For example, taken in isolation, reducing public pension generosity could increase pressures to increase expenditure in other public transfers such as social assistance. One solution has been to extend targeted measures such as means-tested benefits. On the other hand, means testing can weaken work incentives – and may need, in turn, to be supplemented with measures that strengthen the rewards from working. Policy coherence – taking account of the winners and losers from an entire package of reforms – is important. Box 3.3 provides a few examples of reforms where a package of changes contributed to fiscal gains. There are many others, including some that are described in Chapter 4.

Fiscal action in non-age-related programming can relieve the pressures of ageing

There is no necessary reason to concentrate fiscal action on age-related programming, although in many countries age-related spending is too large a portion of the budget to be ignored. Successful action on other fronts will, of course, make it easier to handle age-related spending.

The experiences of the United States and Australia illustrate how broader policy action can greatly relieve the pressures of ageing populations. As shown in Box 3.4, in the United States, the growth of age-related spending on Medicare has been curtailed (but not by enough yet) while gains in other areas may make it possible to maintain public pension programming without reducing benefits or increasing contributions.

In Australia, the fiscal consolidation programmes have also helped reduce public debt, particularly relative to the OECD average. At the same time, improvements in policy transparency and accountability will contribute to fiscal discipline over time. As a result, Australia highlights in Box 3.5 that its public finances have been placed on a sound footing – well ahead of any pressures arising from population ageing.

New models for financing of pensions and long-term care

Several countries have gone well beyond adjustments to existing arrangements and are planning to introduce quite new methods of financing pensions and long-term care. These are discussed in Chapters 4 and 5. Often these reforms have large public finance as well as substantive consequences. For example, shifting from a pay-as-you-go to an advance funded system may ultimately take these pensions off the public books. However, public finance will play a large role in the very long transitions that are required by such shifts. Pensions under the former system will still need to be financed.

Strengthening the budgetary process

A few countries have created approaches that restrict both government and parliament to expenditure ceilings. Other models involve building broad consensus between governing and opposition parties. Consensus and public understanding is important when implementing reforms that have positive effects only in the long run. Box 3.6 provides examples of such reforms. Sweden highlighted reforms to their budget process – the three-year nominal budget ceiling (see Box 3.7).

Box 3.1. **Fiscal consolidation – A principle set out in *Maintaining Prosperity in an Ageing Society***

Principle 3. *Fiscal consolidation should be pursued, and public debt burdens should be reduced. This could involve phased reductions in public pension benefits and anticipatory raises in contribution rates*

Especially in countries with large public pay-as-you-go pensions with high replacement rates, and in countries with high levels of health care expenditure, medium-term programmes of fiscal consolidation designed to reduce debt-to-GDP ratios should be pursued:

- action on pensions, in particular, is needed well before the main effects of population ageing take hold

after 2010. The full effect of those reforms will not be felt for some time. Delays will make the problem much more difficult to solve, while early action will provide those still in work with time to adjust.

- agendas to contain health care costs and improve effectiveness must be a continued priority and the growth of public pension expenditure reduced, significantly so in most Member countries. In financing health care or additional long-term care costs, incomes from all sources (including pension income and the scope for recourse to private health insurance) should be taken into account.

Box 3.2. **Selected examples of reforms to age-related programmes – Benefits have been cut or revenue increased**

The Netherlands uses a fund to set aside today's fiscal savings for tomorrow's pensions

The Netherlands has introduced a specific savings fund whereby fiscal savings now are set aside to cover increased age-related pension expenditure after 2020. There will be regular government contributions to this dedicated fund, which will remain in the government sector but will receive interest benefits.

New Zealand lowers a floor in an indexation formula

The wage relativity of New Zealand Superannuation has been successively reduced since its introduction in the late 1970s. In 1990, the relativity of 80% of the net average was replaced by a wage band of 65%-72.5%. This meant that the rate of payment of New Zealand Superannuation for a couple could fall to 65% of wages and would then be indexed to wage growth. In 1998, the floor of the wage band was reduced to 60% of average wages. The election of a new government in 1999 has however seen this reduction reversed, with the 65% minimum reinstated. This means that the current rate of payment is approximately 67% of average wages.

Canada acts on the contributions side – including an increase in the size of an advance-funded reserve

Canadian reforms broaden the contributory base of the public earnings-related pension, change the way benefits are calculated, and tighten up of eligibility rules for disability pensions. Of particular interest to other countries, the reform will increase the pre-funding level of the Canada Pension Plan and take advantage of the higher rates of return available on equities. A lower contribution rate in the long run is being bought at the price of a higher contribution rate in the short run. It might be expected that a contribution increase, even in the short-run, might not be popular. However, most Canadians appear to have accepted the underlying logic. An extensive consultation process was an integral part of the reform.

In **Finland** (as in many other countries) a tight budgetary policy has been adopted in order to create room for

manoeuvre to meet financial pressure from cyclical fluctuations and the ageing of the population. Because of the gradual maturation of the private sector employment pension scheme, the contribution has been expected to rise gradually until the 2030s. The 1990s depression and the high rate of unemployment weakened the financial situation of the pension scheme. Thus a major reform was carried out in 1993-1996 in order to keep the pension contribution on an acceptable level. Due to changes in the Finnish pension system in the 1990s, the pension expenditure will be 1/3 lower in the long run it would have been without the reform.

Japan adopts price escalation

The Japanese pension system reform bill, which is under active deliberation, proposes an adjustment to the escalation of benefits under the earnings-related portion of the Employees' Pension. As well, the benefits of the Basic Pension and Employees' Pension – which the insured receive after 65 years of age – will be escalated only by using price increase. The bill, if it is enacted, will help stabilise the pension balance.

Spain caps health expenditure

Spain has introduced a ceiling for maximum growth of health expenditure, where maximum growth is set at the level of nominal growth of GDP. The purpose is to obtain a more efficient administration of services. Another example is a voluntary increase in the retirement age for public servants (from 65 to 70 years).

Korea lowers replacement rates

In Korea, pension replacement rates were lowered from 70% to 60% in 1998. It is predicted that the implicit debt accruing from National Pensions could be decreased significantly because of these changes. The cuts in replacement rates were the result of discussions between the government and parliament. Korea refers to the importance of having the views of citizens and experts well represented in such fundamental changes as pension reform. However, they do so in the context of a country where this type of consultative mechanism has yet to develop.

Box 3.2. Selected examples of reforms to age-related programmes – Benefits have been cut or revenue increased (cont.)

There are many other examples of reduced benefits and increasing contributions by changing age of retirement

Many of the reforms described in Chapters 1 and 4 will reduce benefits and increase contributions. They will result

in a situation where – when compared with a continuation of existing arrangements – people will work longer (and contribute longer) in relation to the benefits received in a shorter period of time spent in retirement.

Box 3.3. Selected examples of more comprehensive pension reforms that have a large fiscal effect

Hungary makes changes through entirely new system

Hungary indicates that success has been achieved in raising the age limit of retirement through the reformed and flexible pension system. Employees have the choice between the old system and the new dually-financed system. They point to the importance of clearly stating the fiscal effects of reform during the transitional period and of ensuring no losers by age group. The success of the reform is illustrated by the fact that 1.3 million people decided to join the new system.

First phase of Turkish modernisation has fiscal goals

The Turkish (two-phase) social security reform will affect 10.7 million contributors covered by the public pension schemes of the country. The increase in minimum retirement age, increase in minimum contribution period, reduction in replacement rates, increase in health insurance contribution rate (for farmers only), and participation in healthcare costs are the measures which will affect the contributors. In total, the social security reform will affect almost 80% of the total population when contributors, pensioners and dependants of the insured people are considered. In other words, a very substantial financial improvement is expected. However, the second phase of the reform aims to administrative improvement in the social insurance institutions through restructuring them, introduction of universal coverage for the health system, introduction of private pension plans, and integrating all social assistance and social services under a single organisation. This stage is expected to be implemented by the end of year 2000.

Many factors contribute to fiscal balance in Italy

Following the introduction of the various pension reforms in Italy, the expected growth in the ratio of pension expenditure to GDP will be reduced to 1/3 of the original expected figures to 2030. The measures that have contributed most to this slowdown are: the elimination of the indexation of pensions to real earnings, the introduction of the contributions based method of calculation, the tightening of the minimum eligibility requirements for pensions and the decrease in the number of disability pensions. Reforms aimed at reducing health care expenditure have also gone into effect.

Spain also has a package of fiscal reforms

With regard to the expenditure in public pensions, a group of measures were set up in order to guarantee the future financial viability of the pay-as-you-go system. These measures, contained in the *Toledo Pact*, aim to narrow the gap between the value of pensions with the present value of contributions. This is discussed in Chapter 7.

Many others follow this route as well

Many other countries have addressed fiscal objectives as part of larger package of reforms that restructure pensions systems in particular. Others are discussed in Chapter 4.

Box 3.4. How fiscal action can relieve the pressures of ageing: the American example

Since 1997, fiscal reform in the United States has focused on continuing the policy of fiscal discipline that began with the Omnibus Budget Reconciliation Act of 1993 which both raised taxes and required more rigorous limits on spending. In 1997, President Clinton worked with Congress to enact the bipartisan Balanced Budget Act, with the goal of reaching a unified budget surplus in 2002. In fact, the unified budget came into surplus in 1998, four years ahead of projections. In fiscal year 1999, the unified surplus increased to \$123 billion, the largest dollar surplus ever, and the largest surplus as a share of the economy since 1951. The back-to-back surpluses are the first since 1956-57 and over the past two years debt held by the public has been reduced by \$140 billion.

The President and Congress now agree that the goal of United States fiscal policy should be to balance the non-Social Security portion of the federal budget (called the “on-budget,” to distinguish it from Social Security, which is “off-budget”). Meeting this goal would ensure that increases in the value of the Social Security Trust Fund are matched dollar-for-dollar with reductions in publicly held debt.

The 1997 Balanced Budget Act has substantially reduced the rate of growth in Medicare expenditure, primarily by reducing payments to health care providers. In fact, total Medicare spending has decreased slightly in nominal dollars, from \$213.6 billion in fiscal year 1998 to \$212.0 in fiscal year 1999. However, the Medicare programme still faces

Box 3.4. **How fiscal action can relieve the pressures of ageing: the American example** (*cont.*)

substantial funding shortfalls over the long-term. In addition to increasing enrolment as the “baby boom” generation retires, medical costs are expected to grow more rapidly than wages.

Spending restraint, together with strong economic growth and an increase in revenues, has been a key to fiscal responsibility. Federal spending is the smallest share of the economy since 1974, and has declined from 21.5 per cent of GDP in 1992 to 18.7 per cent of GDP in 1999 (based on newly revised GDP numbers). Real discretionary spending has fallen by more than 1/2 per cent per year since 1993.

These developments have had a substantial impact on the U.S. government’s fiscal position. In 1993, the unified budget deficit was almost 4 per cent of GDP; there is now a surplus of 1.4 per cent of GDP. The ratio of publicly held debt to GDP has fallen from 50 per cent in 1993 to 40 per cent in 1999.

Description of reforms under active consideration. The Administration has introduced legislation that would maintain fiscal discipline through procedural safeguards to ensure that future Social Security surpluses are used only for debt reduction; under current projections this would eliminate all publicly held federal debt by 2015. The proposal would also transfer the interest savings from this debt reduction to the Social Security Trust Fund, extending its solvency to 2050 from the current projection of 2034. This legislation would also reserve resources necessary for Medicare reform*.

Members of Congress have also introduced Social Security and Medicare reform proposals. The Administration hopes to work with Congress on a bipartisan basis to ensure the 75-year solvency of the Social Security Trust Fund and to strengthen Medicare. At this point, most proposed reforms would not achieve reductions in projected total spending on the elderly for Medicare and Social Security.

The deficit reduction in the United States that began in the early 1990s has resulted in a “virtuous circle” – less federal borrowing reduced interest rates, which strengthened economic growth and resulted in even more debt reduction. At the same time, the commitment to fiscal discipline allowed for a more expansionary monetary policy, which also spurred economic growth, while simultaneously reducing inflation. The circle has continued, resulting in the current unified surplus. Strong growth has led to the lowest unemployment rates in almost 30 years.

Because of this fiscal discipline, an additional \$1.7 trillion that would have been absorbed by government borrowing has instead been invested in the private economy. Business investment has surged, with purchases of equipment and software growing at double-digit rates for six years in a row. A rising capital stock, in turn, has contributed to a rise in worker productivity: productivity growth in the non-farm business sector has accelerated to about a 2 1/2 per cent annual average rate of increase since the end of 1995, from the 1.4 per cent that prevailed from the 1970s through the early 1990s. This growth is particularly strong given that the United States is in the eighth year of the current economic expansion.

The United States is currently on a fiscal path that would eliminate the publicly held debt by 2015. This would create greater “programmatic” space in the budget by eliminating interest payments on the publicly held debt, which comprised 21 per cent of total spending in fiscal year 1999. This fiscal space will increase the ability of the government to afford higher Social Security and Medicare costs associated with the retirement of the “baby boom” generation. In addition, the elimination of the publicly held debt will increase the private capital stock, leading to higher productivity and wages, greater economic growth, and an increased ability for the nation to finance the consumption of future retirees.

* Separately, the President has proposed a specific reform plan that would: 1) modernise Medicare’s benefits by adding a prescription drug benefit; and 2) improve efficiency by increasing competition within the Medicare system. Most independent observers agree that, even with reform, increased funding is required to extend Medicare solvency without damaging benefit cuts or tax increases. Therefore, the Administration supports combining reform with increasing resources for the Medicare system in the future.

Box 3.5. **How fiscal action can relieve the pressures of ageing: the Australian example**

In Australia, Commonwealth finances are now on a more sustainable basis due to a substantial programme of fiscal consolidation since 1996. This achievement, together with the introduction of legislative principles for the prudent conduct of fiscal policy, ensures that Australia is well placed to address the future pressures of age-related spending. The Commonwealth Budget has now been in surplus since 1997-98 and net debt is forecast to be around 8 per cent of GDP in 1999-2000. This is less than half the net debt ratio in 1995-96 of around 19 per cent of GDP. The focus on expenditure restraint, together with strong economic growth,

has been fundamental to Australia’s success in achieving a healthy fiscal position and outlook. Had there not been a substantial structural improvement in public finances in recent years, Australia would have been more exposed to the sharp slowdown in Asia and associated international financial market volatility. Australia has also strengthened the framework within which fiscal policy is conducted through the introduction of both a *medium term fiscal strategy* (aimed at achieving fiscal balance on average, over the economic cycle) and a *Charter of Budget Honesty*.

Box 3.5. How fiscal action can relieve the pressures of ageing: the Australian example (cont.)

The *medium term fiscal strategy* has provided a clear signal of Australia's commitment to prudent fiscal management and greater transparency in its conduct, helping to build fiscal policy credibility. The key features of the *Charter of Budget Honesty* – greater discipline in policy formulation, regular statements of fiscal objectives and increased accountability for government fiscal performance – have provided a strong impetus towards achieving better fiscal outcomes and have contributed to raising the level of confidence in Australia's macroeconomic management. Importantly, Australia's medium term fiscal strategy takes account of future as well as present demands on the Commonwealth budget. For

example, it recognises the longer-term fiscal pressures for Australia arising from population ageing. The *Charter of Budget Honesty* builds upon this in two main ways. First, by requiring the public release of an intergenerational report every 5 years that will “assess the long-term sustainability of current Government policies over the 40 years following the release of the report, including by taking account of the financial implication of demographic change”. Second, by ensuring that policy decisions by government have regard to their financial effects on future generations – as embodied in the Charter's “Principles of Sound Fiscal Management”.

Box 3.6. Selected examples of reforms to the budgetary process and to consensus-building

Norway warns against sheltering items from normal budget process

Taxes should not be earmarked for expenditure considered as integrated parts of public tasks such as the social security system. Sheltering such items from the normal budget process results in a danger that expenditure will receive less focus. Important information can be lost, and the need to adjust can be discovered too late – making more serious changes necessary.

United Kingdom points to need for grandfather clauses

The United Kingdom points out that virtually all their reforms related to fiscal consolidation have been introduced with a grandfather clause and long period of time before anyone is affected by change. These factors, along with extensive consultation, tend to reduce opposition to change.

Ireland may pre-fund future ageing costs

Ireland shows that the task of addressing the impact of ageing is much easier with economic growth and declining debt. They have announced a reform to set aside 1% of GDP to pre-fund future costs due to ageing.

Many countries set fiscal targets

Many countries reported on these issues. For example, during the next three years, **Finland** aims for a decrease in debt to GDP ratio to less than 50% and a decrease of the public sector consolidated debt to about 35%.

The budgetary strategy in **Belgium** for the years 2000-2002 is described in their “Programme of Stability in Belgium 1999-2002”. The primary objective is a budgetary surplus for the total of public administrations of 6 per cent of GDP. Furthermore, public debt is expected to fall from 122.1 per cent of GDP in 1997 to 72.4 per cent in 2010 to 34 per cent in 2030.

Japan had to temporarily set aside its fiscal targets

In Japan, the Fiscal Structural Reform Act (FSRA), which was approved on November 28, 1997, included a framework and concrete measures for achieving fiscal targets. Putting

the FSRA into effect was however suspended in order to make the utmost efforts to ensure that the Japanese economy recover as rapidly as possible. Japan must nevertheless realise fiscal structural reform without fail, once the Japanese economy is on the recovery track.

Iceland moves public service pensions into the budget

Often fiscal goals have been met by privatisation which take pensions off the public books. In Iceland, future liabilities for civil servants pensions have been moved to the budget as a separate budget item. This has made future costs more obvious (due to better transparency) and has resulted in an increase in funding to meet future expenses (even if the system still is seriously under funded). An important effect of these changes is that a better balance between public sector and private sector workers will be obtained.

New Zealand must project ten years in the future

The New Zealand Fiscal Responsibility Act (1994) requires the government to improve the conduct of fiscal policy by specifying principles of responsible fiscal management and by strengthening the reporting requirements. The Act requires the production of Progress Outlooks, which project the fiscal position out at least 10 years. While the Act does not itself result in a lower expenditure track, New Zealand reports that its emphasis on transparency and on the middle term could be adopted by others.

Australia takes account of effects on future generations

Australia's medium term fiscal strategy has been successful and is described in their response to the questionnaire. It recognises the longer term fiscal pressures for Australia stemming from population ageing. Among many other elements, a *Charter of Budget Honesty* requires the public release of an intergenerational report every 5 years. It ensures that policy decisions by government have regard to their financial effects on future generations.

Denmark also takes future deficits into account

In Denmark, a new concept of budget balance – “the adjusted budget balance” – was introduced in 1999. The adjusted budget balance is a budget balance forecast that

Box 3.6. Selected examples of reforms to the budgetary process and to consensus-building (cont.)

shows future balance (between revenue and expenditure) if the present policy continues infinitely. Future deficits therefore call upon appropriate measures to take well before the problems are arising.

Switzerland uses consultative approach

In times of budget deficit, it is particularly difficult to agree on how to make savings. A new approach was tried out with success in the context of the Confederation's budget objective 2001. This approach, called "Round Table", consisted of gathering together representatives from employers and unions, political parties, the cantons, Confederation Ministries, etc., with a view to agreeing on a savings programme which might subsequently be approved by the Federal Parliament. The Round Table discussions led to a relatively balanced savings package which the participants undertook to support. To a very large extent, the Federal Parliament adopted the Round Table proposals. This new

approach, which results in a considerable saving of time, has since been tried out by certain cantons facing large financing deficits.

In France, the financial impact of demographic trends has been addressed for some years

A budgetary policy that has aimed at improving the situation of public finances has been implemented. In 1999, this resulted in a big reduction of the public deficit and a decrease in the public debt to GDP ratio for the first time in 20 years. Public expenditure is set to a maximum volume increase of 4 per cent over three years. Reducing the expenditure share reduces the public deficit and brings the tax and contribution shares back to the level of 1995 (43.7 per cent of GDP). At the same time this allows for sufficient contributions to pension funds, which will ease the financial impact of future changes in demography.

Box 3.7. Strengthening of the budgetary discipline – The expenditure ceiling in Sweden

The introduction of a three-year nominal expenditure ceiling has been an important step for increasing budgetary discipline and strengthening of long-term perspective of the budget process.

The aim of the reforms is, among other things, to increase budget discipline and strengthen financial power at the same time as giving the budget process a more long-term effect. This has meant greater requirements of comprehensive basic data on which to base decisions. The need for efficient forecasts in the short and medium term has grown, regarding both economic developments in general and individual expenditure items. At the same time, systematic follow-up of budgeted amounts during the current fiscal year has become increasingly important. This is done each month for all appropriations.

Another need that has emerged is to make clearer links between budget appropriations and the statement of public sector finances presented in the national accounts. It is in the first of these accounting systems that the in-control of public activities takes place while the overall goal to achieve a

surplus in public finances is formulated in terms of the national accounts.

In order to achieve overall control of public finances, all expenditure must be defined in gross amounts and a careful control is needed of income costs in the form of different types of tax relief. Otherwise, there is a great risk that an improved control of public expenditure will lead to downward pressure on the revenue side through different forms of tax exemptions. So-called tax expenditure are reported regularly but are not included under the expenditure ceiling.

So far the budget reform has worked satisfactory, the expenditure ceiling has not been exceeded and this has contributed to the consolidation of public finances. The percentage of GDP that the expenditure ceiling represents is expected to decrease by some 4% between 1997 and 2000. At present, two government committees are working on in-depth analyses of the effects of the budget reforms from the point of view of both administration and public finances. Thus, until their reports have been submitted it is really too early to be sharing experience of the reforms.

RETIREMENT INCOME REFORM

4.1. A TRANSFORMATION IN THE FINANCING OF OLD AGE?

Summary and main results

Maintaining Prosperity in an Ageing Society concludes that there should be a flexible diversified system for providing income to older people (see Box 4.1).

Reforms to the structure of the retirement income system are a major challenge for government policy. Most countries have taken action, much of it major, on many fronts. A more diversified system – with a more equal balance among earnings and various types of public and private pension arrangements – was not often identified as a direct objective of these reforms, but it appears to be one of the most significant outcomes.

Most structural reforms fit into one of four categories: reforms whose main purpose is to create a modern pensions model, reforms to strengthen the private pensions, reforms that restructure public pensions, and reforms that move towards more diverse models of retirement income. As well, there have been a number of interesting research, co-ordination and consensus-building initiatives in support of structural reform.

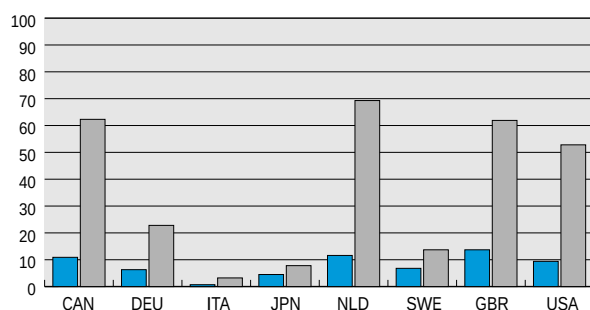
The key conclusion is that a rapid evolution towards a more diverse system for the provision of income to older people is underway. Existing and planned reforms appear to be leading to a transformation of the retirement income system and, indeed, point to a rethinking of the institution of retirement itself. No convergence towards a common model is evident, although reforms tend to reflect common objectives – mainly those identified in Box 4.1. This conclusion is re-enforced by the existence of supporting reforms in areas such as pension fund regulation and financial markets that are described in Chapter 6.

Such a strong conclusion – one with potentially deep implications for OECD societies and economies – must obviously be confirmed, including by initiatives taken at the international level.

The present situation

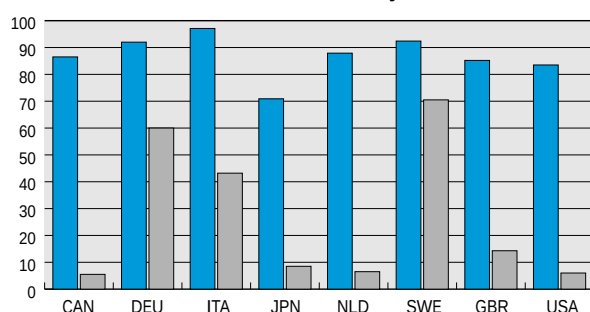
For reasons of simplicity, retirement income systems are often described in terms of their mix of public and private pensions,⁸ such as a public flat rate benefit, a mandatory private earnings-related scheme and voluntary savings. Figure 4.1 paints a more complicated picture of the composition of the income of older people. It takes account of earnings (of both individuals and other family members) and taxation. It shows much variety across countries in the sources of retirement for older people and considerable evolution in the mix of those sources over time. That evolution will speed up considerably once today's reforms reach maturity.

8. The best known model is that proposed by the World Bank in "Averting the Old Age Crisis". It includes a mandatory public pillar, a mandatory advance-funded private pillar plus a voluntary pillar. Many countries also describe their retirement income arrangements as having three pillars or three tiers, or as being a three-legged stool. However, the three components being described are not the same across countries and, often, what is described as a single pillar will consist of several quite distinct elements.

Figure 4.1. Older people's sources of income¹**A. Share of total income accounted by private pension and other capital incomes (mid-1990s)^{2,4}**

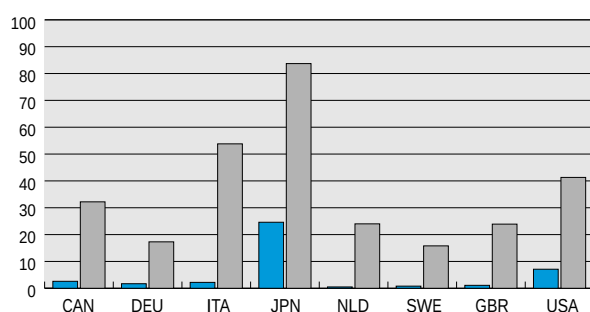
Private pensions and other forms of capital income are important for higher income people – in some countries only. In Canada, the Netherlands, and the United States, occupational pensions, private savings and other capital sources make up over half the income of the 30% of the older population with the highest incomes. It is much lower in Italy, Sweden, Japan and Germany. Not surprisingly it is a much less important source for the 30% of the population with the lowest incomes.

Lower income group Higher income group

B. Share of total income accounted by net social transfer (mid-1990s)^{2,3}

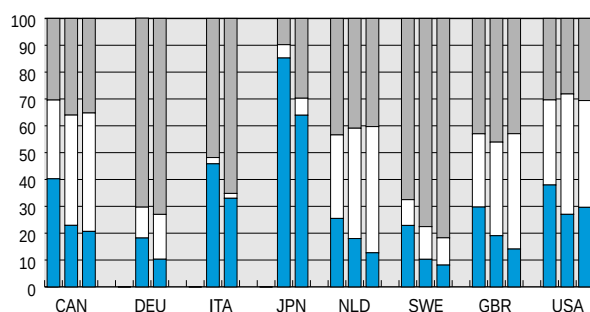
Public pensions are important for low income groups – and for high income people as well in some countries. Public pensions and other benefits account for most of the income for the 30% of the older population with the lowest incomes. The chart shows the total of these benefits – minus taxes and social security contributions. For higher income older people, net transfers also make up a significant share of the income in Germany, Italy and Sweden.

Lower income group Higher income group

C. Share of total income accounted by working income (mid-1990s)²

Earnings make up the difference. The other source of income is from earnings – both the earnings of retired people themselves and the earnings of other people living in the family. Earnings account for a very small share of the incomes of low-income people except in Japan, where people work longer and are much more likely to live in households with other earners. Many people, even in the higher income groups have retired by 65 and earnings account for only 50% or more of income for them only in Italy and Japan. These data are greatly influenced by the living arrangements of older people as well as by labour market participation.

Lower income group Higher income group

D. Trends of changing income components (mid-1970s, 80s and 90s)^{5,6}

The share of earnings has been falling and private pensions rising. The chart examines trends over the last three decades. The general pattern has been a falling share for earnings and a growth in the importance of private pensions and savings. The fall in earnings reflects trends to earlier retirement and away from living in households with younger relatives who are working. The large recent growth in pension fund assets suggests that the latter trend will continue into the future. On the other hand, recent reforms that increase effective retirement ages and reduce public pensions suggest that there may be a reversal of the trend away from earnings.

WI K NT

1. The data in these charts take account of the income of all people in the household of the older person and are net of taxes and social security contributions. In order to account for economies of scale in households, an equivalence adjustment has been made (square root of family size).

2. Average disposable income (65+) in each income group is equal to 1.0 respectively.

3. "Net social transfer" is "social transfer minus tax and social security contributions".

4. "Capital income" includes "occupational pensions".

5. "Net social transfer" (NT) is "social transfer minus tax and social security contributions", "working income" (WI) is "employed income" and "self-employed income", and "capital income" (K) includes "occupational pensions".

6. Left, middle, and right bars correspond to mid-1970s, 80s and 90s respectively. For Germany, Italy, and Japan, the data for mid-1970s is not available.

Source: Comparative Study of Retirement Income Policies [calculations from the OECD questionnaire on distribution of household incomes (1999)].

The income sources of today's older people reflect the pension arrangements, savings and earnings that were in place when those people were of working age – often many years earlier. Trends in recent decades towards earlier retirement therefore show up in Figure 4.1 as a stable or declining trend in earnings as a source of income among older people.

It will be many years before more recent policy trends, which favour later retirement, will be fully reflected in these numbers. When they do take effect, the results for older households are likely to be particularly large since the income of both spouses is likely to be affected. The fact that retired people may live in families where there are still people at work is of importance in understanding the income position of older people. The data for Japan in Figure 4.1, for example, makes sense only knowing that large numbers of older Japanese live in larger households. The Canadian data in Table 4.1 also illustrates the multiple sources of income that can be in play. The importance of changing living arrangements is explored further in Chapter 8.

On the other hand, the data in Figure 4.1 and Table 4.1 are beginning to reflect a growth in the level of private savings and pensions, compared with net social transfers. These trends could well accelerate in the future in line with the recent cuts in public pension generosity and the dramatic growth in pension fund assets that is described in Chapter 6.

Table 4.1. **Income composition in Denmark and Canada****A. Denmark**

	1997	%	2045	%
Public flat rate PAYG pension	76 000	55	67 000	41
Occupational and private pensions	34 000	25	61 000	37
Funded mandatory pensions ATP & SP	5 000	4	25 000	15
Interests	23 000	17	13 000	8
Total income	137 000	100	165 000	100
Tax	-41 000		-51 000	
Income after tax	96 000		115 000	
Housing subsidies	6 000		5 000	
Net income	102 000		120 000	

Note: A few countries provided data on the composition of income in their countries. While these may not be exactly comparable with the data in Figure 4.1, they provide additional insights. For example, in Denmark occupational, private and mandatory funded pensions are expected to increase substantially, and become larger than the public system.

B. Canada

	Families in which at least one member is over 65		Individuals over 65	
Source of income in 1996	Amount (million CDN\$)	% of total	Amount (million CDN\$)	% of total
Earnings from partially retired individuals or other family members	12 849	19	4 674	7
Returns on private savings, investments	7 971	12	9 457	13
Flat rate public pension scheme and targeted anti-poverty programmes	16 639	25	20 726	29
CPP/QPP contributory earnings-based public pension scheme	11 234	17	13 858	20
Private occupational pension	9 558	14	11 963	17
Voluntary individual savings plans that receive tax support	4 205	6	5 264	7
Tax expenditure	1 590	2	1 590	2
Other public transfers	2 043	3	1 701	2
Transfers from outside the family	1 224	2	1 239	2
Total income from all sources	67 313	100	70 472	100

Note: The Canadian response breaks out total income in 1996 by a larger number of sources and shows data for older individuals and older households. A comparison of these columns illustrates the large role that is played by earnings of other families in retired households.

Source: Country responses to the questionnaire. See notes and explanations in the full response on the Internet site (www.oecd.org/subject/ageing).

The scale of the policy challenge and of national responses

The immediate objective of reform is often fiscal consolidation or some other goal, rather than greater diversification within the system *per se*. Nevertheless, for most countries, making structural changes in the retirement income system is seen as a major challenge⁹ for policy. These are identified in Annex 1.

A majority of countries indicate that recent and planned reforms are likely to have a large, indeed a very large, effect on increasing the diversity of sources of income for older people in their countries. And, among the countries that do not believe there will be a dramatic future increase, some already have systems that are highly diversified in comparison with the OECD average.

Reform trends

Establishing a modern pension model

A “modern” pension scheme is used here to refer to one with comprehensive coverage, sustainable financing and a mix of public and private components. It is used in opposition to systems that over-rely on a single pillar (usually a large pay-as-you-go public pension) and in contrast to less developed arrangements – often composed of many uncoordinated elements and often with large gaps in coverage. Many of the newer OECD countries have introduced reforms that are designed to create a modern pension system.

Mexico highlighted their recent pension modernisation as described in Box 4.2. It is particularly deep and comprehensive. It creates funded pensions for private sector workers, with contributions being deposited in individual accounts that are managed by private administrators. The reforms also encompass health care and disability pensions in a coherent fashion. Box 4.3 describes other selected reforms in this category, including the new OECD countries in central Europe.

Strengthening private pensions

Private pensions are small in many countries. Increasing their size will create a better balance and will compensate for declines in the size of public pensions. Many countries have introduced reforms that are intended to strengthen occupational or supplementary earnings-related pensions of various types and voluntary savings. Some of these are initiatives to improve the operation of financial markets or the regulation of pension funds. These are described in Chapter 6. Others are set out in Box 4.4. They typically involve promoting private savings accounts, often through the provision of tax concessions.

The evolution of the Australian system is of particular interest given its long-term reliance on a means-tested safety net pension and its more recent move to compulsory private occupational pensions. Box 4.5 describes decisions that, over the years, have led to the evolution of a system built around three pillars: the public age pension; compulsory superannuation (private occupational pensions); and voluntary savings. There is no public earnings-related pension.

Reforming public pensions

Chapter 1 described reforms to public pensions aimed at changing work incentives. Chapter 3 described many changes to the contributions and benefits of public pensions with an eye on fiscal sustainability. Section 4.2 describes anti-poverty reforms. Many of these involved incremental adjustments (for example to various benefit or contribution formula) and left the basic structure of the public pension intact. Others,

9. As in other cases, it involved the use of an arbitrary benchmark to provide a common comparison point. In this case, the benchmark was a set of reforms that would result in a situation where no one source of retirement income accounted for more than 50% of family income and at least four discrete sources accounted for at least 10% each. The benchmark assumed that these reforms would begin soon so that they would be in effect during the period after 2010.

however, did alter the structure of public pensions, for example by including greater advance-funded elements within essentially pay-as-you-go systems.

Particularly large structural changes are taking place in Sweden, Italy and Poland where public pensions are being converted to notional defined-contribution accounts. Box 4.6 describes the Swedish reform in some detail. Box 4.7 then compares the notional account arrangements in the three countries.

Please note that the countries themselves did *not* highlight the “notional defined-contribution accounts” aspect more than any other part of their reform packages. Rather, they stressed the substantive effects of their reforms taken as whole, including their neutrality with respect to the retirement decision. Box 4.7 is included because of the high degree of interest that this feature has received in the recent international literature where it is often seen as a new hybrid category of pension that combines pay-as-you-go funding, defined-contributions, and decision-making based on individual accounts.

Moving beyond policies that focus only on pensions

In some countries, policy is specifically taking account of the virtues of a balanced, diversified system of retirement income – beyond the traditional pension pillars. Taking account of the growing role of earnings was the most common example. However, the role of taxation and of other public transfers to older people such as health or long-term care also played a role in some countries. In essence, these examples suggest that policies should focus on the range of resources that support older people, and not on pensions alone.

Germany, for example, casts this in terms of recognising a four-pillar system. The statutory pension insurance will continue to be the most important pillar of the old age provisions system. It has to ensure an acceptable standard of living both today and in the future. The second pillar consists of occupational pension schemes. This pillar has to be strengthened. The third pillar consists of private savings as provisions for old age. This pillar has to be strengthened as well. As a new pillar, workers and employees should have an increased share in the productive capital and earnings of companies.

Box 4.8 outlines the advantages found in Canada of having a wide range of sources of support of older people – without introducing the concept of a defined number of pillars. Not only is risk diversified, but also reform can be easier to accomplish.

A potential problem for the long run?

A number of countries have earnings-related public pensions that are intended to redistribute income over an individual's life and that also redistribute to lower income groups. *Maintaining Prosperity in an Ageing Society* suggested that as a long-run target, the income-replacement and anti-poverty aspects should be separated out into different programmes, each with its own objectives. Reforms that link lifetime contributions and benefits work in that direction. However, there appear to be no countries with plans to completely split out anti-poverty programmes as part of these reforms. More typical are supplementary features within the larger earnings-related pensions that would, for example, provide for people who could not contribute for various reasons.

The United States illustrates the dilemma of having programmes with both anti-poverty and income-replacement objectives. Social security provides a larger share of income for those with low income than with high income. Furthermore, a larger proportion of low income earners get their support from social security. The reforms that made this possible were introduced decades ago and were generally not discussed as anti-poverty programmes *per se*. Rather, they were unobtrusively incorporated into a social insurance programme that the public accepted as providing “earned” benefits. In many ways this was strength in the past, but it may cause trouble in making future reforms. The present system is “neither fish nor fowl” and cannot be fully defended from any one perspective. It is important to recognise that the anti-poverty aspect of social security could be more secure when incorporated into a system where it becomes an earned right. Also, changes to improve or remedy one aspect of its working are complicated by the possible adverse impact they may cause elsewhere.

A need to confirm

Reforms to the structure of retirement income arrangements, including those described in other chapters, point to significant changes in the financing of retirement income and, indeed, in the nature of retirement itself. Changes of this scale could have large social and economic consequences in the medium- and longer-term and invite a re-examination of the longer-term goals and principles of retirement policies. The extent of these changes clearly needs to be confirmed and better understood.

The conclusion to this report suggests further directions for work at international level that will help in confirming the extent of change that is underway. Part II reviews recent statistics that touch on these topics. It finds that trends towards earlier retirement may, indeed, have begun to plateau or even reverse, likely as a consequence of the recent economic upturn. Part II also presents data that raise long-term questions about the goals of public pensions. Should it be a high public priority to encourage a concentration of leisure, and often passivity, in the last third of life?

Box 4.1. The structure of the retirement income system – A policy principle of *Maintaining Prosperity in an Ageing Society*

Principle 4. *Retirement income should be provided by a mix of tax-and-transfer systems, advance-funded systems, private savings and earnings. The objective is risk diversification, a better balance of burden-sharing between generations, and to give individuals more flexibility over their retirement decision*

The analysis of *Maintaining Prosperity in an Ageing Society* shows that there can be no pension reform solution. Countries have chosen quite different routes, in large part because the starting-points of their reforms differ. Moving in the following directions will not only ease fiscal pressures, they will also play an important part in increasing living standards and quality of life:

- Increasing the size of advance-funded elements in countries where pay-as-you-go systems now dominate. This can be done by increasing advance-funded elements within public plans, by encouraging advance-funded occupational schemes, by introducing mandatory individual accounts, by reducing benefit levels in pay-as-you-go public plans in order to make room for other sources of retirement income, or some combination thereof.
- Reducing the size of public pension benefits where these are now unnecessarily high. Once poverty alleviation goals have been met, the total amount of an individual's retirement income should not be a goal of public pensions in isolation but reflect individual choice based on all resources available on retirement including earnings, private savings or the use of assets such as reverse-mortgages for housing.
- Adjusting earnings-related pensions so that there is a direct link between lifetime benefits and contributions in those countries where this is not yet the case. This could involve reforms in the formula for calculating benefits or shifting to defined-contribution accounts within pay-as-you-go systems, or in encouraging greater use of advance-funded accounts by individuals and private sector employers.
- Providing significant voluntary and mandatory elements in earnings-related pensions.
- Funding pensions aimed at anti-poverty objectives out of general revenues (in countries where there are separate public anti-poverty and income-replacement programmes).
- As a long-run target, separating out the anti-poverty and income-replacement elements of public pensions into different programmes, each with its own objectives and characteristics.
- Targeting in the anti-poverty programme, especially if done through means such as refundable tax credits that operate unobtrusively and at low cost. However, a low basic minimum to all also has merit, including fewer work disincentives.
- Abolishing pension benefit arrangements that are obsolete or not consistent with stated policy objectives. This could include subjecting pensions to income tax in countries where this is not the case, phasing out or targeting subsidised privileges for seniors such as discounts on public services, and consideration of reducing excessive preferential tax treatment for occupational pensions and individual retirement savings plans.
- Maintaining the confidence of both beneficiaries and the public at large in private pension schemes by upgrading the regulatory framework. This would safeguard the right of both beneficiaries, particularly in respect of non-discriminatory access to pension schemes, the protection of vesting rights, and the transferability of pension rights.

Box 4.2. Mexico – Moving to a developed social security model based on individual accounts

On July 1997 the Mexican government undertook the most significant structural reform to social security since 1943. With this reform, the former security system* for private workers was transformed into a defined contribution system, in which each worker maintains his/her retirement contributions in an account administered by specialized institutions called Retirement Funds Administrators (Afores). Afores invest resources in the financial market through the Retirement Funds Specialized Investment Societies (Siefors). The reform created a fully funded pension system, a radical solution to the potential problem of an unsustainable financial system derived from the demographic trends. With the individual capitalization system, once the transition has been financed, the ratio of workers to retirees will no longer be relevant.

Under the established system, a pension equivalent to a minimum wage is guaranteed for all those who have contributed 1 250 weeks and whose individual account balance is not enough for them to obtain a higher annuity. Workers can also obtain an anticipated retirement when their individual account balance is enough to reach a pension 30% higher than the minimal guaranteed and when a life insurance premium for their beneficiaries has been covered. The new Social Security Law also established an increase in the minimum weeks of contribution from 500 to 1 250 for access to a retirement pension and from 150 to 250 for a full disability pension**.

The new legislation also introduced the Social Quota (*Cuota Social*) as a redistributive element. In addition to governmental contributions in the previous system, the government pays the equivalent of 5.5% of the minimum daily salary, taking July 1997 as base and indexed to the consumer price index. The social contribution is proportionately more significant for low-income workers.

In relation to the ageing population issue, the 1997 Social Security Law features two developments. First, it exempts workers who have earned the right to an old age or disability pension of the contribution for disability and life insurance. This means that these workers do not pay a contribution of 2.5% of their wage, thus lowering the cost of employing them. Second, it creates a specific tripartite contribution of 1.5% of wages for medical expenditure of retirees, and mandates that IMSS include specific actuarial valuations of the cost of services for this group, as part of its yearly actuarial report.

The new pension system divides pensions into three separate branches, that of old age and old age unemployment pensions, disability and life insurance, and medical expenses of retirees. It is worth emphasizing that a principle of the reforms in pensions is to explicitly separate provisional insurance (saving for old age) from social insurance (disability).

The reform to the former Disability and Life Insurance Scheme was considered the most urgent and important part of the reform package. Given the increase in life expectancy of the retired population and increase in benefits provided, IMSS would not have had the resources to satisfy its future pension obligations. In the past, funds from the insurance system were transferred to the health and maternity insurance in order to fund deficits in this area, a practice which is unsustainable and threatened the Institute's financial viability. Delaying reforms would have, in the short term, led to an irreversible crisis with high social costs. In a few years, the Institute's financial obligations to retirees would have been larger than its revenues.

Based on international experience, as well as on actuarial calculations in the IMSS, health care costs of the elderly can be expected to rise at an increasing rate. With this in mind, the reforms establish an explicit separation of the medical expenses of retirees from that of other insurance, with the financing of 1.5% (shared between the employer, worker and government) of a worker's salary, effectively creating a reserve fund. Under the new system, a worker has the right to have his/her medical services covered by IMSS at the age of retirement after contributing for 750 weeks to IMSS***.

As a part of the Social Security reform, new laws and regulations aimed at improving the social security law scheme were established on the basis of significant financial restructuring (see Internet site for details).

The current reforms are not the end of the story. It will be necessary to work on other new reforms and coordinated public policies. These include reforms related to other Mexican pension and complementary retirement plans, government budget, financial system, health and long-term care, labor and other social security issues. At the same time, reform has to be supported with promotional work that will help change the culture and attitudes of people and build public understanding and consensus.

* The reforms in the pension system at IMSS were principally motivated by considerations that the system was financially unsustainable both in the short term and in the long term, as pension payment obligations of IMSS are estimated to begin to exceed worker contributions by the year 2002, with pension reserves running out by 2004 (IMSS, 1995). The financial problems of the system are generally attributed to demographic trends (the ageing of the population which implies an increasingly lower ratio of active workers to retirees and the increases in life expectancy which increase the number of years a worker receives a pension), the previous IMSS practice of transferring funds from pensions in order to finance the deficits in the branch of health and maternity, and, most importantly, the structure of payment of the pensions, which requires a low number of weeks worked in order to have the right to receive a guaranteed minimum pension.

** In case that IMSS declares total disability for a worker, with 150 weeks of contribution the pension would be 75% of the complete pension.

*** Note that this is significantly less than the 1 250 weeks necessary under the new system to be guaranteed the minimum level pension.

Box 4.3. Selected examples of reforms moving towards modernisation

Greece builds the prerequisites – including an unique social security number

The description of the Greek reforms themselves is found in Chapter 1. Most pensioners in Greece receive a primary pension from one source, a supplementary pension from another and, frequently, a separation payment in the form of a lump sum from a third. Due to rapid maturation of the supplementary pension system, the percentage of pensioners with supplementary pension, as well as the importance of supplementary pensions in total pension income is increasing fast. The absence of a unique social security number to identify pensioners and to be able to take account of pensions from more than one source has been a major problem in designing a balanced pension system. This is being resolved by laws and administrative steps taken over the 1990s (see Internet site).

Hungary lays the foundation by splitting out public and private pensions

As of January 1, 1998 the public pension system was changed to a two-pillar pension system, that is primarily characterised by dual financing. It is compulsory for beginners who start their first job after June 30, 1998. Those, who already have been working may join the new system, too. Due to the shorter contribution period for the latter, the new system offers more advantages for the young and those with high income. Members of the dually financed system pay $\frac{3}{4}$ of their retirement contributions to the public pension system (1 pillar) and $\frac{1}{4}$ of their retirement contributions to a private pension fund (2 pillar) that has to be chosen by the person. These members receive their retirement benefits from the public system based on the ratio of their contributions: the amount they receive is $\frac{3}{4}$ of those who did not join the dually financed system. (The amount of retirement benefits that private pension funds pay will be calculated by mathematical methods used in the insurance business.)

The Italian reforms will move their system towards a three pillar model

In Italy the bulk of the income of households with at least one pensioner member consists of the pension paid by the compulsory state pay-as-you-go pension system, supplemented by financial income deriving above all from holdings of public debt securities. When it is fully phased in, the contributions-based method of calculating pensions (introduced in the 1995 reform) will substantially reduce the coverage provided by the compulsory system, especially for persons who retire at a relatively young age. At the same time steps have been taken to foster the development of supplementary funded pension provision, which should offset part of the reduction. The result will be a much more balanced system.

France is in the middle of a reform process

The French pension system will remain on a pay-as-you-go basis, even though consolidation is a major objective for the government. Employees who wish to increase their private savings for their retirement may well do so to

diversify their sources of income. Measures to help employees do this could be envisaged, for instance by setting up long-term, collective and negotiated savings instruments. However, private pensions are considered as a supplement only, since the pay-as-you-go system now is considered to be sustainable. The system has and will continue to ensure that retirees enjoy a standard of living comparable to that of workers. Furthermore, the system has and will continue its role in reducing poverty among older people.

In order to preserve the benefits of the pay-as-you-go system and in addition to the current or planned reforms, a reserve fund was set up in the autumn of 1998. This collective saving meets a long-term requirement as to ensure the funding of pensions beyond the year 2020. Resources of several types will be mobilised and invested by financial institutions under the double constraint of ensuring the yield and safety of investments. Management of the reserves will be both independent and transparent, involving the social partners, and accounts will be published regularly.

Czech Republic introduced supplementary pension in 1994 and strengthened it in 1999

In the Czech Republic, since the introduction of supplementary pension insurance with state contribution in 1994, the conditions have been created for further diversification of pension incomes. This trend has been strengthened by the amendment to the original law in 1999, which allows for the provision of tax benefits to employers and employees if they contribute to the existing pension supplementary insurance scheme with state contribution. The effect of these measures on the structure of pensioners' incomes will not, however, become significant (at a level of 10% of overall income for pensioners' households) until after 2010. The introduction of the supplementary pensions system (fully funded) should provide for a sufficient income situation of pensioners in the future. It should allow simultaneously to limit the growth of expenditure in the pay-as-you-go state pension system and thus to contribute to its financial sustainability.

Korea's new system was introduced in 1998

In Korea, the National Pension Scheme (NPS), non-contributory Social Pension, Public Assistance and Compulsory Retirement Allowance are public income maintenance systems for the old aged in Korea. Due to the short history (12 years) of the NPS, full pension beneficiaries will occur in the year 2008. Therefore NPS's role in income maintenance for the old aged is very small and the aged in the low income classes depend mainly on Public Assistance and non-contributory Social Pension. The new Korean pension system was put completed in 1998 with reforms that produced a more balanced system, including lower replacement rates, a gradual increase in pension age and maintenance, for a period, of the present 9% contribution rates – although these are projected to rise sharply at a later date to maintain financial soundness. Korea reports that the scheme is a well-balanced one, but that many issues remain to be resolved including the inter- and intra-generational balance and exclusions from coverage.

Box 4.4. Selected examples of reforms designed to strengthen private pensions

Ireland will increase private pension coverage

In Ireland, the level of supplementary pensions coverage will be raised from 50% to 70% of the workforce (over 30 years). This will be done through an introduction of a Personal Savings Retirement Account.

The Netherlands changes tax rules to strengthen second and third pillars

In the Netherlands, the government has recently changed the tax facilitation rules for private collective pensions (second pillar). These new rules make more flexible pension plans possible. For instance, the minimum period to build up a pension of 70% of final pay at the age of 60 years is shortened from 40 to 35 years. The changes to early-retirement pensions described in Chapter 1 also help. Tax support for the third pillar is also under review. In the current tax system each person is allowed to deduct premiums for a pension plan in the third pillar from taxable income up to a fixed maximum per year. In the new system this fixed maximum for each person will be replaced by a personal maximum depending on built-up pension rights (see the Internet site).

Germany simplifies provisions for occupational pensions

Germany has focussed on strengthening occupational pensions. Article 8 of the 1999 Pension Reform amended the Law to Improve Occupational Pensions. The reform became effective on January 1, 1999. It simplifies the legal provisions on occupational pensions and makes them more calculable.

Iceland strengthens private system even further

The Icelandic system is characterised by a system of fully funded pension funds and a means-tested social security system aimed at poverty alleviation (see the Internet site). It was extended in 1998 by the addition of voluntary accounts – both additional and individual accounts. A little earlier, contributions to occupational pension funds were made tax-deductible during a phase-in period from 1995 to 1997. This was an important measure to strengthen the funds by making them more attractive (not the least to the self-employed) and in order to monitor better the obligation to contribute.

Belgium is focussing on strengthening the private pillars as well

Belgium is authorising private pension contributions that surpass the originally set limits. Also, for unemployed older workers who accept jobs at lower salaries than their previous jobs, they can now qualify to receive the original pension benefits upon retiring, based on their original salaries.

Finland clarifies roles of the first and second pillars

Statutory pension schemes in Finland comprise earnings-related employment pensions and residence-based national pensions. In December 1995 the Finnish Parliament passed a number of legislative amendments concerning both schemes. The underlying idea is that first, national pension is paid to guarantee a minimum pension level financed by taxes, and second, earnings-related employment pensions are adjusted to bring about a closer link between pensions and contributions.

Korean introduces tax subsidised retirement savings

In Korea, the Individual Retirement Saving (IRS) plan was introduced in June 1994. In 1998, the Labour Standard Law was revised to allow corporate retirement allowances (RA) to be payable in the form of annuity. RA is a legal right for employees and are paid as a lump sum, for at least a year, corresponding to the last month's wage. Tax deductions are allowed up to 40% of yearly savings under a certain ceiling.

UK plans to reverse public-private balance

The incomes of the retired currently come roughly 40% from private sources and 60% from the state. The policy aim is to reverse these ratios by the middle of the next century, i.e. the target is to have 60% from private sources and 40% from state sources. This transformation will be achieved by encouraging those who currently make no private provision for income in retirement to start making a contribution – and by encouraging those who currently make a small contribution to make a bigger one. The prime vehicle for these new pension savings is expected to be stakeholder pensions which will have low charging structures and will be a suitable vehicle for pension savings for those low and moderate earners who do not have access to an occupational pension.

Canadian system encourages voluntary savings through tax concessions – revenue losses are reduced in long-term

Canada reports that its registered retirement savings programme (voluntary individual accounts) has proved very popular, in part because it is actively promoted by financial institutions, which spend considerable amounts of money convincing Canadians of the need for proper retirement planning. One feature that makes the scheme attractive is that individuals receive an up-front tax deduction on money they invest. This is of course costly for the government: the total cost of deductions and non-taxation of interest income was \$7.3 billion CDN in 1996. However, as with occupational pension plans, money taken out of the schemes is taxable and they can also reduce entitlements to income-tested benefits. Revenue losses in the long run may be much reduced, particularly after the system reaches full maturity and the proportion of seniors in the population stabilises after 2030.

Ireland increases level of supplementary pensions through personal accounts

In Ireland, the level of supplementary pension coverage will be increased from 50% to 70% of the workforce through introduction of a Personal Savings Retirement Account. This will be accompanied by the introduction of a simpler and more flexible tax regime for supplementary pensions. Legislative effect will be given to these proposals in new occupational pensions that will be published early in 2000.

Austria also subsidises private savings

In Austria, a new government-subsidised savings scheme has been created under the tax reform 2000 in analogy to the very successful savings plans of building societies (there are approximately 5 million savings agreements with building societies in Austria). People who pay up to Euro 1 000 a year in "pension contributions" into private insurance or occupational pension plans, voluntarily upgraded statutory insurance schemes and so-called pension

Box 4.4. Selected examples of reforms designed to strengthen private pensions (cont.)

investment funds will be credited a government premium of 4.5% of the saved total. Investment earnings and pension benefits are tax-free.

Spain promotes occupational plans

In Spain, emphasis is put on the decision of economic policy authorities to promote the development of complementary pension schemes, particularly in the corporate realm (second level), promoting employment or professional schemes through collective bargaining in terms which are compatible with individual saving decisions.

Many other countries reported similar reforms

Many countries reported reforms that rebalance their systems in ways that will result in greater emphasis on the private pillars. **Switzerland**, for example, provides an interesting description of its system (see the Internet site). In the **Czech republic** a higher state subsidy and introduction of a tax relief together with more safety provided to participants mean that the system is now more attractive to the public.

Box 4.5. Australia – A mature pension system that has evolved to comprise three pillars

The Australian retirement income system has developed gradually over the century and comprises three elements. These are the public age pension and similar public payments; compulsory superannuation guarantee contributions; and voluntary savings.

The primary objective of the public “age pension” is poverty alleviation. The pension provides a means tested flat-rate payment to eligible older people who are unable to adequately support themselves. The rate of payment, which is indexed in line with movements in both prices and wages, is guaranteed to be at least 25 per cent of male total average weekly earnings.

During the early 1980s there was considerable analysis and debate on the implications of Australia’s ageing population. There was a strong view that a sustainable social welfare policy which aims to provide adequate assistance to those most in financial need requires complementary policies to encourage self-provision amongst those who can afford to save for their own retirement.

Attention turned to occupational superannuation that had, until then, been the preserve of a small, relatively privileged section of the community. Since 1983 a series of measures have been put in place to increase the proportion of the population covered by superannuation, and to improve the adequacy of retirement incomes through superannuation benefits. These included the introduction of award superannuation in 1986-87; and the Superannuation Guarantee in 1992-93.

The compulsory superannuation guarantee (SG) is paid by employers on behalf of their employees. When it was introduced in 1992, the level of contributions required from employers was set at 3%. This is being increased gradually; currently it is 7% and will rise to 9% in July 2002 when it is fully

phased in. SG funds are generally privately managed. The self-employed are not required to make SG contributions for themselves although they can make voluntary superannuation contributions.

Before the introduction of productivity award superannuation, which occurred gradually between 1987 and 1990, and the SG in 1992, some 40% of employees were covered by a range of defined benefit and defined contribution superannuation schemes. The SG scheme, which is still developing, has expanded coverage to another 52% of employees, predominantly women and lower income, part-time or blue-collar workers. Superannuation fund assets currently total \$408 billion of which some \$50 billion is in SG style accounts.

The government supports superannuation through substantial tax concessions. Taxation concessions are provided for superannuation savings at the contribution stage, the fund-earning stage, and when the money is withdrawn from the fund. The concessions encourage savings and contribute significantly to final superannuation benefits. Taxation expenditure (generally referred to as concessions) in respect of all superannuation were estimated to be \$9.4 billion in 1998-99.

Many people also make voluntary savings, such as additional superannuation contributions, housing and investments in shares and financial securities. Some of these vehicles for voluntary savings are treated concessionally for taxation purposes.

Compulsory superannuation and other savings give people the opportunity to have a better income in retirement than the guaranteed minimum provided through the age pension. These measures will also give significant savings in age pension outlays.

Box 4.6. The Swedish reform

In June 1998, Parliament voted for a new retirement pension system. The new pension system will be introduced gradually, starting in 1999. The first payments of income-

related pensions will be made in 2001. The basic principle of this reform is that future pensions will be based on all income earned from the age of 16. Pensions will correspond

Box 4.6. The Swedish reform (cont.)

to the value of all paid-in pension contributions. In other words, the contributions people pay during their working lives will be paid back to them when they have retired.

Sweden's reformed pension system contains elements designed to make sure that pensioners will not be dependent on income from a single source. To start with, the system consists of two kinds of pensions: income-related pensions and prefunded pensions. Income-related pensions will be paid for by all those who are in employment during any given year under a pay-as-you-go system. The size of the income-related pension will depend on how much each individual contributes to the system during his/her working life. (Years spent looking after small children, doing national service and studying will also to a certain extent give rise to pension rights.) Since pension assets will be adjusted in accordance with general income trends, this factor will also affect the size of the income-related pension. In the prefunded pension system paid-in contributions will be deposited in individual accounts and invested. The assets in these pension accounts will vary in accordance with the return generated by the investment. Individuals may themselves decide how to invest their money.

In the reformed system it will be possible to draw a pension from the age of 61. The retirement age will be flexible and there will be no upper age limit. It will be possible to draw the full pension or fractions of a quarter, a half or three-quarters. Pensioners will be able at any time to switch from a full pension to a partial pension or to suspend pension payments until further notice. The balance of the pension not withdrawn will grow at the same rate as the income trend.

Income earned after retirement will also earn pension rights and will thus top up the future pension. This will create an incentive for pensioners to continue to receive an income from work on top of their pension income. In the new system, all earned income will be pensionable, and thus it will be worthwhile doing even a small amount of work.

Consequently, Sweden's future pensioners will receive an income-related pension paid out of a pay-as-you-go system as well as a prefunded system. They are also to an increasing extent likely to improve their standard of living by continuing to work.

The basic principle of the new pension system is, as mentioned above, that pensions will correspond to the value of all pension contributions paid in during a person's working life. Given this principle, there must be rules that compensate people who, on account of illness or for other rea-

sons, have not earned an adequate pension. Furthermore, rules are needed to provide security for those who have been dependent on someone else for support, e.g. surviving spouses. The new pension system contains supplementary rules for such cases.

Under the new pension system the state guarantees a minimum pension, a "guaranteed pension", to those who have earned insufficient pension rights*. Guaranteed pensions will be subject to tax in their entirety. A single person who has no income-related pension or not more than 1.26 price base amounts will receive a guaranteed pension of up to 2.13 price base amounts. (Price base amounts are a method of indexation used for pensions and other benefits. The current price base amount is SEK 36 400 annually.) The corresponding levels for married persons are 1.14 and 1.90 price base amounts, respectively. Where the income-related pension is higher than these amounts, a supplement will be paid depending on the size of the earned pension rights. Guaranteed pensions are reduced to the extent that a person also receives a widow's pension under the national supplementary pension system, a pension from another country or a life annuity. However, income from capital, occupational pensions, private pension insurance and care allowances will not affect the pension.

The new retirement pension system is complemented by rules concerning universal survivor's pensions. There are three types of pension in this system: children's pensions, adjustment pensions and special survivor's pensions; the last two are for adult survivors. The purpose of these survivor's benefits is to provide compensation for the loss of income caused by a death in the family.

The new pension system will be introduced gradually. Persons born in 1937 or earlier will not be affected by the new system. Persons born between 1938 and 1953 will receive part of their pension in accordance with the previous pension rules and part in accordance with the new rules. Persons born in 1954 or later will receive a pension based entirely on the new rules.

Finally, it may be mentioned that the majority of employees in Sweden also receive pension benefits on the basis of their employment relationship, i.e. under occupational pension schemes. For most employees these pension benefits are governed by collective agreements and normally represent about 10% of their final salary. Private pension savings are also on the increase. Both occupational pension schemes and private pension savings receive favourable tax treatment.

* The qualification for a full guaranteed pension is 40 years' residence in Sweden between the ages of 25 and 64. Persons who do not meet this requirement may be eligible for social welfare allowances. A committee is currently investigating the possibility of establishing a different maintenance system for these categories. Guaranteed pensions will be payable from the age of 65. Recipients must be residents of Sweden or an EU/EEA country, or a country with which Sweden has signed a convention. Basic protection also includes housing support, i.e. a housing supplement for pensioners. The purpose of this support is to ensure that pensioners can live in good-quality housing without the cost of housing reducing the possibility of an overall adequate living standard. Housing support is means-tested and is thus intended for those who have lower than average incomes.

Box 4.7. Notional accounts – A new kind of pension emerging in Sweden, Italy and Poland?

Notional accounts – A new hybrid?

Much international attention has focussed on the concept of notional individual accounts that have emerged in Sweden, Italy and Poland. In the traditional pension literature, it was assumed that there were basically three kinds of plans: a public pay-as-you-go defined benefit plan, a private company plan that could be either defined contribution or defined benefit, and an individual account that was, by definition, a defined contribution plan. Typically no allowance was made for a defined contribution pay-as-you-go scheme. In the Swedish case described previously, however, that is what was created: a set of individual accounts where the final benefit to the individual was driven by the total amounts that had been put into that account – but with its financing provided primarily by pay-as-you-go contributions. Adjustments for economic growth and longevity changes are handled automatically.

On the surface, at least, such arrangements have much attraction. There are gains in work incentives because of the automatic linkage of contributions and benefits. As well, there are the gains in transparency and sense of ownership that are felt to be a desirable consequence of individual accounts. And it can do this without the added costs of making the transition to full advance-funding. Some have argued that this is an easier way to implement reforms, when compared with the incremental changes to existing programmes that would be needed to obtain the same effects. Others have argued that the claims may be over-stated when one looks at the actual reforms that are implemented, including inevitable compromises. It is often suggested that similar results could be achieved through other means. Others have wondered about the desirability or realism of a promise of virtual automatic escalation into the distant future. It is of interest that the countries themselves, in reporting on these reforms, do not concentrate on the unique features of notional accounts *per se*.

At minimum, it is clear that international examinations of pension policy must become both richer and more complex as a consequence of these reforms. New ways must be found to adequately frame international comparisons.

The Swedish reform

The full reform is described in an earlier box. Each year the insured will receive a “notional account” statement. This will show the changes in assets compared to the previous year, the income-related pension assets and the balance on their prefunded pension account. The statement will show how much of the change that is due to adjustment by the

income index, the survivor bonus and administrative expenses. The statement will also contain a forecast of the size of the future yearly pension (given a pension age of 65 years).

The Polish reform

In Poland, a major pension reform was introduced in 1999. The new system covers employees, self-employed and those serving in the military and police, who joined the service after January 1, 1999. The new pension scheme is based on the multi-pillar principle: first, the pay-as-you-go pillar, managed by the Social Insurance Institute; second, the funded pillar, managed by private open pension funds; third, the voluntary pillar – with all forms of group and individual pension savings. The philosophy of pension reform is expressed by the slogan “*Security through diversity*”, which means that the stability of the future old-age pension system will be based on the diversity of the sources of financing pension income.

The pay-as-you-go component of the pension system is based on the notional defined contribution principle. All contributions are registered on individual accounts as a notional pension capital of a contributor. They are indexed according to 75% of the wage sum. All pension rights prior to 1999 are recalculated into the initial capital, which is also registered on the individual account. The future benefit is equal to the notional capital divided by a unisex life expectancy at the retirement age.

The Italian reforms

In Italy, various pension reforms have been introduced during the past years. The first set of reforms (the “Amato” reforms in 1992) were “standard” responses to fiscal problems and dealt with issues such as increases in pension age, cuts in accrual factors and adjustment of indexation factors, etc. The second set of reforms (the “Dini” reforms in 1995) was more fundamental and dealt with issues such as linking benefits and contributions more closely.

The latter reform also made pension entitlements conditional to the accumulated sum of contribution and this “capital” is then re-evaluated according to GDP. The annuity is calculated with this as a starting point, together with a transformation coefficient conditional on the age of retirement, predicted longevity of the cohort and expected productivity growth. Marginal accrual rises with age of retirement and pensions payments are indexed to earnings growth or price inflation.

Box 4.8. Canada – The policy advantages of a diversified system

As can be seen in Table 4.1, older Canadians receive income from a wide variety of sources. Public support itself has many dimensions – a basic flat rate benefit which also encompasses a targeted programme, an earnings-related benefit that includes advance-funding and pay-as-you-go elements and tax support for occupational pensions and

individual accounts. The Canadian authorities point out such a diversified system accomplishes the goals outlined in *Maintaining Prosperity in an Ageing Society* (risk diversification, a better balance of burden-sharing between generations, more flexibility over individual retirement decisions) and also results in welcome flexibility in the reform process.

Box 4.8. Canada – The policy advantages of a diversified system (cont.)

Like other countries, Canada's approach to managing the pressures of an ageing society depends on its starting point. From that point of view Canada seems relatively well placed: the demographic trends are not as dramatic as in some countries, steps have already been taken to create a sound fiscal situation, and the labour market has flexibility to respond to changes in the workforce.

One of the most important starting points for Canada is its multi-pillar retirement income system. The design of the system, which closely mirrors that advocated by the OECD, provides balance and flexibility.

It balances risks through different forms of pensions, and allows for flexibility in responding to diverse, changing circumstances, by governments, individuals and firms.

The design of the public elements of the retirement income system has from the outset explicitly left very substantial room for employer/occupational pensions, as well as private savings, over and above the national contributory, earnings-based Canada Pension Plan (CPP).

Both employer/occupational pensions and private savings are encouraged through the tax system, but are not compulsory.

The public pension "base" also includes a non-earnings-related component, the Old Age Security Programme, which is funded through general tax revenues. This provides a small, basic income to all but the highest earning seniors (95 per cent of all seniors receive this flat-rate benefit).

The Old Age Security Programme also contains a Guaranteed Income Supplement that allows for targeting of additional payments to low income seniors.

The Canada Pension Plan is a contributory programme designed to replace 25 per cent of earnings up to a ceiling

equivalent to 25% of the average wage. Combined with Old Age Security Programme and its low-income top-up, these public components represent a floor on which individuals have both the incentives and the opportunities to take responsibility for their own retirement income.

The retirement income system is not only a federal responsibility. Low income seniors benefit from a variety of provincial and municipal programmes which supplement the OAS and GIS and are responsive to local situations, e.g., housing assistance, drug plans, etc.

Despite this solid base, governments have not been complacent about the future of the public pension system. The review mechanisms for the Canada Pension Plan ensured that the potential pressures from an increasing number of seniors were identified in a timely manner and that changes could be put in place to respond to these pressures. This included enhancing the level of funding for the Plan, which is essentially a pay-as-you-go system. This step reduced the burden of increased costs for future generations, by increasing contributions for current workers in the "baby boom" generation. By 2003, contribution rates will increase to 9.9 per cent of earnings up to the average wage, and will then remain stable.

The broader issue of pension reform was also examined in the context of the overall direction to reduce the federal deficit. Ultimately the success of other measures to eliminate the deficit and reduce the debt, combined with the successful reform of the CPP, eliminated the need for any further pension reform.

Canada will continue to monitor its retirement income system to ensure that it can withstand the pressures of an ageing population. However, any changes required are expected to be fine-tuning around the margins, rather than major reforms.

4.2. POVERTY AMONG OLDER PEOPLE – A SEEMINGLY SUSTAINABLE SUCCESS STORY IN MANY COUNTRIES

Summary and main results

Combating poverty among older people is a central goal, and success, of pension policy. A challenge is to ensure that recent reforms do not undermine the progress that has been made. This goal is embedded in the policy principle found in Box 4.1.

In most countries, the economic position of older people has been improving and recent reforms are unlikely to negate those gains. Nevertheless, a number of important, but smaller, initiatives are taking place. These usually involved one or a combination of the following: research and co-ordination initiatives, reforms that increase the generosity of the basic public pensions for low income people, and reforms addressed to specific groups, especially survivors.

The main conclusion is that current reforms, including those that reduce the overall generosity of public pensions, need not weaken the position of those with lowest incomes. Indeed, in many cases it may be possible to use some fiscal savings to tackle remaining pockets of poverty among older people. Continued monitoring will, however, remain important.

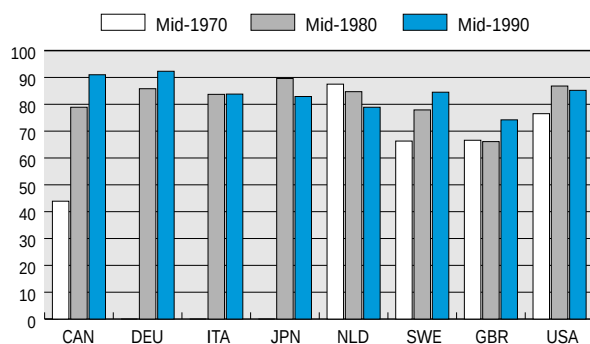
The present situation

Poverty in old age has not been eliminated in OECD countries. Difficult areas remain to be addressed, especially among older people living alone – mainly women. However, the main picture has been one of an improving or stable economic situation for older people, both absolutely and in relation to the rest of the population. Table 4.2 illustrates this for selected OECD countries. Poverty rates among older people are down in most countries, as is the share of older people among the poor.

Figure 4.2 looks at older people generally, not only those with low incomes. It finds that real disposable incomes do not deteriorate once people retire. Older people, after retirement, have about 80% of the income

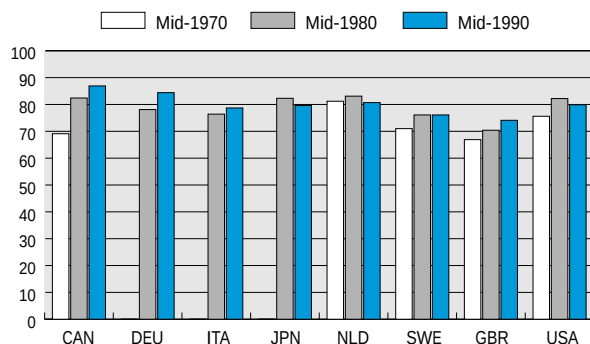
Figure 4.2. Incomes of older people in relation to incomes before retirement

A. Median disposable income of people aged 65 and over divided by median disposable income of all ages



Income of older people is rising or stable. OECD data suggest that the income of older people has been improving over time. The chart compares individuals in families where there is a person aged 65 and over with the total for people of all ages. Taxes, family size and the income of other family members have been taken into account. The figure shows the income of older people has been rising or stable in recent decades. The figure can still be misleading however, since the data are affected by the number of very old people, early retirement patterns and trends in the numbers of older people living with their families. This makes it very difficult to compare the data for Japan, with, for example, Canada. Part II illustrates the large differences in retirement patterns and living arrangements that exist.

B. Mean disposable income of age 65-74 divided by mean disposable income of age 51-64



People today have incomes after retirement that are about 75% or more of income before retirement. The chart minimises some of the weaknesses of the one above. It shows “quasi-replacement rates” – the income of people in the age bracket where most people are retired, compared with age bracket where most (but certainly not all, depending on country) are still at work. This shows much more consistency over time and across countries. It supports the hypotheses that many people aim at having roughly the same material living standard after retirement as before. When housing assets and a reduction of work-related expenditure are taken into account, this would be roughly consistent with an average income after retirement of about 80% of what it was before – although there are differences across income groups.

(There remain important differences across countries that can make cross-country comparisons difficult, even misleading. Comparisons of both levels and trends are still influenced by different ages of retirement and living arrangements in different countries and by trends in those numbers. Current work in a comparative study of retirement income policies in nine countries will help clarify these effects.)

Table 4.2. **Poverty indicators in selected OECD countries**
Equivalence scale elasticity = 0.5

	Poverty rates					Shares in the poor population					Relative risk index				
	below 18	18 to 25	26 to 50	51 to 65	above 65	below 18	18 to 25	26 to 50	51 to 65	above 65	below 18	18 to 25	26 to 50	51 to 65	above 65
Australia, level 1994 Australia, 1984-1994	10.9 -4.6	6.1 -0.5	6.5 ..	14.3 ..	16.1 -3.2	30.5 -8.3	7.2 1.5	30.2 ..	13.0 ..	19.2 3.9	1.17 -0.10	0.65 0.11	0.70 ..	1.53 ..	1.73 0.15
Austria, level 1993 Austria, 1983-1993	7.3 1.8	6.7 0.2	5.2 2.4	6.4 1.3	14.9 -0.2	21.1 -1.2	11.0 -1.5	26.1 10.7	13.7 0.6	28.0 -8.6	0.99 0.08	0.91 -0.16	0.71 0.25	0.87 0.02	2.02 -0.47
Belgium, level 1995 Belgium, 1983-1995	4.1 ..	18.6 ..	5.5 ..	5.1 ..	13.8 ..	11.3 ..	23.4 ..	25.8 ..	10.5 ..	28.9 ..	0.53 ..	2.40 ..	0.71 ..	0.66 ..	1.78 ..
Canada, level 1995 Canada, 1985-1995	14.2 -1.6	13.6 2.0	9.0 -0.2	10.9 -0.9	2.5 -6.7	33.3 -1.5	14.5 -0.3	35.6 6.3	13.8 0.5	2.8 -5.0	1.38 0.02	1.32 0.33	0.88 0.08	1.06 0.04	0.25 -0.55
Denmark, level 1994 Denmark, 1983-1994	3.4 -1.2	12.6 4.2	2.2 -1.2	1.7 -3.4	9.2 -11.5	15.3 -0.2	30.5 16.1	18.2 1.7	5.4 -5.2	30.6 -12.5	0.74 0.09	2.71 1.52	0.48 0.01	0.36 -0.36	1.97 -0.94
Finland, level 1995 Finland, 1986-1995	2.1 -0.8	15.3 3.8	3.3 0.4	4.6 -0.3	7.5 -3.2	9.8 -3.8	29.4 1.4	26.3 5.0	14.6 0.4	19.8 -3.1	0.42 -0.13	3.13 0.87	0.68 0.11	0.94 -0.02	1.52 -0.58
France, level 1994 France, 1984-1994	7.1 0.5	8.3 2.2	6.0 0.8	7.8 -2.7	10.7 -7.1	23.1 0.2	11.0 1.8	29.3 7.7	14.4 -6.4	22.3 -3.3	0.95 0.12	1.12 0.34	0.80 0.16	1.05 -0.28	1.43 -0.80
Germany, level 1994 Germany, 1984-1994	10.6 4.5	13.7 4.8	8.0 3.6	7.9 2.6	10.4 -0.4	22.3 4.2	12.2 -5.7	31.7 7.6	15.2 0.2	18.2 -6.4	1.13 0.17	1.46 0.07	0.85 0.17	0.84 0.01	1.10 -0.58
Greece, level 1994 Greece, 1988-1994	12.3 -0.3	8.9 -1.4	8.6 -0.8	14.7 1.1	29.2 2.6	19.0 -3.6	6.7 -2.3	20.6 -1.3	20.3 0.8	33.4 6.3	0.89 -0.05	0.64 -0.12	0.62 -0.08	1.06 0.05	2.11 0.12
Hungary, level 1997 Hungary, 1991-1997	9.7 1.7	6.2 -0.8	7.4 1.6	6.6 -1.2	6.0 -11.5	25.8 3.1	12.4 3.8	34.1 11.9	16.0 0.5	12.1 -17.8	1.33 0.40	0.85 0.04	1.02 0.34	0.90 0.00	0.83 -1.21
Ireland, level 1994 Ireland, 1987-1994	13.4 0.1	5.1 -1.2	9.1 -1.1	11.1 -0.2	16.7 10.9	40.4 -5.6	5.7 -1.3	26.3 -2.9	12.3 -0.7	15.3 10.3	1.22 -0.04	0.46 -0.13	0.82 -0.14	1.00 -0.06	1.51 0.96
Italy, level 1993 Italy, 1984-1993	18.8 7.3	14.4 4.3	11.8 4.5	12.7 1.4	15.3 -1.1	27.3 2.1	12.8 -0.2	29.7 4.2	14.4 -3.8	15.9 -2.2	1.32 0.21	1.01 0.03	0.83 0.12	0.89 -0.20	1.07 -0.51
Mexico, level 1994 Mexico, 1989-1994	26.2 1.4	14.4 -0.5	18.4 0.3	20.2 0.3	32.9 5.0	51.7 -2.1	10.3 -0.2	24.2 0.8	7.4 0.6	6.4 0.9	1.20 0.03	0.66 -0.04	0.84 -0.01	0.92 -0.01	1.50 0.19
Netherlands, level 1995 Netherlands, 1984-1995	9.1 5.8	16.1 9.1	4.9 2.2	2.1 0.4	1.9 0.6	31.6 5.8	27.6 -2.9	31.1 -0.5	4.7 -2.8	4.0 -0.9	1.44 0.38	2.56 0.30	0.78 -0.09	0.33 -0.22	0.29 -0.11

Table 4.2. **Poverty indicators in selected OECD countries** (cont.)
Equivalence scale elasticity = 0.5

	Poverty rates					Shares in the poor population					Relative risk index				
	below 18	18 to 25	26 to 50	51 to 65	above 65	below 18	18 to 25	26 to 50	51 to 65	above 65	below 18	18 to 25	26 to 50	51 to 65	above 65
Norway, level 1995	4.4	17.7	4.1	4.3	19.1	12.7	25.3	18.9	7.4	35.8	0.55	2.21	0.52	0.54	2.39
Norway, 1986-1995	0.5	8.8	1.3	0.0	-3.2	-1.2	8.8	5.0	-1.7	-10.0	-0.02	0.92	0.11	-0.09	-0.84
Sweden, level 1995	2.7	38.6	3.2	2.3	3.0	9.4	59.6	17.5	5.6	7.9	0.42	6.03	0.50	0.36	0.46
Sweden, 1983-1995	-0.3	10.9	0.3	-0.8	-2.4	-1.9	11.7	1.4	-2.1	-8.9	-0.08	1.36	0.02	-0.16	-0.44
Turkey, level 1994	19.7	12.7	13.2	14.3	23.1	47.3	11.0	26.2	9.4	6.2	1.22	0.78	0.81	0.88	1.43
Turkey, 1987-1994	-0.7	1.5	-1.0	1.8	2.6	-5.1	1.4	0.9	1.4	1.3	-0.02	0.10	-0.05	0.12	0.18
United Kingdom, level 1995	17.4	10.3	8.1	6.3	11.6	41.7	7.9	27.0	8.6	14.8	1.59	0.94	0.74	0.58	1.06
U. K., 1985-1995	7.7	3.7	3.0	1.3	2.7	5.0	-2.6	2.1	-3.1	-1.5	0.20	-0.01	0.00	-0.14	-0.22
United States, level 1995	23.2	19.0	12.6	13.0	20.3	36.6	10.5	28.7	9.9	14.3	1.36	1.11	0.74	0.76	1.19
United States, 1985-1995	-2.7	0.9	-0.8	-0.3	-1.3	-1.3	-1.3	2.3	-0.4	0.7	-0.05	0.12	0.00	0.03	0.01
Average (18) mid-1990s	11.8	13.3	7.9	9.0	13.9	27.7	17.0	26.8	11.5	17.0	1.07	1.59	0.74	0.83	1.33
Change, mid-80s to mid-90s	1.1	2.9	0.8	0.3	-1.5	-0.8	1.6	3.9	-1.2	-3.1	0.07	0.31	0.06	-0.03	-0.31

Notes: Poverty rate: percentage of persons living in households with incomes below 50% of median adjusted disposable income of the entire population. Relative risk index: poverty share divided by population share. Many OECD countries are experiencing a change in the structure of poverty. There are indications that, over the last 20 years, the poor population is changing from one that was once disproportionately elderly to one that is more weighted towards younger households with children.

The first panel of the table shows poverty rates, reflecting the risk of the specific groups to be poor. The second panel shows poverty shares, which refer to the relative importance of the groups within the total poor population. The third panel presents relative risk indices. For example, if a population group comprises 40% of the poor population but only 20% of the entire population, this group would be represented twice as often in the poor population – the index thus would be 2.

The table shows changes between 1984 and 1994. Poverty risk of the elderly population declined in most during the last ten years, specifically so in Canada, Denmark, France and Hungary. The share of elderly in the total poor populations also fell in most countries.

Source: OECD (2000), "Trends and Driving Factors in Income Distribution and Poverty in the OECD Area", Labour Market and Social Policy Occasional Papers, No. 42, Paris.

of people in their pre-retirement years. As *Maintaining Prosperity in an Ageing Society* points out, this means that – when housing assets and work-related expenses are taken into account – material living standards for most people do not drop when they retire.

The scale of the policy challenge and of national responses

The policy challenge is, first, to address the pockets of low-income that still remain, including single older people, especially women. Second it consists of vigilance in ensuring that the considerable progress of recent decades is not undermined as an unintended consequence of reforms that have been mainly driven by other considerations. However, it is clear that other challenges play a larger role on the policy agenda at the present time – including long-term care arrangements for frail elderly people as discussed in Chapter 5.

While urgency may be higher in other areas, there has still been much reform activity as shown in Annex 1. Some of that is expected to have significant¹⁰ effects.

Reform trends

Research and co-ordination

In New Zealand, while most older people are in fairly comfortable circumstances, there are nevertheless pockets of disadvantage, as is the case in all countries. As part of its work, the Superannuation 2000 Task Force commissioned a research programme on living standards of older New Zealanders. This task force has, however, been dis-established by the new government, but the research commissioned by the task force is being continued and will be overseen by the Ministry of Social Policy.

The goals of the New Zealand study are typical of many others. However, it is one of the few that involved a major free-standing initiative. More typically, such examinations were included in larger studies of ageing or pensions.

More adequate public pensions for low income people

A wide variety of means are used to ensure that there is a decent, minimum standard of living for older people. Box 4.9 provides examples. Individual accounts for low-income people have been topped up. Certain maxima and minima within benefit formulas have been escalated by wages, rather than prices. Measures have been taken for older women, who live alone, often widows. Another target group for reform has been people who are unable to make regular contributions to earnings-related pensions.

Concern about work incentives is growing, especially as it relates to the means testing of benefits. For example, in Australia, the combined effect of the means test on pensions and the ordinary tax may lead to high effective marginal tax rates for many lower income older people. These can lead to disincentives to work and invest, although the size of the effects is a matter of debate. Recent reforms in that country that will come into effect in 2000 will affect these effective marginal tax rates, but again the effects on workforce participation and retirement behaviour are not known.

10. The arbitrary benchmark was a set of reforms that would eliminate remaining pockets of poverty in the period after 2010.

Box 4.9. Selected examples of reforms and programmes addressed to assist low-income people

United Kingdom introduces a minimum income guarantee

In the United Kingdom, the minimum income guarantee has been introduced for pensioners at a level marginally below 60% of median equivalised incomes. This, together with the various non-means tested supplements for age, disability, winter fuel and free television licences, should substantially reduce pensioner poverty. The aim is to increase the value of the minimum income guarantee in line with earnings. This should prevent pensioner poverty from becoming a major issue in future.

Mexico tops up individual accounts so that they are equivalent to minimum wages

In Mexico, the Social Security reform leaves low-income workers and beneficiaries at least in the same position in regard to benefits as the old legislation. As pensions become indexed to the consumer price index and not to the minimum wage, it is believed that a better guarantee of income will be provided for the future. Furthermore, in case the accumulated amount in the individual account is not enough to purchase an annuity of at least a minimum wage for the worker and his/her beneficiaries, the federal government guarantees a pension equivalent to a minimum wage and will provide the additional amount necessary so that the worker can obtain this pension.

Greece breaks link with minimum wages – and later introduces a means-tested supplement

In Greece, the link between pensions and minimum wages was abandoned in 1990. This caused public pressure which in 1996 resulted in the introduction of a means-tested supplement. Prior to this, almost 70% of the main private sector fund beneficiaries qualified for the same pension regardless of contribution histories. Severing the link between entitlements and contributions resulted in an increase in contributions evasion. The means-tested supplement was applied to all income declared for the purpose of income taxes and three income tests were applied: individual pension income, individual total income (all sources), and family income. Part of the success of the reform (apart from fairness of the criteria itself) came from the implementation – it relied to a large extent on self-declaration and ex-post checks, which allowed for a fast and non-bureaucratic application and payment process.

Sweden makes supplementary provisions as part of a general shift to equating lifetime contributions and benefits

The basic principle of the new pension system in Sweden is that pensions will correspond to the value of all pension contributions paid in during a person's working life. Given this principle, there must be rules that compensate people who, on account of illness or for other reasons, have not earned an adequate pension. Furthermore, rules are needed to provide security for those who have been dependent on someone else for support, e.g. surviving spouses. The new pension system contains supplementary rules for such cases. Under the new pension system the state guarantees a minimum pension, a "guaranteed pension", to those who have earned insufficient pension rights.

The underprivileged in Korea get their share through a Social Pension

In Korea, a Social (non-contributory) Pension was introduced in July 1997, as part of the revision to the Elderly Welfare Law. The introduction of an official Social Pension as a public Income Maintenance System, despite the nation's economic crisis, is a large leap for the underprivileged elderly who were formerly excluded from National Pension coverage.

Australia escalates pension ceilings in line with wages and more than compensates pensioners for the introduction of a Goods and Services tax

The Australian Age Pension is indexed in line with increases in the consumer price index. The government has also legislated to ensure that the maximum single rate of pension is set at, at least, 25 per cent of male total average weekly earnings. This means that in addition to the normal adjustments to the pension to compensate for price increases, pensioners now also share in improvements in community living standards as measured by wages. As a result of this legislation, since March 1998 the maximum single rate of pension has increased by A\$13.00 a fortnight more than it would otherwise have done. The maximum partnered rate for each member of a couple has increased by A\$11.00 a fortnight more than it would have otherwise done, over the same period. (In another reform, Australia also will top up pensions in various ways to more than compensate for the effects of introducing the Goods and Services tax in July 2000.)

Switzerland's social protection system has specific clauses aimed at reducing poverty among older persons

Switzerland has a wide-ranging social protection system for older persons (at federal level, it is based on a so-called three-pillar scheme, combining old-age insurance, occupational provision and individual savings benefiting from favourable tax treatment). In general, insecurity no longer affects those reaching retirement age. Should the old-age pension together with other income prove insufficient, benefits in addition to old-age insurance, survivor's and invalidity provision, are available to help the economically disadvantaged, ensuring that basic needs are met.

Iceland uses a mix of methods

Poverty among the elderly in Iceland has decreased considerably over the last decade. This result can be traced to increased pension wealth, as the occupational pension system has matured. The social security pension system became more targeted in this period with means-tested benefits rising faster than non-tested benefits. The introduction of general rent benefits in 1995 certainly improved the lot of the poor elderly living in rented accommodations. Furthermore, in 1997 a voluntary arrangement that allowed for the splitting of pension entitlements between spouses was introduced.

Finland combines programmes...

In Finland, the national pension guarantees a minimum pension level to all Finnish residents. In 1996 the national

Box 4.9. **Selected examples of reforms and programmes addressed to assist low-income people** (cont.)

pension still consisted of a basic amount and an additional amount. According to the revised legislation there was no entitlement to the basic amount if the amount of the employment pension of a recipient exceeded a certain level. From the beginning of 1997 the basic amount and the addition were combined to a single national pension.

...while Canada relies on separate programmes

In Canada the risk of low income is similar for senior and non-senior citizens. The incidence of low income among Canadian seniors has declined considerably since the introduction of the Old Age Security Programme, Guaranteed Income Supplement and the Canada Pension Plan.

Austria examines solutions for avoiding poverty among older women

Austria is discussing future reforms related to independent retirement income provision for women. The discussion centres on whether the current survivor's pension ought to be replaced by an independent old-age pension for all women and on its design, including a choice among compulsory contributions by women, pension splitting or generously regulated "fictitious qualifying periods" (such as periods of childcare).

Netherlands addresses those who do not contribute

The Dutch basic pension system, which already provides a protection against poverty, is now being strengthened through tax measures. The government is also working

towards reducing the number of people who work but who do not build up supplementary pension rights. This so-called white spot in the field of pensions is about 9% of the working population. For 2% of this 9% the employer does not provide any supplementary pension to his/her employees. The other 7% consists of people who do not meet specific conditions to enter the pension scheme, for instance because they have a part-time job, or they are too young. The government has announced a law such that, if an employer has a provision for most of his/her employees, s/he has to offer participation in the pension scheme to *all* employees.

Belgium, Luxembourg, Poland and many others have low income guarantees

In **Luxembourg**, a guaranteed minimum income has existed since 1986. The minimum guaranteed income for a single person is 848.44 euros. It is increased by 424.22 euros for a second person, and then by 242.71 euros for each additional family member. The same notion of a guaranteed income for older people exists in **Belgium** as well, and has existed since 1969. More recently (1997) to support retirees who held low paying jobs, a new minimum-claim pension scheme is provided for each year in the career. Pensions have been adapted to recent flexible work programmes and some periods of inactivity and part-time work will now be taken into account in calculating pensions. In **Poland**, pension reform is designed to provide anti-poverty protection, by a minimum pension guarantee, for those with lower earnings and shorter working careers. Many other countries accomplish this end through social assistance programmes.

HEALTH AND LONG-TERM CARE A HEALTH AND CARE SYSTEM FOR ALL AGES?

Summary and main results

This chapter reports on health and long-term care reforms. Box 5.1 gives the principle set out in *Maintaining Prosperity in an Ageing Society*. The main concerns are that health care, medical research systems and long-term care systems are adequately adjusting to a population that is older.

The health care system is characterised by much reform. However, ageing *per se* does not appear to be a dominant driver of those reforms – although the result will be a system that is more responsive to the needs of an ageing population. The major exception, as discussed in Chapter 3, is the effects of ageing on public health care costs in some countries.

In long-term care, a dominant theme is the creation of better linkages between health care services and long-term care services – in the context of an overall shift towards community and home-based provision of long-term care. In terms of financing, a comprehensive system of long-term care insurance came into effect in Germany in two stages in 1995 and 1996. There is a reform of comparable scope in Austria and Japan is introducing fundamental reform. However, most of the reforms were incremental and intended to make existing arrangements work better.

Recent age-related reforms can be classified under the following headings: (1) ageing in place – community and home-based long-term care, (2) co-ordinating health and long-term care, (3) financing of health and, especially, long-term care, (4) information strategies for sustaining effective reforms, and (5) reforms aimed at a stronger longer-term capacity for responding to ageing pressures.

The present situation

Many age-related reforms focus on long-term care and reflect a concern about the pressures that ageing may place on long-term care. Table 5.1 projects the effects of ageing and other factors such as disability and institutionalisation rates on public long-term care costs for selected countries. The table highlights some factors that are important in interpreting reforms in different countries:

- There are unusually large differences across countries in public spending on long-term care. Note that these figures exclude any medical costs associated with care. Public spending on long-term care is less than 1% of GDP in most of the countries shown, but nearly 3% in Sweden. The Norwegian figure is similar to the Swedish figures. There are also large differences in private and total spending on long-term care. In the Netherlands, Sweden and Norway, total spending again approached 3% in the early 1990s, while in the United States, the United Kingdom and Belgium it was between 1% and 1.5%. The figures for Greece, Portugal and Spain are lower than for the countries shown on the table.
- The pure effects of ageing – particularly the growth of the number of very old – make a big difference, especially on institutional care. This is most clearly seen by examining the projection that holds trends in disability rates and rates of institutionalisation constant.

Table 5.1. **Projections of publicly financed long-term care as a share of GDP to the year 2020, selected countries**

	<i>Dynamic projection</i> which assumes that past trends in disability rates and institutionalisation rates continue into the future				<i>Constant trends projection</i> which assumes no change in institutionalisation or disability rates in coming years			
	1996	2000	2010	2020	1996	2000	2010	2020
<i>Australia</i>								
Home help	0.15	0.15	0.17	0.23	0.15	0.16	0.19	0.26
Institutions	0.66	0.66	0.70	0.76	0.66	0.70	0.88	1.12
Total	0.81	0.82	0.88	0.99	0.81	0.87	1.07	1.38
<i>Canada</i>								
Home help	0.21	0.23	0.28	0.36	0.21	0.23	0.26	0.33
Institutions	0.50	0.51	0.53	0.57	0.50	0.54	0.66	0.81
Total	0.71	0.74	0.81	0.93	0.71	0.77	0.92	1.14
<i>France</i>								
Home help	0.23	0.20	0.18	0.19	0.23	0.24	0.27	0.33
Institutions	0.37	0.41	0.54	0.71	0.37	0.41	0.52	0.66
Total	0.60	0.62	0.72	0.90	0.60	0.65	0.79	0.98
<i>Germany</i>								
Home help	0.32	0.32	0.32	0.35	0.32	0.34	0.39	0.47
Institutions	0.39	0.40	0.45	0.55	0.39	0.40	0.45	0.55
Total	0.71	0.72	0.78	0.90	0.71	0.74	0.85	1.02
<i>Japan</i>								
Home help	0.08	0.09	0.11	0.12	0.08	0.10	0.14	0.19
Institutions	0.66	0.74	1.00	1.28	0.66	0.76	1.12	1.54
Total	0.75	0.83	1.10	1.40	0.75	0.86	1.26	1.74
<i>Sweden</i>								
Home help	1.35	1.23	1.05	1.17	1.35	1.31	1.38	1.68
Institutions	1.51	1.48	1.54	1.71	1.51	1.53	1.58	1.93
Total	2.86	2.71	2.59	2.88	2.86	2.84	2.96	3.61
<i>United Kingdom</i>								
Home help	0.36	0.34	0.33	0.37	0.36	0.36	0.38	0.44
Institutions	0.69	0.72	0.75	0.86	0.69	0.72	0.75	0.86
Total	1.05	1.06	1.08	1.22	1.05	1.08	1.13	1.30
<i>United States</i>								
Home help	0.24	0.23	0.22	0.25	0.24	0.24	0.25	0.30
Institutions	0.42	0.40	0.37	0.36	0.42	0.44	0.46	0.52
Total	0.66	0.64	0.59	0.61	0.66	0.68	0.70	0.82

Source: OECD paper, "Is the health of older persons in OECD Countries improving fast enough to compensate for population ageing", by E. Cambois, S. Jacobzone, and J. M. Robine. A version appears in *OECD Economic Studies*, No. 30.

- However, these increased costs would be significantly reduced if recent trends towards lower severe disability rates continue, particularly for people living in households.
- Trends in institutionalisation rates also affect future costs, as do other factors that could not be captured in the table. These include any future change in the balance between home care and institutional care and medical breakthroughs that would affect the duration of chronic conditions.
- When trends in serious disability and institutionalisation are projected forward, as they are under the "dynamic projection" in the table, they moderate the cost increases associated with ageing quite considerably in some countries.
- The table makes the best of weak sources of data. There is little comparable data on trends in these areas, let alone information that would allow an examination of the experiences of individuals over the course of their lives. Even seemingly routine information that would facilitate cross-country comparisons of the extent of disability and dependence is weak.

The scale of the challenge and of national policy responses

Aside from the financing and fiscal issues discussed in Chapter 3, age-related issues, in themselves, were seen as a major challenge for health policy in only a handful of countries.¹¹ Annex 1 identifies some of the countries that have introduced reform that are expected to significantly improve the operation of the system. Much of it is incremental reform directed to improving the cost-effectiveness in health and long-term care systems in general and would make sense regardless of the ageing of the population.

Reform trends

Ageing in place – community and home-based long-term care

Many reforms centred on the theme of better ways of providing services to frail elderly people in the community and in their homes. In Box 5.2, Australia highlighted a strategy that centred on care-givers.

In moving responsibilities more to the community level, a main theme is better co-ordination between responsibilities among actors in the area of health and long-term care. Many countries stressed the importance of decentralisation of responsibility for the provision of services – and then arranging for the co-ordination of those services. A common theme is to strengthen the co-ordination between local and central responsibilities. See Box 5.3 for examples.

Co-ordination of health and long-term care

Closely related to this decentralisation of long-term care were reforms or planning initiatives that sought a better integration of health and long-term care – a problem that plagues most OECD countries. Sometimes these were independent exercises (see Box 5.4). However, virtually all major reforms were accompanied by similar studies and co-ordination initiatives.

Financing of health and, especially, long-term care

Financial reforms have been introduced that would better allow health and care systems to adapt to the pressures of ageing. A variety of approaches exist, with no single theme emerging. Some countries are heading towards more diverse models, with private alternatives as complement to traditional public solutions.¹² The United States, as seen in Box 5.5, is experimenting with a number of new models that link services and financing. The newer OECD countries from Central Europe, on the other hand, are in the process of more basic financing reforms.

Several fundamental reforms have been introduced with respect to the financing and delivery of long-term care. The Austrian reform is highlighted in Box 5.6. Germany introduced sweeping reforms in the mid-1990s and Japan is about to introduce an ambitious new approach to the financing and delivery of long-term care.

Information strategies for sustaining effective reforms

In a number of countries, heavy emphasis¹³ has been placed on the importance of having the data and applied research that is needed to sustain effective reform. This was also a key message of *Maintaining Prosperity in an Ageing Society*. Box 5.7 shows in particular the weight this has received in the United States. The American data has allowed them to adapt their policies more effectively in light of the ageing challenge.

11. This handful includes the United States, the United Kingdom, Sweden, Italy and Norway. As in all the questions, the benchmark that was used to assess scale was arbitrary. Here it related to the development of systematic data on the effectiveness of health care in an ageing society and a shift of emphasis to age-related non-communicable diseases, particularly their prevention.

12. An OECD publication on private health insurance in OECD Member countries is forthcoming.

13. The importance of strategic frameworks, good data and applied research received more attention in the health question than in most of the others. However, this may reflect, in part, the prominence that it received in the wording of the question.

Reforms aimed at a stronger long-term capacity for responding to ageing pressures

Another theme of reforms involved strengthening of performance evaluation processes in order to obtain better cost-effectiveness in the long run. This becomes increasingly important as the population is getting older, with growing financial pressure on governments and families alike.

There are, of course, a vast number of medical and technological developments that affect efficiency and effectiveness in the treatment of age-related diseases. These go well beyond the scope of this report and are not reported on here.

Another main theme was the importance of prevention measures such as health promotion. Selected examples of these, and more systemic reforms are described in Box 5.8.

Box 5.1. Health and long-term care – A policy principle of *Maintaining Prosperity in an Ageing Society*

Principle 5. *In health and long-term care, there should be greater focus on cost-effectiveness, on medical expenditure and research that are focused on reducing dependence, and on explicit policies for providing care to frail elderly people*

Older people require more health care than younger people. With ageing populations, health costs will rise, although perhaps by less than was once thought. The central challenge is to ensure that these expenditure are effective and aimed at the most pressing problems. Policy responses require:

- providing analytic frameworks that will lead to: consistent measurement of the cost-effectiveness of interventions, including multiple interventions, and to the dissemination of this information; improved measures of health status; and international co-operation in data provision such that the experience of other countries can be used as benchmarks;
- focusing medical research and technology on the elimination or reduction of dependence associated with conditions such as senile dementia, migraines or arthritis;
- a re-balancing of priorities that results in less growth in spending on remedial interventions and more on preventive measures.

A stage of frailty in very old age should be treated as a normal part of the ageing process, subject to explicit policies and financial arrangements. While, again, there is no single best solution, reforms should result in:

- treating long-term care as a normal risk of life with the burden of financing shared by the working-age and older populations;
- providing coverage against catastrophic costs, while insuring a balanced access to home help and institutions;
- encouraging a multiple-pillar system of delivery – with more emphasis on supporting people in their own home or in similar home-like settings and less in publicly-subsidised nursing homes. Provision of long-term care in hospitals should be avoided;
- harmonising long-term care policy with health reforms in order to support the best mix of health and care-giving elements.

Box 5.2. Australia – A reform history focusing on the role of the family care-giver

From the 1980s, the Australian Federal Government introduced a national policy framework to contain the growth of long-term care outlays, to better target services based on need and to improve access to appropriate quality care services. Under these reforms, the proportion of gross domestic product spent on aged care has grown less in the past ten years than the rate of growth in the target population, even though access to care services has increased substantially.

A major expansion of home and community care services and lower level residential care in hostels has ensured

that the majority of older people requiring government-funded care services now have access to those services in their own homes, rather than in residential care. Currently, 12% of people aged 70 and over receive government-funded care services in the community, compared to 4% in nursing home care and 3% in lower level residential care.

From 1986, a comprehensive aged care needs-based planning and assessment framework was introduced. The planning framework operates at a national level, through population-based national and regional planning and allo-

Box 5.2. Australia – A reform history focusing on the role of the family care-giver (cont.)

cation of care places. It ensures that provision of residential aged care (nursing home and hostel) places and community aged care places grow in line with the population aged seventy and over in each region.

New aged care places are advertised each year in regions of highest priority and are awarded to the service providers who can best meet local care needs. Services that operate outside these arrangements are very few in number, and do not receive government funding.

The assessment framework operates at an individual level, ensuring that services are targeted to those who need them. Teams of health professionals called Aged Care Assessment Teams operate in each region to assess older people and refer them to appropriate services, including community care services and carer support. Assessment Team gate-keeping ensures that access to care services is based on care need, and that priority is given in more urgent cases.

Since 1992, the Federal Government has provided a cross-portfolio package of support measures for family carers, including improved financial support, a respite care programme providing temporary relief and assistance for carers, and carer information and support services. Assistance is available with the costs of caring through a Carer Allowance, and carers may be eligible for income support through a Carer Payment. Around half of all home and community care services supplement the work of a family carer.

The government's new Carelink initiative will establish a national network of centres to provide information and referral services for people needing community care and for health professionals seeking services for their patients.

Reforms to residential care from 1997 improve long-term sustainability through accommodation payments for residents who can afford them, and income testing of resi-

dential care subsidies, which will ensure that the funds available for residential care increase along with retirement incomes. Additional subsidies for residents who cannot afford accommodation payments ensure that access to care continues to be based on care need, not capacity to pay.

New integrated funding arrangements allow residents who enter lower level residential care (hostel care) to age in place: that is, to remain in the one facility as they grow more frail. The new arrangements have substantially improved funding for residents with dementia: for hostel residents with dementia, average funding has increased by over 92 per cent between 1997 and 1999.

In its reforms to long-term care programmes from 1997, the Australian Federal Government has focused on improving support for family carers, enabling older people to remain in the own homes where possible and ensuring high quality, sustainable residential care for those who need it.

The new arrangements guarantee accommodation and care standards in nursing homes through a national framework of building certification and accreditation, which has been developed to ensure that standards increase over time in line with community expectations.

From January 2001, services that are not accredited by the independent national Aged Care Standards and Accreditation Agency will not be eligible for government funding. Funding has been made available to assist identified services to restructure to meet standards, and a national survey shows that providers have responded rapidly to the new requirements, with the majority of services undertaking significant upgrading.

The Federal Government has also introduced national approaches to broader issues affecting older people through the development of a National Strategy for an Ageing Australia and the Commonwealth, State and Territory Strategy on Healthy Ageing.

Box 5.3. Ageing in place – Community and home-based long-term care

Greece, Hungary and Portugal emphasise “health at home” as they begin to extend their systems

In Greece, the most successful among these programmes is the programme “Help at Home”, which began in 1998 under the direction of the Health and Welfare Ministry. The programme is an extension of the successful programme of Open Care Centres for the Elderly, which has been operating since 1979. The Help at Home programme provides help to the lonely elderly, including medical, nursing, preventive care and help in daily household tasks. The programme currently runs in 103 municipalities, serving the needs of approximately 5 500 old people. During the first few months of 2000 it is expected to expand to 300 municipalities. By the start of 2001, when it is planned to connect with the primary health centres operating in rural areas, the programmes are projected to cover the needs of all frail and elderly people.

Hungary has also introduced, starting in 1997, home care and hospice services which are financed by the National Health Insurance fund. The aim is to assist patients at home for a short period of time.

Portugal has been developing home assistance services for older people to help them cope with their health care needs.

Switzerland had already led the way in this area

With respect to home care services, the Swiss have devoted sizeable resources to developing this range of services since 1980.

Spain is introducing the “Action Plan for the Elderly 2000–2005”. It is an ambitious modernisation of their system of dependent care, including highly decentralised delivery and

Box 5.3. Ageing in place – Community and home-based long-term care (cont.)

the real and effective participation of the elderly themselves in programme definition.

United Kingdom completes fundamental review

In the United Kingdom, a Royal Commission focussing on a sustainable system of long-term care reported its findings in 1999. Their White Paper on “Modernising Social Services – Promoting Independence, Improving Protection, Raising Standards” is particularly relevant to reforms in an ageing society.

Korea is extending the long-term care coverage in order to meet future demand

So far, long-term care has been provided only for the poor elderly in Korea. Therefore, middle and upper class elderly have to rely on family members for long-term care. Provision of long-term care in Korea is in a very early stage. Therefore, with rapid population ageing, the main policy concern now is how to respond to the increasing demand for long-term care.

An important issue for the Czech Republic has been to create a balance between different needs for health care

In the Czech Republic, health-care has been restructured to balance the needs of acute and chronic sufferers. The aim of the reform has been to strengthen the facilities for the chronically ill. As part of the process long-term facilities have been developed, such as post-acute facilities (including high-tech care), rehabilitation, nursing and support for handicapped and chronically ill children. In addition to this reform, support of development of home care and community care has been done. However, plans for bed-ridden elderly and elderly with dementia are included in the strategies establishing a social infrastructure to adequately respond to an aged society. Furthermore, there is a special ten-Year Plan for Elderly with Dementia created in 1996 to respond to the increase in the number of elderly with dementia. Included in one plan is the establishment of “Dementia Reporting and Counselling Centres” within Health Centres to provide community-based services.

The Residence Assessment Instrument has proved valuable in Iceland

Iceland has an integrated policy of care for the old. The main policy objectives are two: respect for the autonomy of

the elderly and entitlement to services they need at the level that is relevant and economical. It aims at keeping the elderly in their homes as long as possible while providing access to retirement or nursing homes as the need arises. The introduction of the Resident Assessment Instrument has been of great importance for the elderly in Iceland. Its success was dependent on two main factors; the training of nurses and reliable software used to manage information concerning the programme.

Swedish reforms show the importance of clear roles in local delivery – and the need for continuous review

The many health and care reforms (see the Internet site) that have been implemented in recent years in Sweden have highlighted the need for a well-defined division of roles where different authorities are responsible for these services. There must also be practical structures and positive incentives for the authorities to co-operate in areas where the division of responsibilities and tasks is not governed by law. In Sweden, the reforms discussed will go a long way to providing such closer co-operation at the local level. However, the projects will require continuous review.

Co-ordination between municipalities and policy at a national level is important in Finland

In Finland, municipalities are responsible for providing social welfare and health care services for their residents. The purpose of services for the elderly is to support them in their daily life, to improve their preconditions for social integration and to ensure the necessary care. In 1996, Finland got a new official National Ageing Policy which will be implemented over the period until 2001. The assessment of the situation between municipalities and hospital districts has been done already.

Iceland (and many other countries) has special clinics focussing on age-related diseases

The hospitals in Iceland created a geriatric department that has units in both hospitals in Reykjavik and a separate institution with geriatric units and an outpatient department. This has led to more specialised service for elderly in the hospitals, better rehabilitation programmes and closer relations with nursing homes. Discharges are also better prepared.

Box 5.4. Reforms aiming at co-ordination of health and long-term care

United States uses managed care to integrate health and care

Among Americans covered by public health insurance schemes (Medicare and Medicaid, which serves all ages of lower-income eligible recipients), there is considerable experimentation ongoing with approaches to integrating the financing and delivery of medical and long-term care services. Typically this involves various “managed care” arrangements and most often targets the so-called “dual eligible” popula-

tions (e.g. low-income elderly who are covered by both Medicare and Medicaid). These projects are generally required to have independent evaluations.

Finland introduces new strategy to co-ordinate health and care

Finland introduced a National Ageing Policy, dealing with the co-ordination of health and care issues. Currently

Box 5.4. Reforms aiming at co-ordination of health and long-term care (cont.)

a new plan has been developed for social welfare and health for the years 2000-2003. The issues addressed will be of a broader interest. The focus is on a greater variety of non-institutional care arrangements and on the introduction of user-friendly technical aids and technological applications.

Canada places high emphasis on strategic frameworks

Canada catalogues many initiatives in recent years – some of them quite major – to bring about a more systematic approach to health and health care. The National Framework on Ageing was developed in 1996 to assist government policy makers and programme planners in planning for responding to the needs of an ageing population. In 1999, plans were introduced to increase significantly the funding of health research in Canada under the creation of the Canadian Institutes for Health Research. The goal was to provide an integrated approach to health research. See also many information initiatives in Box 5.7.

United Kingdom reforms place emphasis on measurement...

In the United Kingdom, a major reform of health care systems will include, among many elements, the establishment of a Commission for Health Improvement to drive the quality of services, the establishment of high-level performance indicators in six areas of health care and the estab-

lishment of new data, including a longitudinal survey of health status.

... and fixes incentives for premature discharge of elderly people

The United Kingdom also describes how other reforms have remedied a central problem arising from former financing arrangements. For example, in the past, the unit of measurement of hospital activity was “finished consultant episodes”. That encouraged early discharges and often unplanned re-admissions. Elderly patients were discharged from hospitals too soon and with inadequate support from the community. This imposed stress on family carers and social services, and led to unsatisfactory outcomes for elderly people needing long-term care.

Mexican strategy also encompasses health and care

Mexico established a National Committee for the Attention of the Ageing in August 1999 with ambitious objectives that cover a full range of issues related to health (see the Internet site). With the introduction of this committee, all institutional efforts in support of health and long-term care for older people will be co-ordinated – including services, financing and human resources providing support of the elderly.

Box 5.5. Reforms targeted at the financing of health and, especially, long-term care**United States announces a series of initiatives including new tax credits...**

An initiative has just been announced in the United States that will: (1) provide a \$3 000 tax credit for people with long-term care needs; (2) provide funding for services which support family caregivers of older persons; (3) improve equity in Medicaid eligibility for people in home- and community-based settings; (4) encourage partnerships between low-income housing for the elderly and Medicaid; and (5) encourage the purchase of quality private long-term care insurance by federal employees.

... and is also using an approach based on experimentation and independent evaluation

In the United States, there is considerable experimentation going on with approaches to integrating the financing and delivery of medical and long-term services. Most of this experimentation takes place via state initiatives, though it requires the federal government approval of “waiver” of existing law and regulations. Legislative change would ultimately be required to make these experimental financing/service delivery models permanent. These projects are generally required to have independent evaluations. In addition to being measured against outcome indicators such as whether or not they improve access to necessary services or quality of care, the experiments are also required to demonstrate “budget neutrality” with respect to current law. The budget

neutrality requirement often entails considerable scrutiny of a project's design before the waivers necessary to implement are granted.

Czech financing reforms to health and long-term care underline the freedom of choice

Changes to the financing of social services will include long-term care for the elderly provided not only by the state and municipalities but also by non-state organisations, since 1990. The aim is to create a social services system that allows for the elderly to make their own choices – what kind of care they need and what provider they prefer. A new model for financing is introduced which grants contributions to any provider. The specific form of long-term care will then be provided for citizens in accordance with their own choice – through the family, the municipality or a non-state organisation. The reform is expected to increase the long-term care provided by family members, which is one of the purposes of the reform.

Japan introduces fundamental changes in long-term care

The Japanese Long-term Care Insurance System, which will be introduced in 2000 represents a major rationalisation that reorganises the two existing and independent systems (medical care system and the welfare system). It will create a comprehensive insurance-based system with a clear relationship between benefits and burdens.

Box 5.5. Reforms targeted at the financing of health and, especially, long-term care (cont.)

In Ireland changes in the financing system has made access to health care easier for certain groups

The policy in Ireland is to allow older people to remain on their own with the provision of community support services such as home nursing, etc. To cater for older people who can no longer be supported at home, acute hospitals have been provided with specialist departments of medicine for old age. These are managed by consultant geriatricians who oversee programmes of assessment and rehabilitation. Where long-term care is needed, there is a network of long-stay nursing hospitals or nursing units embracing both the public and private sectors. Access to private nursing homes has been made easier by the introduction (in 1993) of a subvention scheme that assists in the costs, subject to a means test. Funding from the public capital programme is permitting progress to be made in the public sector while recent tax concessions are producing results in the private sector.

Poland is considering introducing a long-term care system with two-pillars, based on compulsory as well as voluntary contributions

The present model, with the family as the principal care giver, is expected to change. Many ageing persons will be interested in becoming less dependent on family members and buying care services through voluntary contributions or through direct purchase of services. This will support the development of non-public care-homes and hospitals (even if the public system is to be reformed). The main purpose with the health care reform is to ensure the financial stability of the system and to create a transparent organisational and financial structure. It is expected to result in improving the quality of health services in the mid-term perspective.

Box 5.6. Austria – A reform focusing on the redesign of long-term care systems

With the redesign of long-term care provision, a system has been established that responds to individual needs and tries to equitably cover the risk of requiring care for all those concerned. The seven categories of uniform long-term care benefits create the kind of material framework that enables the frail and handicapped to design their own lives and seek the assistance they need. The long-term care benefit scheme adopted in 1993 uses a combination of cash benefits and social services to prevent the need for care from becoming an unbearable financial burden on the people affected and their families.

Based on the Federal Long-term Care Benefit Act and the 9 largely similar *Länder* acts on long-term care benefits, a staggered, needs-oriented long-term care benefit scheme has been introduced. People are entitled to such benefits regardless of their income, personal wealth or the cause of their care requirements. The legal claim to such benefits is enforceable through any of Austria's courts of law. Long-term care benefits are flat-rate contributions towards defraying care-induced additional expenses to enable beneficiaries to get the requisite care and assistance, while improving their options for a self-determined, needs-oriented life. Overall, around 4% of the Austrian population (more than 265 000 people under the Federal Long-term Care Benefit Act, and more than 46 000 under the provincial acts) draw long-term care benefits which are paid in seven categories [in 1999, these range from ATS 2 000 (Euro 145) to ATS 21 074 (Euro 1 531) monthly].

Whereas the old scheme, as a rule, did not distinguish between care requiring little input and care requiring major input, the current long-term care benefit system accounts for the actual need of care input by applying a differentiated and thus more precise categorisation.

Experiences to date have shown that the beneficiaries' satisfaction with their benefit categories is very high, and that the introduction of the new long-term care benefit legislation has brought about a sustained improvement in frail or handicapped people's lives. The fact alone that people in need of care may now show their appreciation for the fre-

quently free care services rendered by family members is a decisive criterion for many benefit claimants. The long-term care benefit has also greatly eased the burden on caring family members as it provides the option of relying more on social services.

Comprehensive evaluations have confirmed that the Austrian way of long-term care provision is the right one. A cornerstone of the evaluation process has been professor Badelt's study (Vienna University of Economics and Business Administration). It examines the effects of long-term care benefits on the situation of people in need of (nursing) care and on their "informal care-givers", i.e. on those people giving care to benefit claimants in a private capacity, usually within the family. The study has found out that long-term care benefits are a highly targeted means of assistance, and that the relevant laws and their accompanying policies have greatly improved the situation of people in need of care and their carers. Care-givers, too, are very satisfied with the benefit regulation.

A recurring issue within the social policy debate is the redistributive effect of public transfers. Based on the pension level of long-term care benefit claimants, the above evaluation study illustrates that long-term care benefits primarily go to lower-income groups.

The investigated income structure shows that there would be no point in introducing a means test for the long-term care transfer benefit, as very low income ceilings would have to be imposed to achieve any substantial savings in the budget. This in turn would make a large portion of those affected more heavily dependent once again on social assistance.

In addition, and also in view of targeting this transfer even better, there are ongoing attempts at introducing measures to improve and advance the long-term care benefit system, such as the amendment to the Federal Long-term Care Benefit Act which is based on the evaluation findings and took effect on 1 January 1999.

Box 5.7. Information strategies for strengthening the reform process

The United States is building the statistical foundation for successful policy

Policy development in the areas of health and health care (including long-term care) has been significantly advanced through data collection and modelling activities designed to monitor the socio-economic and health status of the older U.S. population, as well as health and long-term care service utilisation. Longitudinal surveys that cover health and economic variables as people reach retirement have been undertaken. As well, the federal government has sponsored/fielded several cross-sectional and longitudinal surveys; most notable are the annual National Health Interview Survey, the National Nursing Home Survey, the Medical Expenditure Panel Survey, the Longitudinal Studies of Ageing, the National Long-term Care Survey, and the Medicare Current Beneficiary Survey. The last two are particularly important because they include information on persons living in both the community and in institutions.

The National Long-term Care Survey was the first data set to show a significant decline in elderly disability rates, a trend confirmed in the Medicare Current Beneficiary Survey. Declining disability in the older population potentially could have a large impact on health and long-term care utilisation and costs. To better understand the impact of changes in disability and the demographics of the older population, the U.S. government has developed and maintained several microsimulation models. These models measure the demand and cost of health and long-term care programmes under various demographic, economic and policy scenarios.

Canada strengthens information on health determinants...

The Community Health Survey is a new survey being developed by Statistics Canada for the purpose of providing regular and timely cross-sectional estimates of health determinants, health status and health system use at a sub-provincial level (130 health regions including the 3 territories) across the country. An over sampling of seniors is planned too.

... and considers new surveillance tool using Internet

The National Health Surveillance Infrastructure (NHSI) will establish an internet-based framework for national and international surveillance of diseases and other potential risks or threats to health, and provide Canadian public health and health care networks with the capacity to deal with them on a timely basis.

Development of medicalisation and a better co-ordination are policy goals in France

In 1999, a circular asked the *Préfets* of regions and *Départements* to improve the co-ordination of the care given to such persons in health establishments by taking greater account of needs. These establishments are to organise themselves into networks in order to develop first-level evaluation centres (close to the place of residence of older persons), enabling an individual global health assessment having regard, in particular, to cognitive aspects, as well as second-level evaluation centres offering a range of technical services and with the additional mission of becoming specialised in Alzheimer's disease. These expert centres will assist medical practitioners in their diagnosis and provide suitable care.

Day centres should also be encouraged and better arrangements made for care in the home, in particular by means of widespread gerontological co-ordination. To this end, local information and gerontological co-ordination centres (CLICs) have been financed as of the year 2000 in 25 experimental locations. The objective set by the government is to have a thousand CLICs in operation by 2005 so as to constitute a national gerontological co-ordination network linking the whole country and based on local units in population centres. Similarly, using home nursing services should, in five years (by the year 2005), double their capacity. A multiple-service provision is planned to help keep older persons in their homes, providing comprehensive medical and social care and giving, on prescription, care and assistance within the home. The policy of keeping older persons at home is also defined as a priority in the five-year plan announced by the government in the spring of 2000.

Switzerland has put research high on its priority list for health

The research priorities of the Federal Public Health Office (OFSP) for the period 2000-2003 are moving towards a change of paradigm in the direction suggested by the questionnaire. The new focus of health research is on a better understanding of what determines health but also on making available the resources required to promote issues in relation to which problems will become acute in the medium and long term only (ageing, emerging and re-emerging infectious diseases, chronic diseases). The cantons also have their own research programmes reflecting their individual health policies.

In Korea, substantial measures are taken in order to strengthen the basic health data

In Korea, the National Health Survey and Nutrition Survey were intertwined in 1998, to gather comprehensive and integrated information. Also, questionnaires and analyses became more age-sensitive, especially for the 65-year-old and over age group. The National Health and Nutrition Survey will be conducted every 3 years. Furthermore, data is being gathered on geriatric diseases. Currently, studies on the incidence, prevalence, medical-treatment, and cost-effectiveness of the treatment of strokes, coronary heart disease, and osteoporosis are in process.

Sweden strengthens co-ordination of research on ageing and long-term care

An important part of the National Action Plan for the Elderly was to improve the knowledge base for future planning and operations in this field. To this end substantial funds were directed towards the national Social Science Research Council in order to strengthen research on ageing and the care of the elderly. Moreover, national grants have been given to local authorities as support for developing centres for research and development in the field. Also many local projects of different kinds aiming to improve the quality and efficiency of care have been given support. Another government initiative concerns the launching of parallel long-term longitudinal studies in four areas in Sweden. The studies aim at observing the interaction between ageing and the functioning of the care system. They will use a common core protocol and thus it will be possible to pool data or in case of interventions use one area as control for another. The study areas will also pilot information system development to the benefit of all local authorities in Sweden.

Box 5.8. Reforms that improve the capacity to deal with ageing pressures

Mexico is focussing on age-related diseases

Mexico's Ministry of Health founded on the basis of the 1995-2000 Health Reform Programme, focuses on four major diseases, which are highly prevalent in older people: diabetes, cirrhosis, tumours and high blood pressure. The programme stresses early detection of risk factors and disease control.

Korea is systematically developing the capacity for hospitalisation

The National Health Promotion Law provides the legal basis for the National Health Promotion Fund, and the fund promotes geriatric studies. Therefore, it is important to provide a legal base to raise funds to encourage studies on chronic diseases and preventive health policy development.

Netherlands stresses cost-effectiveness as key

The 1998 governing manifesto (*Regeerakkoord*) attached great importance to improving cost-effectiveness of existing health care services, as part of the overall macro-economic policies aimed at containing the growth of public spending. In particular, it announced the introduction of benchmark methods in the long-term care sector. One issue of interest is the question of whether the substitution of inpatient care by home care services will reduce cost. While there is evidence that most patients prefer independent living, providing such care for complicated and severe conditions may be more expensive than an intramural setting. If the availability of a few hours of home care per week helps to postpone or avoid institutionalisation, it is clearly cost-effective. But when such support requires daily intensive support, at some point there is a trade-off where a stay in a retirement home or nursing home may be cheaper.

Finland has an comprehensive action programme

Government has recently published an action programme called "Health Care into the 21st Century. Implementation of the Health Care Development Project". The programme contains measures aimed at containing costs and securing financial resources for health services, such as systems for comparing cost-effectiveness between providers of services, etc.

Korea believes in preventive (general) health policies

In Korea, the government enacted the National Health Promotion Law in January 1995 to increase preventive health policies. Based on this law, public measures against smoking and drinking, improved health education, nutrition and dental health care are being developed. A five-year Development Plan for Health and Medical Policies was developed in 1998. The plan emphasises the life-long preparation for healthy ageing.

Spain's Action Plan for the Elderly 2000-2005 will replace the Gerontology plan 1992, and will focus on harmonisation of policies for the elderly. A separate assistance plan will be created for the Alzheimer sufferers.

In Austria, quantitative measures are taken in order to meet future demand for health and long-term care

The Austrian hospital plan provides for an adjustment of hospital structures to the growing needs of a greater number of older people. Up until 2005 around 2 000 beds are to be made available for acute geriatric/remobilisation care at 57 places in Austria. The establishment of such wards is targeted at geriatric patients and their needs-compliant care in in-patient acute care wards. In addition to treating the acute disorders of patients, the objectives of acute geriatric/remobilisation care are to enable patients to return to and keep leading largely independent lives, prevent the loss of functions, increase their quality of life and reintegrate patients into their own environment.

Turkey has developed a framework dealing with increasing demand of health services

Turkey has a framework for ageing reform strategies. The Programme for Hypertension and Diabetes Mellitus among the chronic diseases has been implemented since 1994. Although these programmes are restrictedly implemented, they are intended to be implemented all over the country in the very near future. Other activities related to ageing have been planned for the future.

Health reforms in Greece include evaluation programmes

Greece is reforming its health sector. The third community Support Framework for 2000-2006 will devote substantial resources to the health sector, both in training and infrastructure, but also in implementing the Evaluation of Health Interventions programme.

Technological development will play an important role in future health and long-term care

For example ***Greece*** is now using Tele-medicine to reach isolated mountain and island communities with large concentration of older people.

Australian healthy ageing strategy co-ordinates activities of federal and state governments

In Australia, the Commonwealth, State and Territory Strategy on Healthy Ageing has been developed to co-ordinate government activities on a national basis, in recognition that healthy ageing is an issue that carries over all levels of government. The strategy demonstrates the strong partnership between levels of government and provides a vehicle to address healthy ageing issues through a strategic approach.

FINANCIAL MARKETS

Summary and main results

Maintaining Prosperity in an Ageing Society sets up principles for dealing with the financial market and pension fund implications of the growing role of advance-funded pensions (see Box 6.1). A critical policy issue is the establishment of a modern and effective regulatory framework.

Reform in this area is not an independent priority, but rather is closely linked to reforms that strengthened the private pillars of the retirement income system as described in Chapter 4. Reform activity is underway in most countries, with significant improvements in the operation of financial markets anticipated as a result of those reforms. These reforms, together with those reported in Chapters 3 and 4, are expected to considerably expand the role of private pension systems.

One set of reforms concerned the promotion of private pension schemes already raised in Chapter 4. Others included supporting an adequate financial market infrastructure, providing an adequate regulatory framework, including investment rules, and monitoring of financial market activity. Finally were a set of reforms related to the co-ordination of various policies.

By far the largest set of reforms related to the promotion of advance-funded pension pillars and most of the other reforms were in support of that – to provide an appropriate regulatory environment that would provide a balance between risk and return. Transparency and supervision, coupled with relaxed investment rules in some cases, were main themes. Relatively few responses to the questionnaire dealt with new financial market products, apart from supporting the basic structure of tax-assisted or mandatory private pensions.

The description of reforms and issues in this chapter is quite general. More disaggregated analysis is required. A process for carrying this out is described in the conclusion to this report.¹⁴

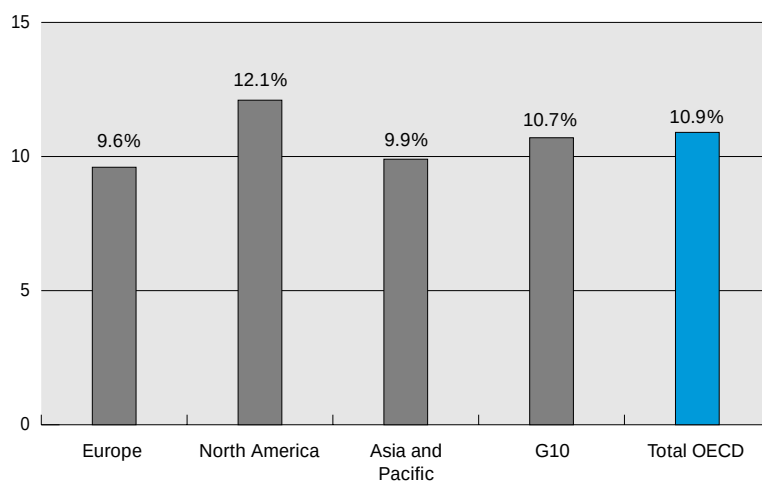
The present situation

Pension fund assets are already sizeable in some countries and set to grow fast. Pension funds are with the insurance companies (which are also significant players on private pensions markets) the most important

14. The findings of Chapter 4 (first section) indicate clearly that countries are engaged in a significant restructuring of the retirement income system, in particular towards the development of the private pension schemes. To be successful this development calls for appropriate financial markets and regulatory structures, ongoing monitoring and consistencies with other policies dealt with this Chapter 6. Major work has been developed by the OECD in this area. It includes statistical work conducted by the Working Party on Financial Statistics, work on financial issues by the Committee on Financial Markets and in particular the work conducted by the new Working Party on Private Pensions of the Insurance Committee on regulatory data collection (and related taxonomy), analysis and development of best practices related to the regulation and supervision of private pensions schemes for both Member and non-member countries (through the new OECD international forum on private pensions). The approach, which encourages multi-pillars complementary schemes, emphasises the need for further analysis of financial markets infrastructure and the regulatory framework. The current programme of work of the Working Party on private pensions focuses inter alia on issues related to financial security of pension funds, the adequacy of private pensions and related protection of the rights of beneficiaries, the analysis of private pensions schemes and systems (with a global world survey of existing schemes which will allow the development of a proper taxonomy indispensable for further policy considerations) and the promotion of appropriate competition and corporate governance mechanisms. A progress report will be available by early 2001.

institutional investors in the OECD area. The holdings of financial assets by pension funds have grown at a rate of 11 per cent over the last decade as a whole as shown in Figure 6.1. The low level of assets to GDP in some countries (see Table 6.1) is a good indication of the scope for further growth of pension fund assets in ageing countries with relatively underdeveloped pre-funded systems.

Figure 6.1. **Average annual growth rate of total asset holdings by pension funds, by region, 1990-96**



Source: OECD, 1998.

Table 6.1. **Financial assets of pension funds as a percentage of GDP¹**

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Australia	17.0	21.6	21.3	27.3	27.0	40.3	45.9	46.6	55.4
Austria ²	..	0.5	0.5	0.6	0.7	1.0	1.2	1.7	2.6
Belgium	2.0	2.8	2.5	2.9	2.9	3.7	4.1	4.8	..
Canada	28.8	30.7	31.3	34.0	35.9	38.6	40.7	43.3	47.7
Czech Republic	..	..	..	..	0.1	0.5	1.5	1.2	..
Denmark	14.6	15.5	14.4	16.8	17.2	16.8	16.9	17.9	21.5
Finland	..	..	..	..	..	..	..	..	..
France	..	..	..	..	..	..	..	..	..
Germany	3.1	3.3	2.9	2.5	2.7	2.7	2.8	2.9	3.3
Greece	6.5	7.1	6.9	8.0	10.2	10.8	11.9	..	..
Hungary	..	..	..	..	0.0	0.1	0.3	0.6	1.3
Iceland	37.1	42.0	40.8	46.8	55.0	57.6	62.6	66.5	71.6
Italy	3.5	4.3	3.1	3.4	3.5	3.6	3.2	3.0	3.2
Japan	..	..	..	..	..	..	..	14.6	18.9
Korea	3.1	2.9	3.2	3.4	3.3	3.1	2.8	1.8	4.0
Luxembourg	..	..	..	..	..	..	..	..	..
Mexico	..	..	..	..	..	..	..	0.2	1.4
Netherlands	81.0	83.6	76.0	83.1	87.0	88.4	93.4	101.2	85.6
Norway	4.4	4.9	4.5	5.5	6.4	6.2	6.5	6.6	7.2
Poland	..	..	..	..	..	..	..	..	..
Portugal	1.6	2.6	2.9	5.0	6.6	8.5	9.4	10.3	12.0
Spain ^{3,4}	2.9	3.2	2.5	2.6	2.3	2.1	2.0	1.9	2.1
Sweden	1.7	1.7	1.6	2.0	2.2	2.4	2.4	2.7	..
Switzerland	60.3	..	60.6	..	72.5	..	74.9	..	..
Turkey	..	..	..	..	..	..	..	..	..
United Kingdom	55.0	59.2	52.7	72.5	64.8	68.6	77.4	83.1	83.7
United States	44.9	48.9	50.0	52.9	52.6	60.0	66.9	76.9	86.4

1. Autonomous and non-autonomous pension funds.

2. Total assets for 1991 and 1992.

3. Including only non-autonomous pension funds.

4. Total assets.

Source: OECD/DAFFE.

Cross-country variation is sizeable with respect to the development of pension funds and other financial institutions contributing to the provision and management of retirement assets. Differences are noted, as well, with respect to the implementation of the framework needed to guide investing rules, to monitor financial market behaviour of pension funds, to ensure consistency of policies at national and international levels and to monitor the corporate governance role and governance capacity of pension funds.

Future demographic trends may weigh down rates of return on financial assets. As members of the baby boom generation start to move into retirement in the next decade, they will most likely be net sellers of some of the financial assets they have accumulated over their working lives. The possible future effects of ageing on financial rates of return have potentially important implications for the management of pension funds, and retirement savings in general. Changes in the regulatory environment could potentially raise the performance of pension funds. However, if regulations place disproportionate emphasis on reducing risks, this may be reflected in lower asset yields. On the other hand, savings by private individuals as provisions for old age should not be permitted to flow into excessively risky investments.

The scale of the policy challenge and of national responses

As shown in Annex 1, several countries indicated that reforms in this area were a major challenge¹⁵ to public policy – at least in terms of an ageing agenda. Most countries have already launched reform of their financial markets and regulations. Many countries did not treat reform here as an independent priority, but rather as part of the more general priority associated with strengthening private pensions, as described in Chapter 4. There was nevertheless much reform activity, both to strengthen the operation of financial markets and to promote private pension systems.

Reform trends

Promoting private pension schemes

This was by far the largest category of reform that was reported. The responses have already been summarised in Chapter 4.

Supporting adequate financial market infrastructure, including monitoring

Some countries reported that the basic framework was in place. Here, there is typically a focus on fostering greater competition in financial markets. The liberalisation of capital markets and the opening up of investment opportunities were common themes. More flexibility to invest pension fund assets globally was reported. A number of European countries made reference to the new financial landscape created by the introduction of the Euro, and the resulting cross-country investment opportunities. These opportunities are expected to further assist in meeting desired policy goals with respect to the increasing importance of the second and third pillars of retirement income packages.

Many reforms were reported. These were often tied quite closely with others whose main purpose was the regulation of pension funds. A few of the more general examples are found in Box 6.2.

Providing an adequate regulatory framework, including investment rules and monitoring

The first five bullets in Box 6.1 outline the specific topic areas on which *Maintaining Prosperity in an Ageing Society* recommended that policy in this area should focus. On balance, the responses did indicate at least

15. The benchmark was a process one. It involved the introduction of policy reforms such that an action plan would be created covering all or most of the following areas: a) promotion of private pension schemes, b) adequate financial market infrastructure, c) adequate regulatory framework including investment rules, d) better monitoring, and e) compatibility of various relevant policies. See Annex 1 for a general explanation of how major challenges and effects were identified.

an incremental shift in these directions. This includes reform of investment regulation with, for example, reforms that reduce specific limitations on assets, such as on investing in equities or in foreign holdings. Box 6.3 provides examples of reported reforms.

Regulatory principles of employer pension plans – work in progress

Maintaining Prosperity in an Ageing Society proposed a set of detailed principles that should be at the core of the regulatory framework for ensuring the financial security of private occupational schemes. These are set out in Table 6.2 and are the subject of a separate but closely related study¹⁶ of the OECD. Early results are encouraging, although an important principle that is yet to be implemented in some countries is the liberalisation of investment abroad.¹⁷ See Box 6.4 for some early results.

Table 6.2. **Regulatory principles of employer pension plans recommended by *Maintaining Prosperity in an Ageing Society***

Beneficiaries' rights	
1.	Non-discriminatory access to the schemes
2.	Protection of vested rights
3.	Implementation of appropriate regulation for transferability and early departure, and promotion of mobility
4.	Adequacy of benefits in relation to a minimum standard of living and/or comparable to that which was enjoyed prior to the retirement, to the balance between benefits and contributions, and to what was promised under the scheme
5.	Appropriate regulation of benefits modalities (annuity/capital) and of costs/charges
Financial security of schemes	
6.	Strict enforcement of an institutional and functional licensing system on the basis of adequate legal, accounting, technical, financial and managerial (competence and honourability) criteria
7.	Legal separation of the fund from its sponsor or, at least, requirement of appropriate guarantees (e.g. reinsurance or insolvency insurance)
8.	Prohibition of private unfunded pay-as-you-go schemes at company level
9.	Minimum requirement for equity capital or equivalent solvency rules
10.	Favourable tax treatment of over-funding/surplus
11.	Establishment of minimum funding rules
12.	Appropriate valuation and funding calculation methods, including actuarial techniques and amortisation rules
13.	Transparent accounting methods based on comparable standards
14.	Enhancement of ongoing supervision of the funds, including through the transmission of information to the authorities
15.	Strict limitations on self-investments, unless appropriate safeguards exist
16.	Liberalisation of investments abroad subject to prudent management objectives
17.	Adequate regulation of insurance coverage of the fund (through group insurance or reinsurance)
18.	Setting up standards for adequate information and disclosure to the beneficiaries
19.	Promotion of self-regulatory practices for fund managers
20.	Granting of priority rights to the fund in the event of employer's winding up
21.	Existence of an assessment of the role of insolvency insurance and other guarantee schemes
22.	Levelling of the playing field among operators

16. An additional questionnaire is being completed that will allow more detailed analysis. See also Footnote 14 for further details on OECD-related activities.

17. An agreement for further liberalisation of investment abroad by OECD insurance companies and pension funds should however shortly be submitted to the OECD Council. The OECD Insurance Committee also approved in December 1999 a set of principles for regulation of investment by insurance companies and pension funds.

Box 6.1. Financial markets – A policy principle of *Maintaining Prosperity in an Ageing Society*

Principle 6. *The development of advance-funded pension systems should go hand-in-hand with a strengthening of the financial market infrastructure, including the establishment of a modern and effective regulatory framework*

Maintaining Prosperity in an Ageing Society shows that a productive, safe investment of retirement savings requires well-functioning capital markets. The needed infrastructure to support this involves legislation and codes of conduct, internationally acceptable accounting standards and disclosure rules, proper pension asset investment rules and co-ordination among the different regulatory and supervisory agencies involved in the provision of retirement income. A competitive mutual funds and asset management industry is needed to minimise the costs of managing retirement assets. All of these need to reflect the challenges and opportunities of the new financial landscape. In particular, public policy attention should be focused on:

- developing effective regulatory and supervisory frameworks for pension schemes. This involves: upgrading of regulation (e.g. licensing, technical provisions, funding rules, valuation of assets and liabilities); more effective oversight of the financial situation of pension funds; and proper design of limited government guarantees (if any) and privately-run insurance insolvency schemes for pension systems;
 - designing adequate investment rules for pension funds. This involves agreement on proper and consistent investment regulations for pension funds and other institutions involved in the provision of retirement income products. In countries with a modern financial infrastructure, consideration should be given to the introduction of the prudent person principle and to the liberalisation or relaxation of investment restrictions (domestic and international). Since this involves an increased reliance on modern and effective risk management, industry-wide risk management standards for pension funds, and other institutions involved providing retirement income, need to be promoted. Supervisors involved in retirement income
- systems need to be encouraged to agree on modern risk management standards that reflect current challenges in financial markets;
 - supporting the development of new financial instruments and new markets such as index-linked markets and the improved functioning of retirement annuity markets;
 - better monitoring of the financial market behaviour of pension funds and other financial institutions involved in the provision and management of retirement assets. This involves: improved statistics on financial assets of pension funds and other institutions that are part of the retirement income system; better understanding of the investment and trading strategies of pension funds and other institutions and their impact on the functioning of financial markets; monitoring of the adequacy of regulatory and supervisory developments;
 - ensuring consistency of policies at national and international levels – including the consistency of tax and other regulatory regimes (e.g. the tax treatment of surpluses of defined-benefit plans), or agreeing to use internationally acceptable risk management standards (such as the “prudent person” principle) across various jurisdictions;
 - monitoring the corporate governance role and governance capacity of pension funds. This includes: the role of statutory or voluntary guidelines for governance activities; the impact of shareholder activism by pension funds on corporate behaviour; and the governance of pension funds themselves and the role of trustees;
 - emerging market economies should implement radical structural reforms – including financial market reforms – so as to make investing OECD retirement funds in non-OECD countries more attractive.

Box 6.2. Selected examples of reforms aimed at providing general support for an adequate financial market infrastructure

Sweden points out that national policies are not the only factor at play, and that radical policies may not work

A number of factors determine the development of financial markets as well as national policies – including market forces originating outside of the country. Consequently, an important lesson to be learned is that reforms should not be too radical. It is important that the institutions and consumers who are affected are given the chance to adjust to the new legislation without unnecessary disruption of their daily lives. This is important both from a microeconomic and macroeconomic point of view. From a microeconomic point of view, individual legal or natural persons may suffer serious inconvenience, for example, by being obliged to reinvest their portfolios. From the macroeconomic

point of view, rapid changes may cause serious disruption of the market.

One example of this is the adjustment of the investment rules for insurance companies that has taken place and is still in progress. Implementation of the EC Insurance Directive radically extended the investment prospects for Swedish insurance companies. However, the Swedish rules could be considered restrictive in relation to the possibilities opened up by the Directive. The insurance companies are major players in Sweden's financial markets. It is therefore appropriate to implement a step-by-step reform, both in order to give the companies time to build up their competencies and experiences of new instruments and to avoid wholesale reinvestment in the market.

Box 6.2. Selected examples of reforms aimed at providing general support for an adequate financial market infrastructure (cont.)***Unites States stresses importance of competition***

In the United States, there is no need for major reforms. What appears to have worked for the United States is to foster greater competition in financial markets. One key element has been steps that encourage U.S. residents to participate directly in financial markets. (A recent survey found a much higher percentage of residents in the United States own equities than in most other developed countries.)

Germany continues with financial market reforms

In 1998, Germany continued to reinforce its financial markets by means of various laws. The Third Financial Market Promotion Law, which consists of more than 100 separate measures, was an important step in further developing the infrastructure of financial markets in Germany. Among others, it includes measures to simplify stock market access for issuing companies, regulations on delisting and a number of deregulation measures. In the area of investment, new types of mutual funds were admitted (see Box 6.3.), and the operational scope for types of mutual funds already admitted was significantly extended. Investor protection and the integrity of the financial system were enhanced by improve-

ments in the supervision of securities trading. Additionally, the Securities Prospectus Act was improved. The principles of corporate governance were reinforced in 1998 by the Law on Control and Transparency in Business (KonTraG). Internationally recognised accounting standards were also accepted for group accounts of German companies (Law to Ease Capital Procurement). A law on take-overs and further measures to promote Germany's financial markets are under consideration.

Austria privatises and reforms the Vienna Stock Exchange

The reform of capital markets was initiated in 1998 with the privatisation of the Vienna Stock Exchange. This went hand in hand with the introduction of modern take-over regulations, the possibility for listed companies to buy back shares and the enlargement of the circle of stock exchange members. All this has made the Vienna Stock Exchange more attractive, while the creation of a modern securities supervision scheme has created the proper prudential framework.

And others linked to pension fund regulation

These are described in Box 6.4.

Box 6.3. Selected examples of reforms creating an adequate regulatory framework for pension funds, including investment rules and monitoring***The United Kingdom learns from early experience with unscrupulous firms***

The United Kingdom reports on early experience with the introduction of portable personal pension schemes. These were introduced after 1988 to supplement a large existing system of occupational pensions. Some unscrupulous firms took advantage of the new personal pension regime. Many people with access to an occupational plan, often with an employer's contribution, were persuaded to change to a personal pension. The firms benefited financially but consumers were often considerably worse off. The United Kingdom reports on the steps that were taken to remedy the situation at the time – and goes on to describe recent developments. These include new private pension arrangements that are portable, flexible and transparent.

Iceland strengthens its regulatory framework, including relaxing rules on foreign investments

Plans are being considered to relax some of the stringent rules restricting foreign investments of the funds and the ceilings on investments in shares. The Act on pension funds (1997) introduced some new elements and tightens others such as conditions for granting operation permits, revisions of funds, establishment of a separate auditing department, rules for publishing annual reports for funds, exposure in foreign currencies, etc.

Finland introduces a package of reforms...

In Finland, a reform package concerning pension funds was launched where private pension companies got better

possibilities to improve their investment activities. All employment pension companies must now be incorporated enterprises managed in co-operation with employers and employees. The profit is divided between the insured and employers as in the form of reduced contributions.

...as does Luxembourg

The main purpose of the Act on complementary pension schemes is to preserve and guarantee the rights of persons affiliated to a complementary pension scheme. To this end, the Act endeavours to fill in existing gaps and to transpose European Directives on the topic. The purpose of the Act on pension fund is to create an appropriate legal framework for pension funds, at both national and international levels. In endeavouring to promote the long-term development of a new niche for Luxembourg's financial centre, the Act pursues an economic and financial goal, while its provisions concerning complementary pension schemes are rather of a social nature.

Netherlands strengthens supervision

In the Netherlands, the supervisory role of the Insurance Chamber has been strengthened. Three different supervisors in the field of financial markets have established a Board of Financial Supervisors. Within this board, they will share responsibility for cross-sector issues in financial supervision.

Norway stresses the need for periodic review

Norway is in the process of updating its arrangements for occupational pensions. The financial regime has been

Box 6.3. Selected examples of reforms creating an adequate regulatory framework for pension funds, including investment rules and monitoring (cont.)

improved over the past ten years. They stress the importance of periodic review of the regulatory regime in order to catch up with the evolution of labour and financial markets.

Germany introduces special old age provision investment funds

By introducing old-age provision investment funds within the framework of the Third Financial Market Promotion Law, the German government has created an effective instrument to ensure that private pension provisions can play an important supplementary role. With effect from 1 April 1998, so-called "Altersvorsorge-Sondervermögen" may be set up in Germany to provide facilities for long-term personal provident saving. The framework for investments by the fund is geared towards long-term capital appreciation, e.g. at least 51 % of the assets of these funds must be invested in equity and real estate. For reasons of investor protection there is a limit of 75% for equity investments; derivative instruments may only be used for hedging purposes. The investment company is obliged to offer investors in those funds a savings plan and on request to convert the fund units without charge into other units (such as those of bond-based or money market funds) when three quarters of the term of the saving plan have elapsed. Concessionary taxation arrangements are not at present in place.

Spain regulates use of occupational funds

In its private complementary systems, Spain does not allow "pay-as-you-go" schemes. On the other hand, the possible recourse to "accounting or book reserves" – internal funds – is limited to credit entities, insurance companies and investment entities, all of which are supervised by a prudential controlling body, and with the provision that they observe the rules established in the legislation in order to avail themselves of that exceptional situation.

Denmark allows more investment in equities

In Denmark, rules have been modified to allow pension funds to increase their investments from 40 to 50 per cent in equities. Furthermore, liberalisation of capital markets is being promoted by allowing funds to invest in foreign stocks.

Switzerland strengthens controls

Occupational provision: (1) Regulations concerning the use of financial derivatives (1996): give information on reporting and accounting, and on how to calculate the commitments undertaken by the provident institution (pension fund) and whether the institution has the liquid assets required to meet its commitments. (2) New requirements as to preparing accounts and investment (1996): a requirement of greater transparency in the accounts of institutions and investment funds, for example by attaching an annex to annual accounts (presenting the actual financial situation of the provident institution). (3) Pension fund statistics 1996 "occupational provision in Switzerland": biennial questionnaire, corrected, completed and reorganised every four years (the content of each questionnaire must be identical for at least two consecutive editions).

Turkey is developing a regulatory and supervisory framework

This aims to protect beneficiary's rights and financial viability of pension funds by means of licensing, valuation investment rules, and risk management systems, developing effective monitoring through improved income tax structures and strict information disclosure rules.

Australia introduces an integrated approach to regulation

On 1 July 1998 the government also established the Australian Prudential Regulation Authority to regulate the financial sector from a prudential perspective. An early step was to create a more integrated organisational structure so that it could deal with the sector as a whole (see the Internet site). The agency adopts a supervisory style which is fundamentally concerned with the ability of superannuation trustees to identify, measure and appropriately manage risks that have the potential to lead to losses due to mismanagement or fraud.

Belgium implemented rules governing pension investments

These rules correspond to those governing insurance companies as mandated by the European Union. Further decrees are expected in the near future.

The Czech Republic increases transparency and supervision for occupational pensions

An amendment of the Act on the supplementary pension system with State subsidy was adopted in July 1999, to remedy certain shortcomings of the system: (1) rules for granting permits to run a supplementary pension scheme are now more stringent, (2) authority of the State supervisory system designed to monitor the functioning of pension funds and that of the Commission on securities was strengthened and (3) tighter investment and transparency rules which means that the State supervisory body is now in a better position to adopt the necessary measures.

In France, the regulatory framework has been substantially updated

The Act of 2 July 1998 enacting various economic and financial provisions has updated the definition of the public call for savings by emphasising the Commission des opérations boursières (COB)'s task of protecting savings. The concept of "qualified investor" has thus been introduced into French law. Furthermore, the functioning of the French bond market has been clarified and simplified. Since 1 January 1999, no distinction is made between the "domestic" section and the "Euro" section of the bond market. The rules are the same for all those issuing bonds and for all those investing in them. The only distinction made is that between issues giving rise to a public call for savings in France, on the one hand, which continue to be subject to the prior approval of the COB, and issues not offered to the public, on the other hand – for example those reserved for qualified investors, which do not need this prior approval. The rules are therefore identical whether or not the primary investment is domestic or international. Minimum maturity and management of the issue calendar have now been standardized. This harmonisation will be continued both as

Box 6.3. Selected examples of reforms creating an adequate regulatory framework for pension funds, including investment rules and monitoring (cont.)

regards minimum volume rules and the administrative procedures for the tax treatment of bonds. French issuers can thus more easily raise funds in France and throughout the Euro zone. The Act on savings and financial security of 25 June 1999 set up a single guarantee fund for depositors common to all credit institutions whatever their status, a single guarantee fund for investors, and a guarantee fund

for life assurance. Trust account management has been given new products. In the context of the diversification of public debt instruments, the Treasury has issued inflation-indexed bonds, the first in the Euro zone which provide investors with a new long-term investment instrument enabling the diversification of risk.

Box 6.4. Additional examples of reforms related to the regulation of private pensions (based on a supplementary private pension survey)

Hungary introduces new regulations for a second mandatory pillar in 1998

New laws for private pension funds in Hungary have been in place for several years. These cover all the regulatory policies mentioned in *Maintaining Prosperity in an Ageing Society*, except liberalisation of foreign investments, which is under active consideration.

Japan introduces important reforms on the technical requirements and investment regime of Employee Pension Funds

The Employee Pension Funds, the main vehicles for employer pension provision in Japan, have been the subject of some important reforms since 1997. At the end of 1997, for example, a new regulation was introduced requiring valuation on a market basis. Since 1997, pension funds have to conform also with two funding measures, one based on the on-going approach (projected benefit obligation), and the other based on the wind-up approach (accrued benefit obligation). Regulations which restricted investments significantly have also been eased over the past years.

Luxembourg introduces new regulations

New regulations covering nearly all the principles were introduced in Luxembourg after 1997.

Poland introduces new regulations for mandatory private pensions

The new pension system in Poland, established in 1997, has required the introduction of an entirely new legislative framework for regulating private pension schemes. All the principles were in general well reflected in existing regulations.

New regulations have been introduced in Italy over the past years

In Italy, the main regulatory principles have been implemented as a result of legislative reforms during the mid and late 90s. The latest set of reforms dates from 1999, when among other reforms, new disclosure and information transparency standards were introduced. Italy has also recently established a new independent supervisory body for pen-

sion funds. An important pending issue is competition between operators in the pension fund industry.

Mexico introduces legislative framework for new pension system

Like Hungary and Poland, Mexico has recently introduced a mandatory individual account private pension system. The new regulatory framework encompasses the main policies considered in *Maintaining Prosperity in an Ageing Society*, but some issues such as the liberalisation of foreign investment and risk management principles are still under active consideration.

Belgium introduces new governance standards for pension funds

Belgium announced last year reforms that should cover some remaining gaps in the regulatory framework, specifically in relation to the regulation of benefit modalities, competence and honourability criteria of pension fund managers, competition among operators, and further reduction of the limit on self-investment.

Switzerland is preparing new reforms related to the benefit stage and foreign investment

Proposed regulatory reforms encompass a wide-range of issues, including changes in benefit modalities and liberalisation of the investment regime. The latter would involve the permission to invest in foreign investment funds, rather than just in foreign exchanged traded securities, as is currently the case.

Korea upgrades the regulatory framework of insurance companies as a result of the introduction of new retirement instruments

A new form of individual pension provision, the so-called Employees Pension Insurance, began to be sold in 1999 by insurance companies. This has involved an upgrading of the existing regulatory framework to take into account the specifics of the new product. For example, on benefit modality there will be a choice between lump-sum payments and annuities.

STRATEGIC FRAMEWORKS – SOME PRACTICAL CONSIDERATIONS

Summary and main results

The final principle for reform in *Maintaining Prosperity in an Ageing Society* deals with strategies for co-ordinating and gaining support for age-related reforms. Unlike the other principles, it deals with questions of process (see Box 7.1).

The need to develop age-related strategies is widely felt. There has been much activity in this area. The resulting strategic frameworks vary widely in scope and structure. A main focus has been on building understanding and consensus around reform directions that may be unpopular – if taken in isolation or without knowledge of the alternatives to those reforms.

The main conclusion is that it may be more helpful to think in terms of various strategic processes, rather than of a comprehensive strategic framework. The process for developing policy options in relation to ageing issues may, for example, be quite different from that needed to build public understanding and support. As well, there appear to be gaps in many of the frameworks, especially in providing a systems-wide perspective on the data and applied research that is needed to support ongoing reform.

The scale of the challenge and of national responses

Reforms are invariably introduced through processes that involve some degree of consultation, consensus building and co-ordination. Annex 1 indicates that most countries have frameworks that provide coherence to these activities and, indeed, that they are identified as being important.¹⁸ However there were many differences in the scope and content of such frameworks.

Main themes

Maintaining Prosperity in an Ageing Society argued that strategic frameworks could help co-ordinate reforms in many areas, could help support sustained reform over a longer period than is typical in public policy, and could help build understanding and support for reform. All of these themes are reflected in the national initiatives, but the most important was building consensus, understanding and support. These include initiatives that involve social partners, non-governmental bodies, other levels of government and the general public. An example is the Toledo Pact in Spain. It involved agreement by the government, by the political parties and social agents on the long-term future of social security (see Box 7.2).

In some cases, the frameworks were based around particular large reform initiatives, often centring on pension reforms. In other cases, a formal planning or a strategic framework was developed that dealt with ageing issues more generally. These typically included the development of principles, goals and objectives for

18. In this case the arbitrary benchmark was a strategic framework such that, by 2010, there would be a mechanism in place for building support and co-ordinating a broad range of ageing reforms – including all the topics discussed in *Maintaining Prosperity in an Ageing Society*.

age-related policy development. A number of these high level frameworks covered a whole spectrum of ageing issues. Others focused on older workers, or health and ageing, and other sub-themes. It might be suspected that the large number of general frameworks was atypical, given that the survey year, 1999, was also the International Year of Older People. However, in reality, most initiatives had been launched well before then. Box 7.3 provides examples of different approaches.

More than one strategic approach often exists at the same time. For example, Canada uses a number of general frameworks (that develop broad principles or that co-ordinate age-related research); several more specific initiatives built around particular reforms; as well as co-ordination and consultation based on the normal processes of government.

It seems reasonable that different types of strategies or frameworks may work better in some circumstances than in others. For example, the life-course perspectives that are part of an active ageing framework appear to be well suited to exercises that involve the development of long-term policy directions. A focus on the needs of older people might, however, be more useful in exercises that involve choosing among particular policy options and building support for particular reforms. However, no clear trends have emerged on best approaches. In part, this may reflect the fact that strategies are greatly dependent on the circumstances in each country. They are ultimately supplementary mechanisms to the main consultative and policy processes of government. Canada and Sweden, among others, make this point (see Box 7.4).

Maintaining Prosperity in an Ageing Society suggests that a key dimension of ageing strategies is a mechanism that will promote the development of the data and applied research that is needed to sustain practical reform over the long-term. Indeed, the usefulness of strategic approaches may be greatly reduced in the absence of a good empirical understanding of the effects of ageing on the society and economy – and of the effects of policy interventions. Indeed, the development of better information appears to be a priority in some countries, especially in the health area. However, major action in building system-wide strategies appears to be underway in only a few countries such as the United States and Canada.

Better system-wide information would be central to measuring the effectiveness of policies. It provides a better understanding of, for example, the inter-relationships among health, income, work or savings at different stages of life and how policy interventions in one domain may affect other domains. The conclusion to this report explores the implications of this gap in knowledge for international monitoring and sharing of experiences.

Box 7.1. Strategic frameworks for reform – A policy principle of *Maintaining Prosperity in an Ageing Society*

Principle 7. *Strategic frameworks should be put in place at the national level now in order to harmonise these ageing reforms over time, and to ensure adequate attention to implementation and the build-up of public understanding and support*

Taken one at a time, the reform directions described before would be desirable quite apart from ageing considerations. By and large they are prudent policies that need to be pursued more forcefully and over a prolonged period. Taken collectively, however, they represent a considerable new challenge for government policy-making – a challenge that resides in the policy-making process as much as in the specific content of each reform.

Maintaining Prosperity in an Ageing Society explores a number of the dimensions of achieving practical reform given this complexity and inter-relatedness. Part of the challenge involves adopting and sustaining policy-making perspectives that are much longer-term than is customary. Common information gaps exist that should be filled on a co-

ordinated basis, particularly as they relate to active ageing perspectives. The long time-frames involved, and the complexity of the issues, also result in a challenge for building public understanding, engagement and viable political support. These considerations suggest:

- Developing national frameworks or reform strategies now that will provide co-ordination among the various separately-managed reforms and that will sustain them over time. The scope of these strategic frameworks should be broad – identifying priorities for action, roles and responsibilities.
- Using the development of the strategy to provide a means of building public understanding and support for reform directions. This includes using the strategy as a means of developing proposals for collecting and disseminating statistics and other information that is needed by reform process itself.

Box 7.2. Spain – The example of the Toledo Pact (*El Pacto de Toledo*)

There is no one particular institution in Spain that deals with all of the policies related to the ageing population. Most of the functions are allocated to various ministries, mainly the Ministry of Labour and Social Affairs (and particularly the General Secretary for Social Affairs) and the Ministry of Health and Consumption.

This does not mean that no co-ordination exists in the policies taken to maintain a thriving ageing population. In the first place, the final policy decision rests with the Council of Ministers. In the second place there is a Government's Delegated Commission for Economic Affairs which co-ordinates, debates and approves all the measures that have an economic interest. This commission discusses the proposals and measures affecting ageing, adopting the same strategy in trying to find a common ground.

In the specific area of the pension systems a new scheme was introduced to deal with an integral strategy of the problem of the ageing population phenomenon and its consequences on the income of retired people and the pensions system. The so-called Toledo Pact was agreed by representatives from the political parties and social agents. It debated and adopted measures to maintain the long-term financial

stability of the public pensions system, and recommended other measures for the other two pillars in which future income of the retired people will be based.

The first agreements were taken in 1995 and came into force in 1997. There will be a review in 2000. The Toledo Pact process, through its membership and its parliamentary framework, allows a consensus to be reached among political and social forces. This facilitates the solution of long-term problems without the political and economic partisan interest that would arise from a short term view of these issues.

The Toledo Pact, with its proposals, measures and other recommendations, helps to increase the perception of public opinion to the problems of the ageing population. That those measures and recommendations came from an organism that represents all political parties and social partners, permits that this increase in public's awareness does not cause social alarm.

The public's growing concern can be perceived in the significant changes in household savings during the periods in which debates of public pensions have been more intense.

Box 7.3. Selected examples of strategic frameworks***Japan has a comprehensive ageing framework***

In 1995, Japan enacted the "Basic Law on Measures for the Ageing Society" to facilitate the promotion of comprehensive measures for an ageing society. The law stipulates basic objectives, mandated an annual report on the National Diet and established the "Aged Society Policy Council" chaired by the Prime Minister. In the following year, a statement of general principles was issued under the Act. The Act includes such concepts as an emphasis on the independence, participation and choices of the elderly and systematic implementation of measures throughout people's lives. The scope is broad, covering work, health, learning, the living environment and the promotion of research.

The laws and principles provide a general framework that clarifies national basic principles and policies concerning measures for an ageing society. They are not directly related to each specific reform.

Finland has a comprehensive strategy for older workers

In Finland, the National Programme for Ageing Workers 1998-2002, "Experience – a National Treasury" seeks to initiate a change in attitude, which will help raise the position of ageing workers. The aim is to support ageing persons in their efforts to remain employed, seek jobs and become employed. The programme covers all members, sectors and organisations such as workers, employers, job market organisations, training and experimental projects and needs for updating legislation.

Australia develops national ageing strategy around independence and life-course perspectives

As with many other countries, Australia used the International Year of Older People as the opportunity to

launch new initiatives. They are taking a long-term approach to population ageing and developing a National Strategy for an Ageing Australia which considers the impacts of, and potential policy responses to, ageing under four major themes: independence and self provision; world class care; healthy ageing; and attitude, lifestyle and community support.

Korea formulates general principles for the medium and longer term

In Korea, a comprehensive ageing strategy was formulated in 1999 with five principles. *First*, policies for elderly health and welfare must be considered in universal welfare services (currently, services are focused only on the lower class elderly). *Second*, policies should improve the quality of services and the efficiency of social welfare administration systems. *Third*, the welfare system must harmonise market principles emphasising efficiency and self-reliance with non-market ideals stressing equality and community. *Fourth* is a balance between home care and institutional. *Finally*, the government and private sectors should share roles and co-operate with each other.

The difficulties of achieving consensus in the United States results in gradual reform strategies

The United States form of governance, with its division of powers between different branches of government, makes it difficult to achieve consensus around large reforms. Efforts require the co-operation of the President and both houses of Congress. As these have recently been in the hands of rival political parties, the process of reaching common agreement has been protracted and is likely to preclude major reforms in the near term. However, it can be noted that in many respects the pattern of proposed reforms is often similar.

Box 7.3. Selected examples of strategic frameworks (cont.)

A large number of proposals put forward by the different policy players include a greater role for individual accounts in some form (voluntary or mandatory) either as an addition to the existing PAYGO ["pay-as-you-go"] system or as a partial replacement. It should be noted that the "normal" retirement age at which full benefits are paid will rise to 66 during 2000-2005, and to 67 later. It has sometimes been suggested that this rise be accelerated, or (more typically) continued further, say to age 70. By comparison, reductions in benefits and increases in taxes have generally been excluded from active debate. The policy of gradualism has made it easier to gain public acceptance, but has also led to a slow movement in dealing with problems.

Belgian strategy linked to EMU participation

A coherent framework for reform was introduced in Belgium prior to 1997 to prepare for the problems linked to ageing. The frameworks address the issue of ageing and Belgium's participation in the EMU reinforced the policy voluntarism in this field. This has included several pacts, such as the Stability Programme 1999-2002 and the European stability and growth Pact. One of the main items of this framework is the modernisation of the social security system.

Turkish strategy encompasses five reform areas

The ageing population is not a big problem in Turkey. However, there are major problems in the social security and other systems. A national strategy was formed to handle five reforms: public pension reform, private pension schemes reforms, extended health coverage reform, administrative restructuring project, and social assistance and services reform. These reforms were grouped in two phases. The first one focused on the pension reform, and the second focused on the remaining reforms.

In France, the main issues for the future have been defined ...

... on basis of elements identified by the Commissaire au Plan, where discussions with the social partners have also been conducted. In this framework five main issues have been identified: improvements of the labour market situation, increase in the participation rates of the oldest workers, collaboration in the formulation and progressiveness of the implementation of measures, spread of the financing burden and improvement of the situation of retirees (income, health, recognition of social role).

Box 7.4. Examples of countries with experience in strategic approaches that warn of their limits

Sweden has various ageing strategies, but warns that the main strategic approaches must be part of the regular process of government

A National Action Plan has already proved its usefulness in providing a coherent framework for adjusting the Swedish society and the public care systems to the future age composition. The importance of a strategy lies in the fact that this transition process will take several decades at the same time as the real impact of the demographic developments is expected to happen 15-20 years from now. This implies that actions are needed now that will show their effects only after a long time. A prominent example of this is the very substantial increase in resources for elderly-related research that was part of the Action Plan.

There seems, however, to be a limit to the usefulness of establishing coherent policy frameworks for very large policy areas. One such limit is posed by the increasing probability that large policy areas will overlap leading to the creation of difficult prioritisation and boundary problems. Another limitation might be the long-term rigidity imposed by structuring a large part of the governmental work along pre-set lines. Many of the responses to ageing must be built into the regular machinery of government and not placed off into a separate strategy, if they are to be successful.

Canada too uses frameworks, but warns against over-reliance

Canada describes a range of frameworks or strategies for research, policy development and consultation. Some of these relate to specific reform initiatives, others such as *The National Framework on Ageing: a Policy Guide* relate to ageing as a whole and include a vision statement, principles and policy questions. Other general frameworks co-ordinate age-related research, including information sharing between policy and research centres. Research co-ordination is facilitated by the Policy Research Initiative, a secretariat attached to the Cabinet office, which has identified population ageing as a priority for work. Among other activities, the secretariat supports periodic meetings of senior researchers working on ageing from across the government.

Canada also notes that efforts at building a unique framework on ageing, while extensive enough to meet the guidelines set-out in *Maintaining Prosperity in an Ageing Society*, have been somewhat limited due to the strength of existing general frameworks employed to address major issues, including those related in whole or in part to population ageing. For example, the strength of existing frameworks was demonstrated in the successful co-ordination of policy, consultation, citizen-engagement and political processes during the 1997 reform of the Canada Pension Plan, and by the steady fiscal progress made in recent years that led to the elimination of the federal deficit.

Part II

TRANSITION TO RETIREMENT AND ACTIVE AGEING

Part II provides a context for some of the themes described in Part I, particularly data that relates to the central policy issue – the transition from work to retirement and the balance of life that is spent in paid work and retirement. It is based on some of initial findings of a comparative study of retirement income policies being carried out by the OECD. The study covers nine Member countries – Canada, Finland, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom and the United States.

THE TRANSITION TO RETIREMENT

Summary and main results

In most countries, the recent trend toward earlier retirement may have come to an end. However, there is little evidence of a shift to later retirement, except in countries with very tight labour markets. There is also little evidence that retirement has become more flexible. Some countries have operated partial pension systems, and in some, but not all of these countries a considerable number of people do move to part-time work. Also, there are few signs of people moving into self-employment at the end of their working lives.

Too often, policy does not recognise that retirement is a complex process. Several inter-related transitions are at play that have implications for policy-making. People shift from work to leisure. They shift from income based on earnings to income based on pensions. And in some cases, they shift households and living arrangements.

Ceasing to work is not synonymous with drawing a retirement pension, even an early pension. But equally, drawing a pension is not synonymous with ceasing to work. In some countries a considerable number of people are working and drawing a pension. This involves people in the years before normal retirement age and years after. How people who are not working but are below normal retirement age support themselves depends, in part, upon the construction of each country's social security system.

Household income is greatly shaped by the number of people in the household, including the number of earners. In most countries, the household structure of people passing through retirement follows a pattern where an older couple lives together – apart from other family members. However, the households of people around retirement age in Italy and Japan are more likely to contain adult children. In both countries this reflects a tendency for younger people to stay at home until marriage. In Japan, as some people cease working, they and their working children move back together. These transitions are critical to an understanding of the retirement income system.

Giving up work means that people have more free time. That additional free time can be used for passive pursuits (such as television watching) or active pursuits (such as sports, reading or carrying out unpaid work). It appears as if, in most countries, the majority of the additional time is devoted to the former rather than the latter. Retirement and “active ageing” are not, as yet, going hand in hand. Nor is there any shift to greater gender equality in most countries. Retiring men do not devote much of their additional free time to doing housework.

Note that much of the analysis of this chapter focuses on men. Standard data on the retirement patterns for women are misleading¹⁹ for some purposes. As will be illustrated later, for example, simple comparisons

19. The consequences of this can be understood as follows. First, because members of any one cohort of women are more likely to have been in employment than members of the preceding cohort, age-specific employment rates are likely to rise over time, counteracting the fall that a move to earlier retirement by itself would produce. Second, because many older women have been “homemakers” rather than “workers”, they do not “retire” and they do not, in their own right become “pensioners”. Third, because the importance and form of non-standard working differs between men and women, the importance of these in later life is more difficult to identify (Amongst adult men, part-time work is rare in most Member countries. It is of interest to see if there are any shifts into part-time work by older men, and so if there are indications that retirement is, or is becoming, gradual. Amongst older women, this is less easy to determine. In the past, many married women worked part-time if they worked at all, and part-time work amongst older women is to be expected. Equally, self-employment has been largely a male prerogative.)

show a growing labour market participation of older women, while the reality is that women retire at least as early as men. This chapter uses a number of devices to help overcome this weakness. However, the essential problem is the absence of good data that tracks the experiences of people, as they grow older.

When do people retire and how gradually?

The decline in employment rates for men may have ended

When *Maintaining Prosperity in an Ageing Society* was being prepared a few years ago, employment rates for older men were on a downward trend. However, the trend to ever earlier exit that was apparent in the 1970s and 1980s seems to have come to a halt with the recent economic upturn (see Table 8.1). Only in Italy has the employment rate of older men continued to decline. In two countries, the Netherlands and the United States, there has even been a slight upturn in the employment rate of older men in the most recent years. Both are countries in which high and sustained rates of growth have been recorded and unemployment has fallen to very low levels. In Germany, the data reported here suggest a stable situation. However, more sophisticated analysis in Germany points to increasing participation among cohorts of older men.

Employment rates of males aged 55-59 and 60-64 – 1993 onwards compared with 1983-92

Countries with recent increase	Countries with approximate stability	Countries with continued decline
↓	↓	↓
<i>Netherlands, United States</i>	<i>Germany, Canada, Finland, Japan, Sweden, United Kingdom</i>	<i>Italy</i>

But older women are still leaving work faster than older men

Although, as Table 8.2 shows, the employment rates of women are generally in an upward direction, older women have been exiting the labour market as fast, and indeed faster than men. If those in employment at a certain age are tracked over time, it can be seen that, in most cases, a higher share of women than men who were in work ceased working.²⁰ With the exception of Finland and the United States, “net withdrawal rates” for women are higher than for men in all of the countries in this study. This can be seen in Table 8.3.

Rate of exit from employment

Countries with a slower net withdrawal rate for women	Countries with the same net withdrawal rate	Countries with faster net withdrawal rate for women
↓	↓	↓
<i>Finland</i>	<i>United States</i>	<i>Canada, Germany, Italy, Japan, Netherlands, Sweden, United Kingdom</i>

20. “Quasi-cohort analysis” shows this by “ageing” five-year age groups over a five-year period and comparing the employment rate of the first group in the first period with that of the second group (five years older) in the second period (five years later).

Table 8.1. Employment/population ratio for older men in selected OECD countries 1983-1998

	Age	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Variation (in point of percentage) 1992/1983 1998/1993
Canada	55-59	75	75	75	73	74	74	74	72	70	68	66	66	66	67	67	66	-8
	60-64	56	55	52	53	49	50	49	49	44	44	43	43	41	41	43	42	-12
	65-69	21	20	19	18	19	18	17	18	17	17	15	17	16	17	17	18	-3
Germany	55-59	78	76	73	74	74	72	72	74	73	67	64	64	64	64	63	64	-10
	60-64	38	34	32	31	31	32	32	33	31	28	27	26	27	26	27	27	-10
	65-69	10	9	9	8	8	7	7	9	7	7	7	7	6	7	7	7	-3
Finland ¹	55-59	61	61	59	60	57	56	58	61	57	51	49	48	47	50	50	51	-10
	60-64	39	36	37	34	31	29	29	30	29	26	22	21	22	22	23	23	-13
	65-69	15	14	12	12	11	12	13	10	10	7	8	7	7	7	8	8	-8
Italy	55-59	71	69	68	67	68	66	64	66	66	61	62	59	55	55	52	51	-10
	60-64	36	37	37	37	36	36	34	34	36	31	31	30	29	28	30	30	-5
	65-69	15	15	15	16	15	14	13	13	13	11	11	11	10	10	10	9	-4
Japan	55-59	87	87	87	87	87	89	89	90	92	92	92	92	91	92	92	91	4
	60-64	70	69	67	67	66	66	67	69	71	71	71	70	69	68	68	67	1
Netherlands	55-59					62	63	64	64	61	61	60	59	58	59	62	65	-1
	60-64					27	25	22	23	22	22	21	21	20	20	21	24	-6
	65-69					8	10	11	10	9	11	10	10	9	10	9	10	3
Sweden ¹	55-59					84	84	86	86	84	82	78	76	76	77	76	78	-2
	60-64					63	63	62	62	63	58	53	51	51	53	50	50	-4
United Kingdom	55-59	76	74	75	73	71	73	73	75	74	69	66	67	66	68	69	69	-6
	60-64	53	51	50	49	49	49	50	49	49	47	45	45	45	45	48	46	-5
	65-69	13	13	13	12	12	11	13	13	14	14	12	13	15	13	13	15	1
United States	55-59	76	76	76	75	77	77	77	77	75	75	74	74	75	75	76	76	-1
	60-64	54	53	53	53	53	52	53	54	52	51	51	50	51	52	53	54	-2
	65-69	25	24	24	24	25	25	25	25	24	25	24	26	26	26	27	27	0

Note: **Early retirement trends appear to be leveling off.** The table shows trends in the employment/population ratio for men in three older age groups. Take the top line as an example. It shows that about 75% of Canadian men aged 55 to 59 were employed in 1983. By 1998 this had dropped to 66%. The final two columns indicate that in the five-year period from 1983 to 1992, the employment to population ratio dropped by 8 points, reflecting earlier retirement. However, in the most recent 5-year period for which data is available, 1993 to 1998, the ratio fell only by 1 point, a major leveling off.

1. The Swedish and Finnish averages are difficult to interpret because of high unemployment in the 1990s.

Source: Eurostat for European countries and National Labour Force Survey.

Table 8.2. **Employment/population ratio for older women in selected OECD countries**

	Age	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Variation (in point of percentage) 1992/1983 1998/1993
Canada	55-59	37	37	39	39	41	42	43	43	43	44	43	45	44	45	44	46	7
	60-64	24	24	23	23	24	24	22	24	22	22	23	23	22	22	22	23	-2
	65-69	7	8	8	7	7	7	7	7	6	7	7	7	7	7	7	7	0
Germany	55-59	38	37	35	36	36	36	35	39	38	36	36	38	40	42	43	43	-1
	60-64	12	11	11	10	10	10	10	12	10	9	9	8	10	10	11	10	-3
	65-69	5	4	3	4	3	3	3	4	3	3	3	3	3	3	3	3	-1
Finland ¹	55-59	57	56	55	52	52	52	56	58	57	54	52	50	51	50	49	51	-2
	60-64	30	30	29	25	23	22	23	21	20	19	16	14	16	17	17	17	-11
	65-69	7	6	8	6	5	6	5	5	5	3	3	3	2	2	2	2	-4
Italy	55-59	19	19	19	20	19	20	19	19	21	17	19	19	19	20	21	21	-2
	60-64	9	10	10	10	10	10	9	10	10	8	8	8	7	8	8	7	-1
	65-69	4	4	4	4	4	3	4	4	4	3	3	3	2	3	3	3	-1
Japan	55-59	50	50	50	49	50	50	51	53	55	55	56	55	56	57	57	57	5
	60-64	39	37	38	38	38	38	39	39	40	40	39	39	39	38	39	39	1
Netherlands	55-59					21	22	21	23	22	25	26	27	28	29	32	30	4
	60-64					8	7	8	8	7	6	8	7	8	9	7	9	-1
Sweden ¹	55-59					77	78	77	78	78	77	75	75	73	74	75	75	2
	60-64					48	49	49	52	53	50	47	43	45	46	44	43	3
United Kingdom	55-59	47	48	49	49	49	49	51	52	51	52	51	52	53	52	50	53	3
	60-64	20	20	18	18	18	19	22	22	23	23	24	25	25	25	26	23	1
	65-69	7	7	6	6	5	5	7	7	7	8	8	7	7	7	8	8	5
United States	55-59	46	48	48	49	50	52	53	54	54	54	55	57	57	58	59	60	3
	60-64	32	32	32	32	32	33	35	35	34	35	36	36	37	37	39	38	1
	65-69	14	14	13	14	14	15	16	16	16	16	16	17	17	16	17	17	0

Note: This table for women is the exact counterpart of that for men before. It shows that more older women are working. However, it is harder to interpret because the employment of older women reflects two trends. One is towards earlier retirement but the other is a reflection of the fact that more women are participating in the labour force over the course of their lives.

1. The Swedish and Finnish averages are difficult to interpret because of high unemployment in the 1990s.

Source: Eurostat for European countries and National Labour Force Survey.

Table 8.3. **Net withdrawal rate¹ for selected OECD countries**

		Age 50-54 to 55-59		Age 55-59 to 60-64	
		Women	Men	Women	Men
Canada	1983-88	24	11	36	34
	1988-93	32	25	47	42
	1993-98	25	17	46	36
Germany	1983-88	19	19	72	59
	1988-93	25	28	76	63
	1993-98	26	26	70	58
Finland ²	1983-88	30	31	53	61
	1988-93	39	34	61	69
	1993-98	29	34	53	67
Italy	1983-88	31	25	49	49
	1988-93	38	28	60	53
	1993-98	37	37	58	52
Japan	1983-88	16	6	25	24
	1988-93	10	2	21	20
	1993-98	13	5	30	26
Netherlands	1983-88	n.a.	n.a.	n.a.	n.a.
	1988-93	23	25	65	67
	1993-98	27	18	67	60
Sweden ²	1983-88	n.a.	n.a.	n.a.	n.a.
	1988-93	14	15	40	37
	1993-98	11	10	43	36
United Kingdom	1983-88	19	15	61	35
	1988-93	17	20	52	38
	1993-98	20	12	49	28
United States	1983-88	6	8	29	31
	1988-93	13	13	31	33
	1993-98	10	9	30	29

Note: In most countries, early retirement is even more common among women. This table allows one to separate out the retirement patterns of women from the fact that more women are now working over the course of their lives. The net withdrawal rates deal this problem by allowing an examination of trends for people of the same cohort. Take the example of Canada. The first two columns compare the employment rates of women and men who were aged 50-54 in 1983 with the employment rates of people aged 55-59 five years later, in 1988. It indicates that 24% of women who were in jobs at the age 55-59 had stopped working by the time they were five years older. The equivalent figure for men was only 11%.

n.a.: Not available.

1. Calculation of the NWR (net withdrawal rate): $NWR_t = [(EPR^{50-54}_t - EPR^{55-59}_{t+5})/EPR^{50-54}_t] * 100$.

2. Labour force survey.

Source: Eurostat for European countries and National Labour Force Survey.

Gradual retirement is not yet common

In a number of the countries in the study, a substantial proportion of older men who are still working have part-time jobs (see Table 8.4). Sweden and Finland, two countries with a partial pension system, stand out. So does Japan, where the “earnings rule” that governs pension entitlements between the age of 60 and 65 encourages part-time work. Some one in three of older men in work in the Netherlands works part-time, but the Netherlands is a country in which male part-time work at all ages is high. (On the other hand, in Finland and the Netherlands, the actual number of older part-time workers is small: in these countries, very few older men are working, even if many of those who are, are working part-time.)

Nevertheless, as Table 8.4 shows, in only three countries in the study – Sweden, Japan and the United Kingdom – is there a substantial increase in the share of the older male population working part-time. This means that there was a switch to part-time status for some. However, in recent years there has also been a dramatic decline in part-time work among older men in Sweden. This may reflect the restrictions introduced

Table 8.4. **Part-time work****A. Percentage of working men aged 60-64 who have part-time jobs**

	1993	1994	1995	1996	1997	1998	Variation 1998/1993 (in points of percentage)	Average 1993-1998
Canada	13.3	14.8	14.5	14.9	15.8	15.4	2.1	14.77
Finland	23.1	20.8	20.0	24.0	26.9	25.9	2.8	23.46
Germany	6.0	5.3	7.0	8.0	8.9	8.9	2.9	7.32
Italy	3.2	4.0	4.3	3.6	2.8	5.0	1.8	3.80
Japan	23.5	23.7	22.2	24.0	25.2	25.5	2.0	24.00
Netherlands	35.2	33.3	34.3	35.4	38.6	35.4	0.2	35.37
Sweden	43.3	44.9	40.2	34.2	28.7	24.4	-18.9	35.94
United Kingdom	14.3	14.0	15.6	17.8	18.6	18.5	4.1	16.46
United States	15.4	17.9	16.6	16.1	16.1	16.1	0.8	16.35

Note: This table examines trends in part-time work for men aged 60 to 64. To take Finland as an example, in 1993 23.1% of Finnish workers worked part-time. Five years later the proportion had reached 25.9%, a gain of 2.8 points.

Source: Eurostat and National Labour Force Survey.

B. Net change in part-time work, men aged 55-59 in 1993 and 60-64 in 1998

	% change in number of part-timers ¹	Percentage point change in share of population ²
Canada	47	2
Finland	25	1
Germany	95	2
Italy	-8	0
Japan	54	4
Netherlands	-19	-2
Sweden	91	6
United Kingdom	89	4
United States	64	3

Note: The table shifts the focus from workers to the whole population in an older age group. It looks at part-time work in the cohort of men who were aged 55 to 59 in 1993. In the Finnish example, there was a 25% increase in the number of men working part-time when aged 60-64 compared with the number who had been working part-time when the same cohort was aged 55-59. On the other hand, the share of the cohort as a whole that worked part-time increased by only 1 percentage point – reflecting the fact that relatively few older men were working at all.

1. Adjusted for mortality of sex-specific age group.

2. Share of population 60-64 working part-time in 1998 minus share of population 55-59 working part-time in 1993.

Source: Eurostat and national labour force surveys.

into the benefits available under the partial pension system – a cut in the compensation rate and in the number of non-worked hours eligible for compensation after 1994. Sweden has decided to abolish the partial pension and no new entrant will be allowed after year 2000.

Part-time work (male)

Countries with high level of
part-time work among
older workers (share of
60-64 year old workers
who are part-time is
greater than 20%)



*Netherlands, Finland, Japan,
Sweden (but falling)*

Countries with medium level of
part-time among older
workers (share of
60-64 year old workers
who are part-time is
between 15% and 20%)



*United Kingdom, United States,
Canada*

Countries with low level of
part-time among older
workers (share of
60-64 year old workers
who are part-time is
less than 15%)



Italy, Germany

Part-time work (male) (cont.)

Countries with switches to part-time between age 55-59 and 60-64 (growth in share of the population working part-time is equal to, or greater than, 4 percentage points)



Sweden, Japan, United Kingdom

Countries with little or no change in share working part-time



Canada, Finland, Germany, United States

Countries where share of part-time workers in the population falls



Italy, Netherlands

And nor is there a move to more self-employment in later life

Older workers are disproportionately self-employed in all of the countries. However, with the exception of Japan, there was no indication of people moving into self-employment toward the end of their working lives. Indeed the share of the population that is self-employed falls with age, which implies a net outflow from self-

Table 8.5. **Self-employment****A. Percentage of working men aged 60-64 who are self-employed**

	1993	1994	1995	1996	1997	1998	Variation 1998/1993 (in points of percentage)	Average 1993-1998
Canada	37.1	35.6	36.8	35.3	37.6	37.8	0.1	36.70
Finland	53.8	58.3	52.0	48.0	48.1	44.4	-9.4	50.80
Germany	29.8	28.3	28.3	29.0	27.7	27.7	-2.1	28.47
Italy	59.2	57.3	57.3	56.4	57.2	57.1	-2.1	57.42
Japan	31.2	31.4	31.5	29.6	29.9	30.3	-0.9	30.64
Netherlands	50.7	50.7	53.7	58.5	52.9	42.7	-8.0	51.53
Sweden	24.2	25.7	24.2	24.0	25.9	25.9	1.7	25.00
United Kingdom	25.9	26.1	26.4	27.5	28.1	26.0	0.1	26.67
United States	20.2	19.2	18.5	17.0	18.2	17.7	-2.4	18.50

Note: Take Germany as an example. 29.8% of German workers aged 60 to 64 were self-employed in 1993. The proportion fell to 27.7% in 1998, a drop of 2.1 percentage points.

Source: Eurostat and national labour force surveys.

B. Net change in self-employment, men aged 55-59 in 1993 and 60-64 in 1998

	% change in number of self-employed ¹	Percentage point change in share of population ²
Canada	-19	-4
Finland	-33	-5
Germany	-28	-3
Italy	-27	-7
Japan	6	1
Netherlands	-17	-2
Sweden	-4	-5
United Kingdom	-14	-2
United States	-21	-3

Note: In the case of Germany, there was a 28% decrease in the number of men who were working on a self-employed basis when aged 60-64 when compared with the number who had been working on a self-employed basis when aged 55-59. And the proportion of the cohort working on a self-employed basis fell by 3 percentage points.

1. Adjusted for mortality of sex-specific age group.

2. Share of population 60-64 self-employed in 1998 minus share of population 55-59 self-employed in 1993.

Source: Eurostat and national labour force surveys.

employment. The special case of Japan can be seen in Table 8.5, which shows the small net increase in self-employment in that country as men pass from their late fifties into their early 60s and move from “career” to “bridge” jobs. Remarkably, the United States has the lowest level of self-employment amongst older men of all the countries studied and shows a fall over time in the importance of self-employment for this group. Discussion of the importance of “bridge” would have suggested a different outcome.

Self-employment (male)		
Countries with high level of self-employment among older workers (share of 60-64 year old workers who are self-employed is greater than 50%)	Countries with medium level of self-employment among older workers (share of 60-64 year old workers who are self-employed is between 25% and 50%)	Countries with low level of self-employment among older workers (share of 60-64 year old workers who are self-employed is less than 25%)
↓	↓	↓
<i>Finland, Italy, Netherlands</i>	<i>Canada, Germany, Japan, Sweden, United Kingdom</i>	<i>United States</i>
Countries with switches to self-employment between age 55-59 and 60-64 (growth is positive)	Countries with small shift out of self-employment (share of self-employed workers in the population falls by less than 5%)	Countries with large shift out of self-employment (share of self-employed workers in the population falls by 5% or more)
↓	↓	↓
<i>Japan</i>	<i>Canada, Germany, Netherlands, United States, United Kingdom</i>	<i>Finland, Italy, Sweden</i>

Retirement consists of a number of transitions – which are becoming critical for policy

Becoming a pensioner versus becoming a retiree

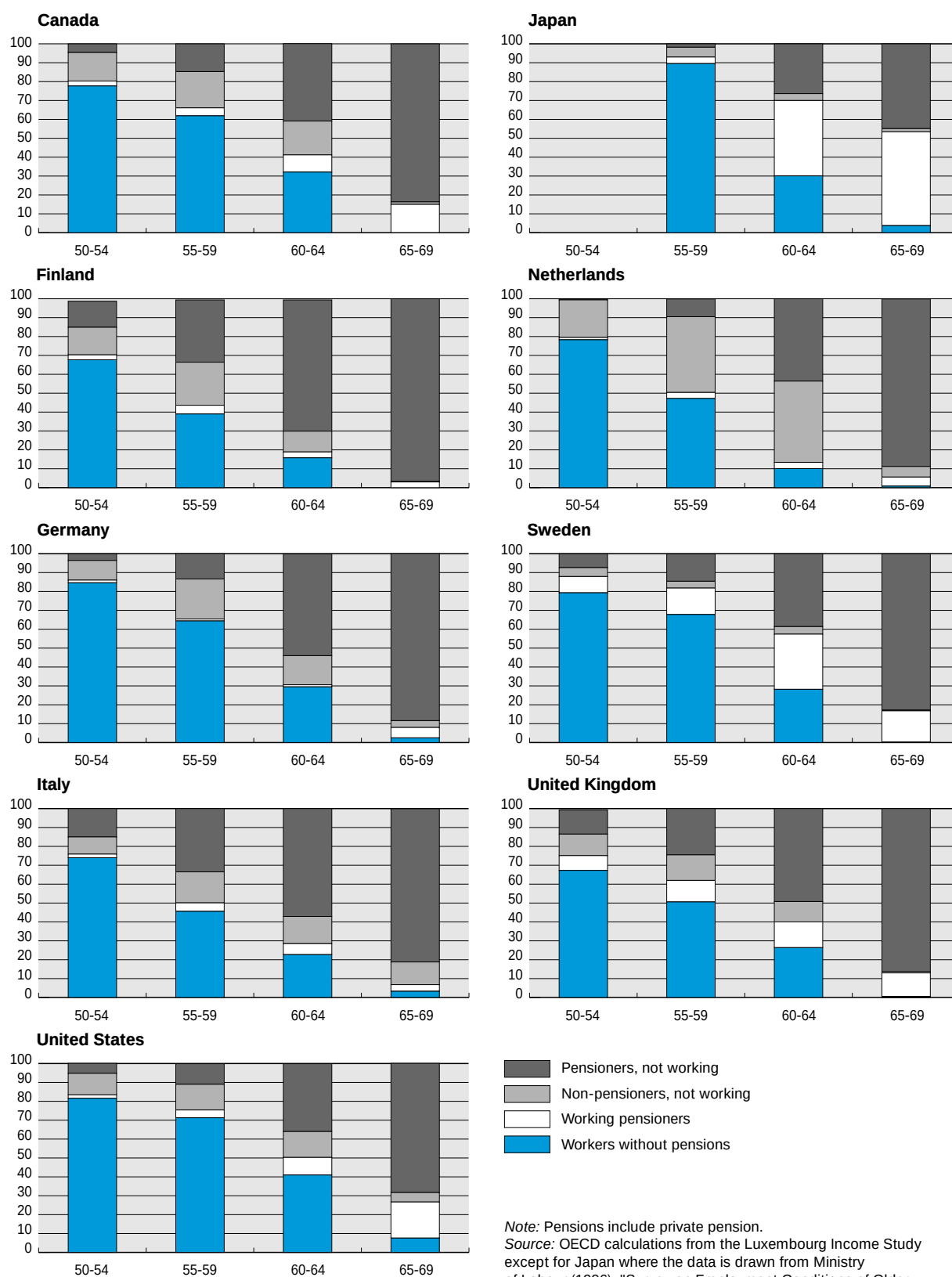
For most people, retirement consists of, at least, two over-lapping transitions. One relates to the transition from work to leisure in retirement. The other relates to sources of income. People shift from income based on earnings to income based on pensions. As the policy focus shifts to gradual, flexible retirement practices, this distinction will become increasingly important.

That is, “retirement” is sometimes defined in terms of labour market status and sometimes in terms of benefit status. Data from income surveys can help sort this out as they contain both people’s benefit status and their labour market status.

In these data, a person who is “retired” according to benefit status is in receipt of a retirement pension, whether public or private. Where the pension is from a public source, it can take the form of an age pension or a pension on the basis of incapacity to work. Where it is from a private source, it can take the form of a pension paid by a former employer or a pension generated by an individual savings plan. Note that some people without work may, in similar circumstances, be in receipt of unemployment benefits in one country, but in receipt of disability benefits in another, and hence be treated as pensioners.

Using these two definitions of retirement, Figure 8.1 takes a “snapshot” of people at successive ages in the middle of the 1990s. These older people can be categorised as:

Figure 8.1. Retirement patterns of older men by employment and pension status, mid-1990s



- Retired on both counts – not working and drawing a pension.
- Not retired on either count – working and not drawing a pension.
- Working but drawing a pension. This category includes people who have retired, perhaps early, from a “career job” to which a pension (public or private) was attached and who are continuing to work, full or part-time in a “bridge job”. It also includes people who are taking advantage of partial pension programmes.
- Not working and also not drawing a pension. This includes unemployed older people, including those who are drawing extended, and perhaps enhanced, unemployment benefits granted to older people by some social security systems.

In line with the findings of the analysis of labour force survey data, Figure 8.1 shows that in Sweden and Japan a considerable number of men coming up to retirement age are working pensioners. Sweden and Japan are the two countries where the public pension scheme explicitly or implicitly facilitated the combination of (part-time) employment and receipt of age pension benefits. In the United States and the United Kingdom, where there is also evidence amongst people under 65 of work combined with pension receipt, the pension that is combined with work is more likely to be an occupational or private pension.

Non-working non-pensioners are of particular importance among the pre-retirement age male population of the Netherlands. There, unemployment benefits can be drawn by people dismissed above age 57½ until they reach pension age at 65. Finland provides a special unemployment benefit for people in their late 50s that is, in effect, an early pension. Equally, the relatively high share of non-working non-pensioner in their late fifties and early 60s in Germany reflects the importance of extended unemployment benefit as a bridge to an early old age pension.

The proportion of people working immediately beyond the normal retirement age is very low in all of the European countries with the exception of Sweden. In the Anglo-Saxon countries, and particularly the United States, post-retirement age work is somewhat more common. Only in Japan do more than half of 65-69 year-olds work. In all countries, nearly all of those who are working beyond retirement age are also drawing a pension.

Combining work and pensions (males)

Countries where working
with a pension is important



*Japan, Sweden, United Kingdom,
United States*

Countries where unemployment
benefits serve as an early pension



Finland, Germany, Netherlands

Countries with post-retirement
age working



*Japan, Sweden, United Kingdom,
United States*

A change in living arrangement can constitute a third transition – one that can make a big difference to income in retirement

Income is typically shared among people who live in the same household, at least to a certain extent. The income of older people is therefore strongly related to the number of earners in the household in which they live. Of particular importance, for example, is the recent trend towards two-earner families; both spouses will increasingly be entering retirement with a pension. Also important is another set of transitions that occur in older years – a change in living arrangements.

By the time most people reach retirement age, their children will already be adults and in many cases are likely to have left the parental home. Accordingly, it might be expected that people of around retirement age

are living either as couples – the majority – or as single people. Once beyond, but usually well beyond, the years of transition, the death of a spouse/partner increases the importance of single households and also leads, in some cases to families “re-merging” as elderly, often single, parents live together with their adult children.

If people around retirement age, say in the age range 60-64, are considered, it can be seen from Figure 8.2 that, in the majority of the countries, most of them – around three quarters – are to be found in one or two person households.²¹ However, as Figure 8.2 shows, two countries stand out. In Japan and in Italy, the share in one or two person households is little more than 40 per cent. People around retirement age in both these countries frequently have adult children living with them. Thus, some two thirds of people in the second half of their twenties are recorded as children of the heads of household in Italy and only a slightly smaller share of the same age group in Japan. Elsewhere, the proportion rarely exceeds 10 per cent (see Figure 8.3).

Families appear to “de-merge” later in Italy and Japan than elsewhere. This might reflect a tendency to remain at home until marriage. In the case of Italy, it is also argued that the relative absence of social security benefits other than pensions means that young people who are unsuccessful in entering the labour market rely on intra-familial transfers and benefit from the parents’ earnings and, later, pensions.

Over the transition years as a whole, in Italy as in the other countries, the “de-merger” process continues. Between their mid fifties and late sixties, the share people in one and two person households increases and the share in each category of larger household decreases. In Japan, however, this does not happen. Beyond the age of 60 there is, in fact, an increase in the proportion of households made up of five or more persons. Indeed, over a quarter of people in their late sixties are living in five or more person households, compared to only one seventh of those in their late fifties.

This, it would appear, is a consequence of family “re-merging” – the process that occurs first at a much later age, and to a much lesser extent, in other countries. This might reflect the adequacy of pension income in Japan and, if so, the need to rely upon income from working children to maintain an acceptable standard of living. It might also reflect a more complex inter-generational support system in a country where house prices are high and affordable accommodation is often small and/or distant from the place of work. By moving into a parental home and offering monetary and in-kind assistance, children can enjoy better accommodation and ensure a right to inherit a sought after resource.

Living arrangements at retirement

Countries where many people coming up
to retirement still have adult children at home



Italy, Japan

Countries where it is common for new retirees
to move together with their children



Japan

21. Although not intended in the first instance as a survey of household composition, income and expenditure surveys do provide information about this. This follows from the fact that they collected much of their data for the household as a whole rather than for an individual within it, and that there is need to take account of differences in household size and make-up to compare one household with another. However, not all surveys use the same definition of a household unit and some are more encompassing than others. Accordingly results presented have to be interpreted with care. In particular, the Swedish income and expenditure survey uses “tax” units as its basis. This is narrower than a family, which may contain more than one tax unit. Also, some surveys refer to a wider entity than the family, and include non-family members resident in the same dwelling. Such households are comparatively rare and thus less distorting of the picture to be presented here.

Figure 8.2. Size of households containing people aged 55 to 69

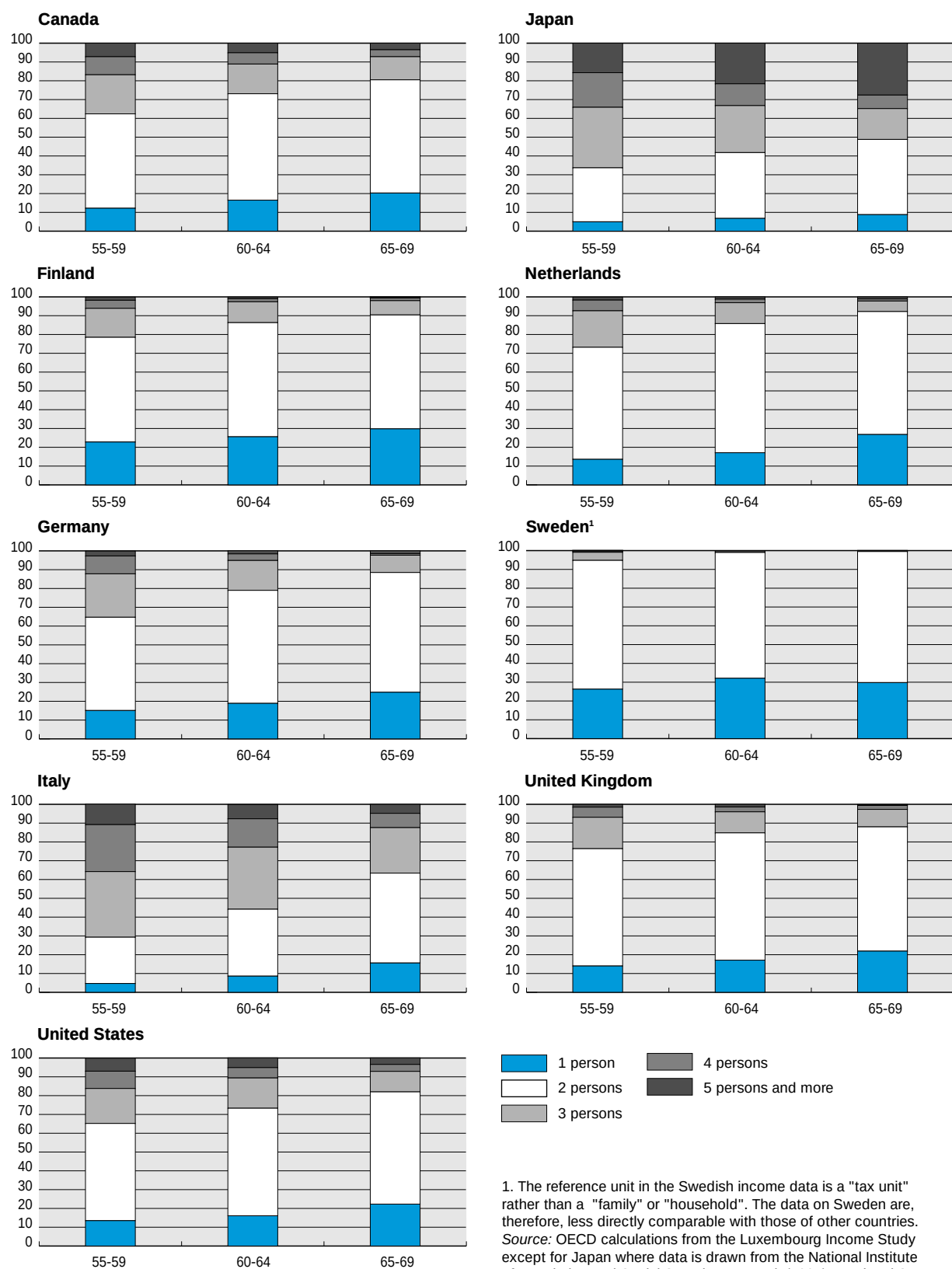
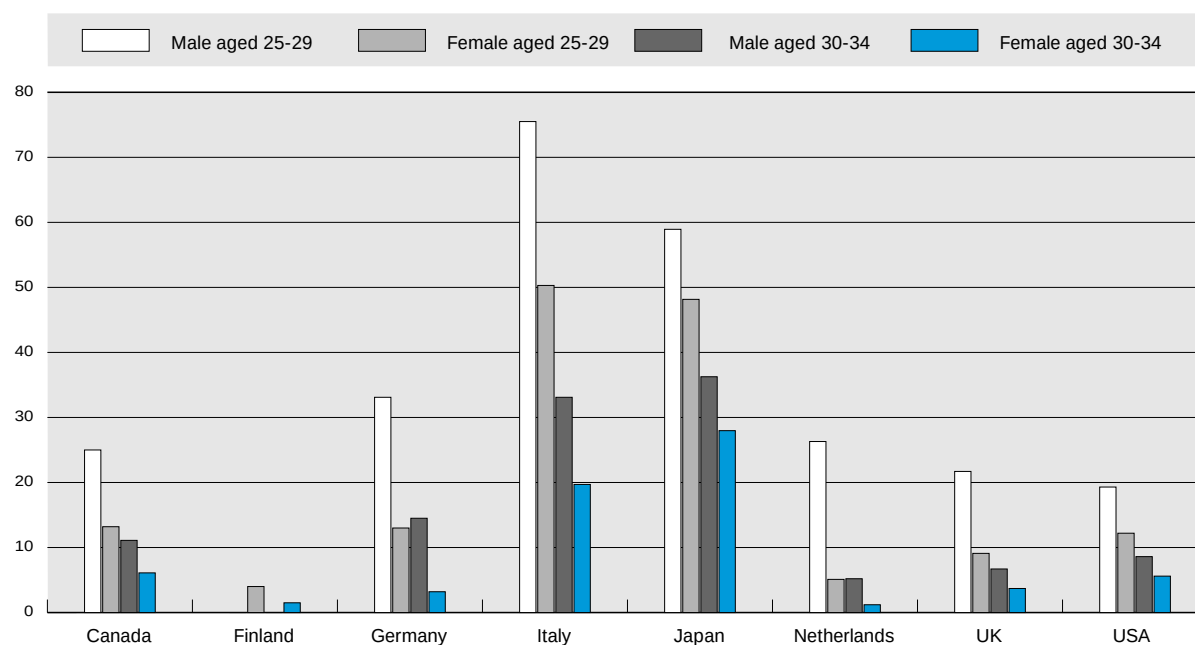


Figure 8.3. Proportion of young adults living with parent(s)



Source: OECD calculations based on data from Luxembourg Income Study and the National Census 1995 (Japan, Management and Coordination Agency).

Additional free time is not used “actively”

If policy is intended to promote active ageing, then it is important to understand what happens to the time that is freed up when people retire. This section looks at the reallocation of time during the work retirement period, defined here as between the ages of 50 and 69.

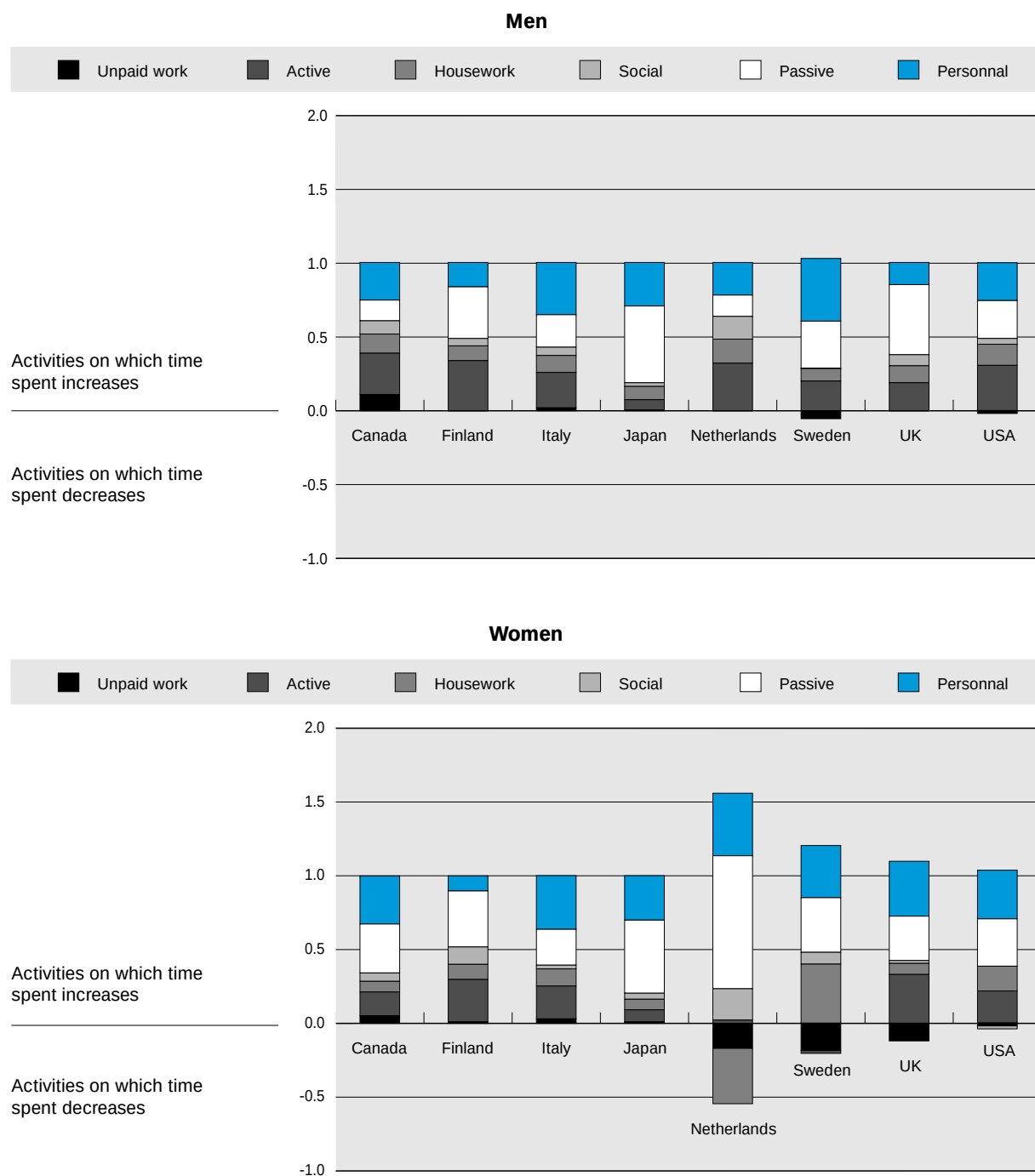
Time spent on paid employment stops or declines for most people during this period of life. The extent and speed of the decline – and differences between countries – that are observed for men reflects the rate and speed of the decline in employment rates described by analysis of labour force survey data. With respect to women, the fact that a smaller proportion work at all and that they work, on average, shorter hours means that changes with ageing are less pronounced. What happens to the time that is freed up?

Figure 8.4 shows that men use much of their additional free time primarily in two ways. They increase the share of time spent in passive leisure activities and in personal activities. Except in Canada and the Netherlands, more than half the additional time men gain as they pass from work to retirement is spent in this way and in some countries – Japan and Sweden – more than two thirds is.

In general, only a small amount of men’s additional time – approximately 10 per cent – is spent assisting in housework. Active leisure activities and unpaid work, the most identifiable components of an “active” retirement, account for approximately one third of the additional time gained by men in Canada, Finland, the Netherlands and the United States, but less than a tenth of the time gained by men in Japan.

Women show a much less consistent pattern of behaviour than do men. In general, passivity dominate the additional spare time. In some countries they appear to take on more housework and in others less.

Figure 8.4. Reallocation of activities following reduction in time spent at work



Note: Between the ages of 50 to 69 most people cease paid work. These charts examine what people do with that working time that was freed up. In order to simplify comparisons, in all cases the additional time was expressed as a ratio of the time that was freed up by doing less paid work. Therefore, each column adds up to 1.0, which represents the total amount of time gained by working less. Activities above the zero line are activities to which more time is devoted; activities below the line are those to which less time is devoted (the charts in Chapter 9 give a picture of the actual amount of time involved). The chart for women is complicated by the fact women in some countries gave up other activities besides work – freeing up even more time to be reallocated.

Source: OECD calculations from results provided by Anne H. Gauthier and Timothy Smeeding from data from the Multinational Time Use Study, University of Essex.

It is not necessarily where men take on more housework that women take on less. Engagement on active leisure activities and unpaid work increases for women in some countries but declines in others.

Chapter 9 returns to these time use data to explore other issues that go beyond the work-retirement transition. It also explains what is meant by “passive” and other activities. It should be noted that this data has many limitations and should be used with care. Along with much other social information, it comes from household surveys that ask questions about individuals at a single point in time. Data for two age groups are then compared. If one is interested in changing patterns over the course of life, it would be far better to obtain information by asking time use questions of the same individual at different points in time, such as before and after they retire. Unfortunately such data does not exist. As noted in Part I, the absence of good quality longitudinal data is a major problem for policies that attempt to make a difference in people’s behaviour over the course of their lives.

Use of additional free time by men leaving work

Countries where passive activities account for less than half of hours gained by men



Canada, Netherlands

Countries where active leisure and unpaid work account for more than one third of hours gained by men



Canada, Finland, Netherlands

Countries where passive activities account for between half and two thirds of hours gained by men



Finland, Italy, United Kingdom, United States

Countries where active leisure and unpaid work account for between a fifth and a third of hours gained by men



Italy, United States

Countries where passive activities account for more than two thirds of hours gained by men



Sweden, Japan

Countries where active leisure and unpaid work account for less than one fifth of hours gained by men



Japan, Sweden, United Kingdom

HOW PEOPLE SPEND TIME IN THEIR WORKING AND RETIREMENT YEARS

Summary and main results

Many of the policies described in Part I are intended to promote an active life of older people not only in the labour market, but also in the broader community. What people do in their older years appears to be, however, largely set by what they did in their working years.²² It is essential, therefore, to examine patterns of work and leisure over the course of life, not only in older years. This chapter confirms that older years are associated with greater passivity, including in the early years of retirement where health problems are not a major factor.

Two possible implications for policy are discussed. First, initiatives that are intended to promote a more active life for older people are likely to be most successful if they influence the behaviour of people well before they become retired. Second is a more fundamental question about the long-term role of public policy in providing retirement income. It would clearly be important to examine the priority of any policy that had the effect of encouraging ever-growing periods of passivity in the last third of life. The state of time use data also provides a practical illustration of points that were raised in Part I about the importance of filling key information gaps.

Time use patterns vary greatly by country, gender and age

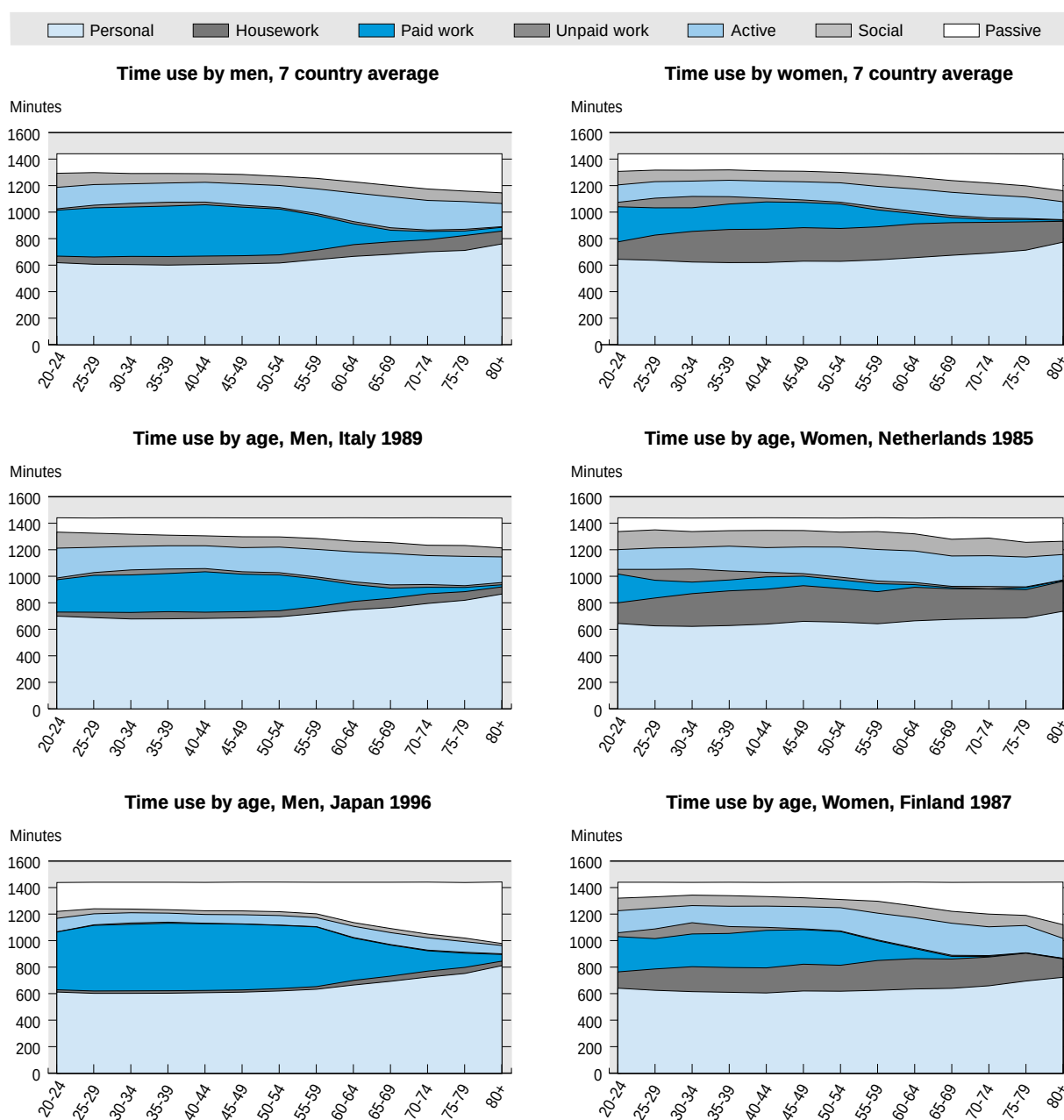
Chapter 8 ended with a question about what happened with the time freed up by retirement. This chapter takes a broader look at the use of time across the course of life. Figure 9.1 shows how people of different ages spent their time in an “average²³” OECD country in about the year 1990. There are, not unexpectedly, large differences in how men and women of different ages spend their time. There is also much variation among countries. To illustrate this, the figure also shows time use patterns for:

- Japanese men, who undertake more paid work than their counterparts in other countries, and work longer in life.
- Italian men, who work less.
- Finnish women who work more than their counterparts in other countries.
- Dutch women who work less.

22. This hypothesis about the continuity of life is supported by these data sources, which as noted in the text have weaknesses but are nevertheless available. Policy would be better served if time use data could be collected consistently and regularly, and on a longitudinal basis. A richer, and possibly quite different, picture could emerge from data that tracked changes over the course of individual lives.

23. This is an unweighted average of data from Canada, Finland, Italy, Japan, the Netherlands, the United Kingdom and the United States.

Figure 9.1. Time use by sex and age group, 7 country average and selected country comparisons



Source: OECD calculations from results provided by Anne H. Gauthier and Timothy Smeeding from data from the Multinational Time Use Study, University of Essex. The Japanese results come from published data, not from a re-analysis of the micro-data.

The figures are based on surveys that ask people to use a diary to keep track of the time they spent on various activities during the course of a day. The data are adjusted to take account of weekend and weekday activities, and different patterns in the use of time over the course of a year. They have also been adjusted to ensure that coding of activities is comparable across countries. Comparable data for other countries can be found at the end of the chapter in Figure 9.3.

The figure shows how an average individual uses the 1 440 minutes that are available on a typical day:

- The light-blue shaded area at the bottom of Figure 9.1 represents the 10 or so hours a day (600 minutes) that is spent on personal activities, especially sleep. Time spent in personal activities remains reasonably stable across age groups until it begins to grow in older years.
- Above that is time spent in housework. This remains reasonably stable across age groups, but is a larger activity for women.
- The dark-blue bar in the middle of the graph is time spent in paid work. For purposes of this figure, this includes commuting time and time spent in education. Paid work falls off with age, but not, as noted earlier, because of any gradual shift to part-time work by older people. Rather, retirement transitions in most countries are quite abrupt. The graph mainly reflects the fact that, each year, there are fewer full-time workers after about the age of 55.
- The grey bar above that is time spent in unpaid work, defined here to be child care, including care of one's own children and voluntary activities.
- The bars at the top of the figure show leisure activities that are active (*e.g.*, sports, walks, gardening, reading), social (*e.g.*, visiting, entertaining, religious activities) and passive (*e.g.*, watching television, listening to music on the radio, etc.).

A question about the collective support for ever longer periods of retirement

These figures raise some interesting questions. One centres on the very purpose of public support for retirement. Individuals should be free to choose how they allocate their time to work, unpaid work, and active and passive leisure activities. However, longer-term policy questions must arise if the consequence of public policy is to encourage ever-longer periods of passivity, in the last third of life. Should such arrangements continue to have a high priority on the public policy agenda?

The figures do show a clear pattern towards more time in later years being spent in personal activities (mainly sleep) and in passive uses of leisure. The areas at the very bottom and the very top of the figures are growing relative to the area in the middle.

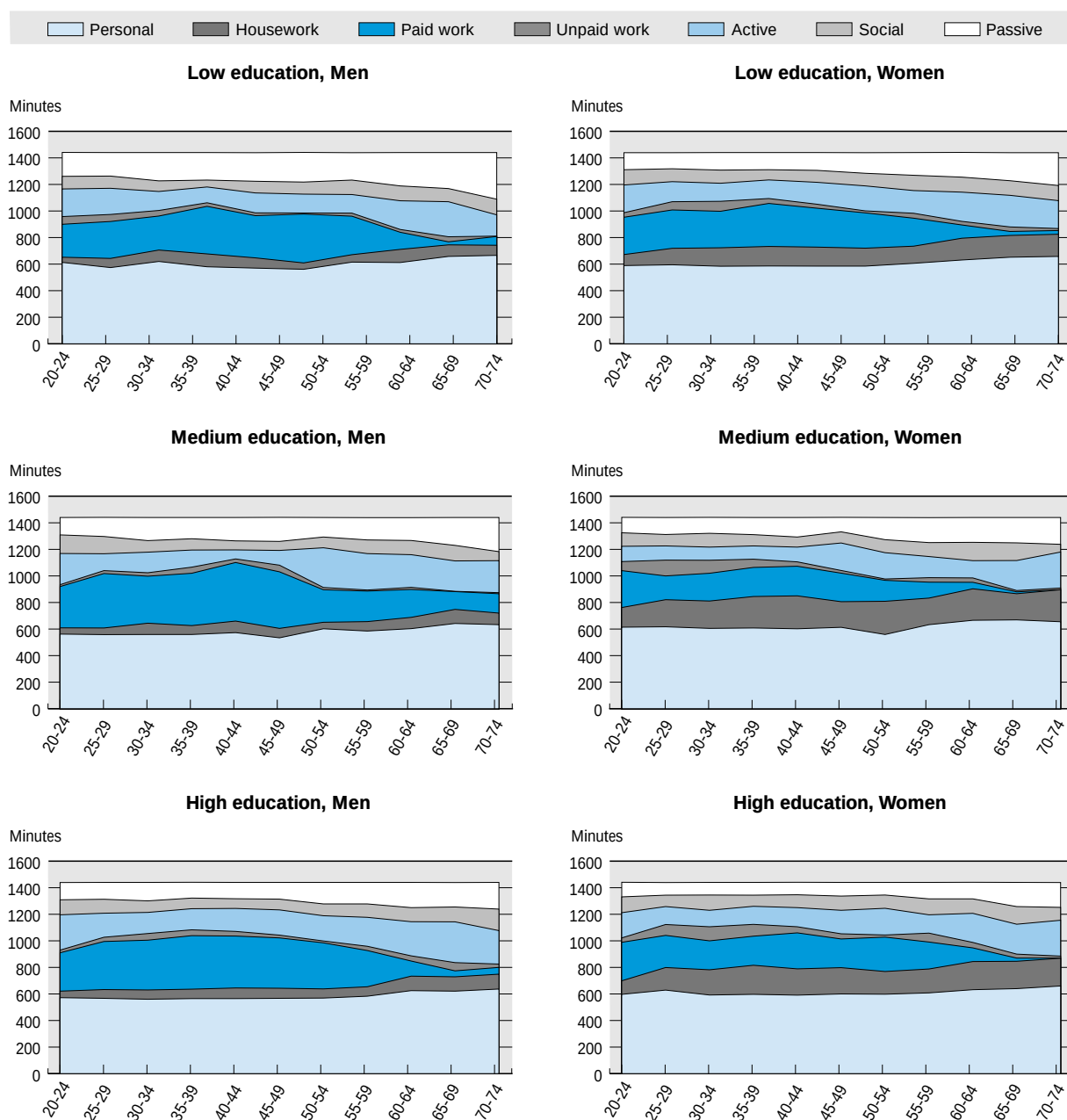
A question about the targeting of active ageing policies

A number of government initiatives are intended to support voluntary work by older people. However, at present, unpaid work accounts for a significant use of time only among women in their 20s, 30s and 40s. Apart from childcare, very little unpaid work takes place. The numbers are much smaller than is suggested by other surveys that ask whether people participate in voluntary activities – without measuring how much time is devoted to these activities. There are certainly groups of older people who are active volunteers. However, it is not a significant activity across the population as a whole, when compared with other ways that people spend time.

In most countries, there is not a strong relationship between time spent on unpaid work and time spent in paid work, either full or part-time. Most retired people do not take on new kinds of activity such as volunteering. A recent study²⁴ examined time use patterns for people aged 55 to 64, the period when most retirements occur. The data support the hypothesis that, at least in the early years after retirement, people spend their time very much as they did before retirement. What seems to happen is that post-retirement days are similar to pre-retirement non-work days, often on a weekend.

24. Gauthier, A.H., Smeeding, T. (1999), "Patterns of time use of people aged 55 to 64 years old: some cross-national comparisons" (unpublished), University of Calgary and Center for Policy Research, Syracuse University.

Figure 9.2. Time use and retirement patterns by education level, Canada, 1992



Note: Low education is not completing secondary school, medium is secondary completion, and high is education beyond the secondary level.
Source: OECD calculations from results provided by Anne H. Gauthier and Timothy Smeeding from data from the Multinational Time Use Study, University of Essex.

Figure 9.3. Time use by sex and age group, selected countries

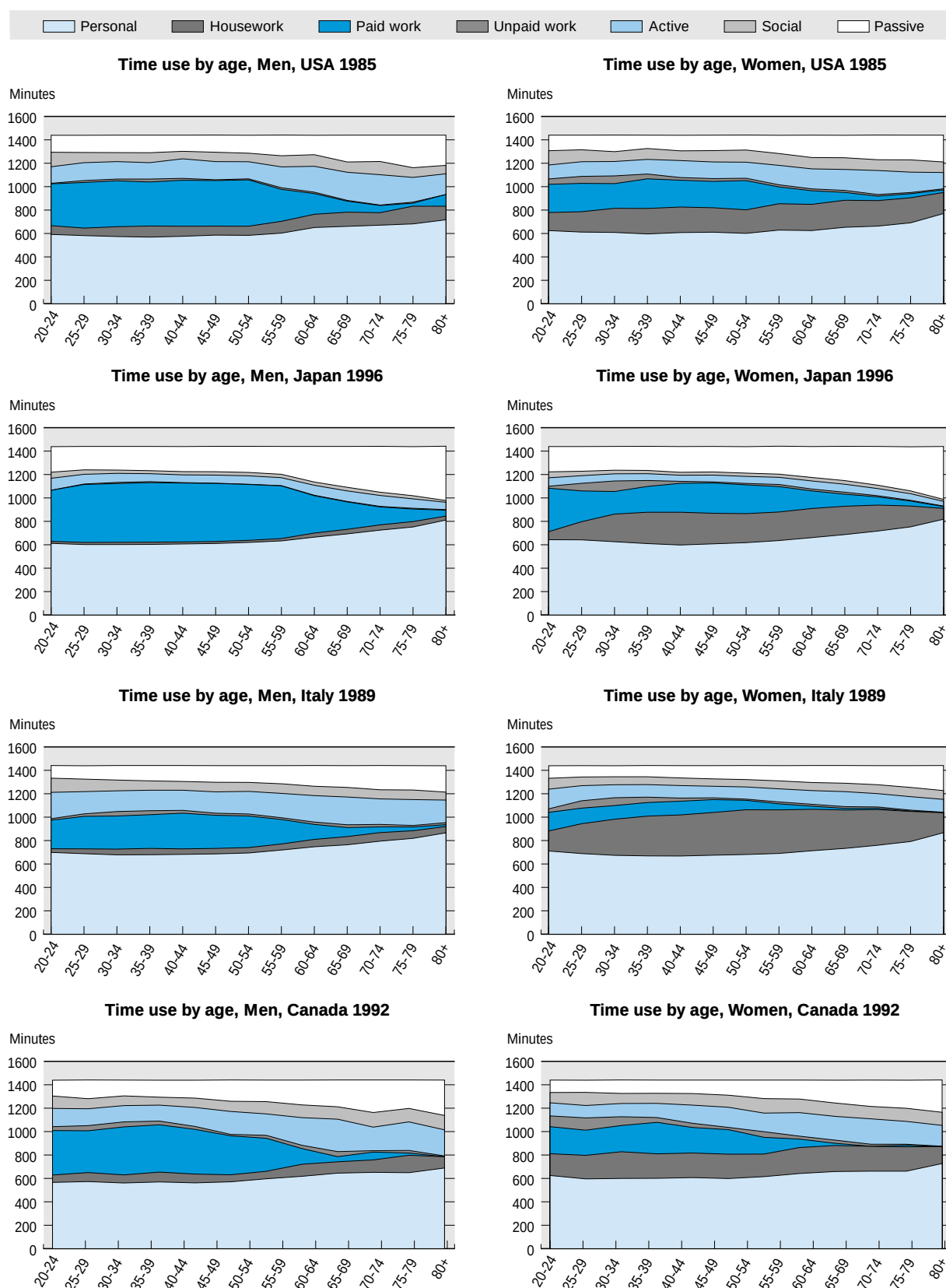
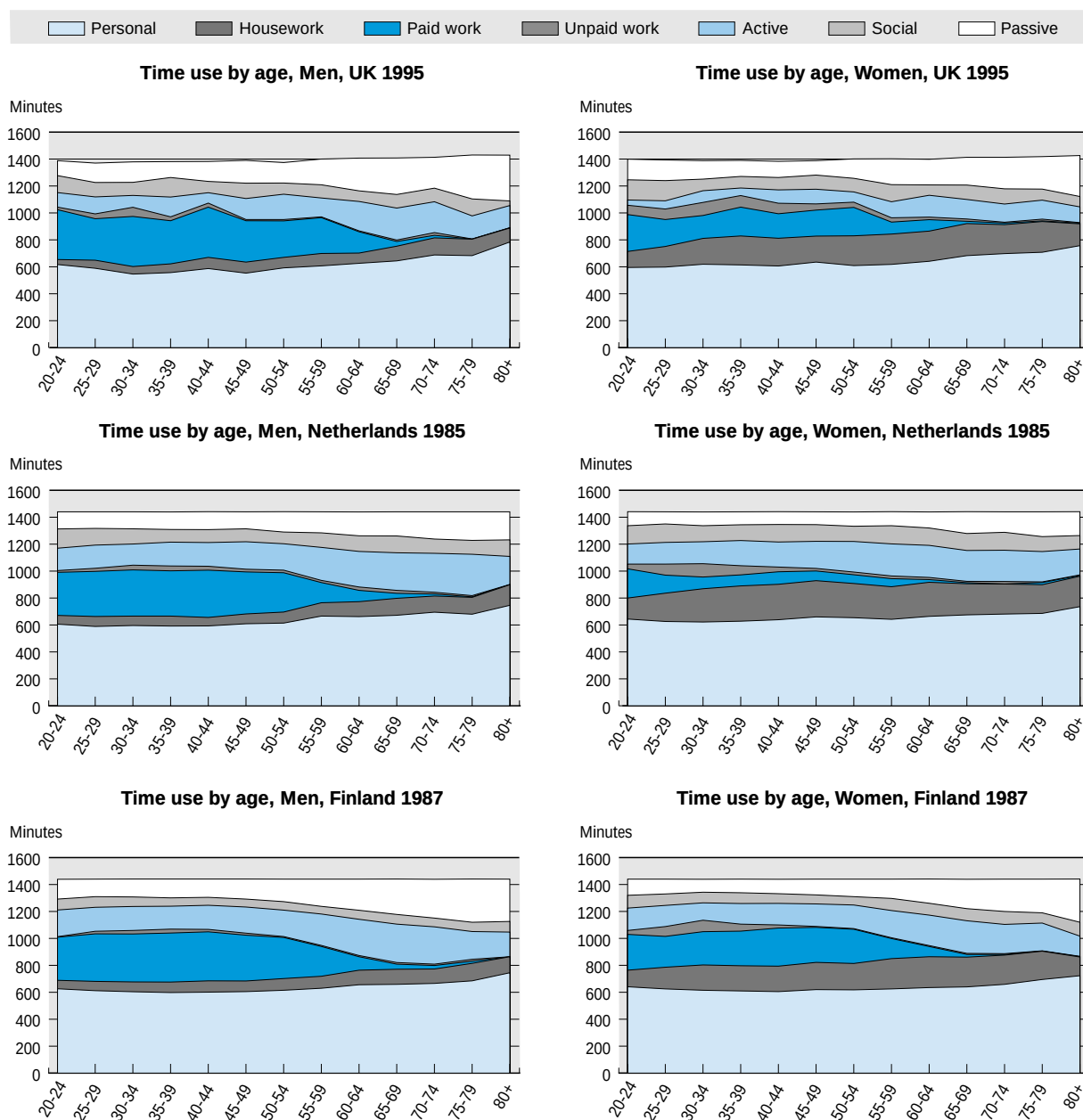


Figure 9.3. Time use by sex and age group, selected countries (cont.)



Source: OECD calculations from results provided by Anne H. Gauthier and Timothy Smeeding from data from the Multinational Time Use Study, University of Essex.

These data suggest that initiatives that are intended to support an active role for older people in the community should not be targeted only at older people, but rather at people of all ages.

The data only signal possible issues

Much more study would be needed before any firm policy conclusions could be drawn from this pattern of growing passivity in older ages.

For example, it would be essential to know more about the linkages between health status and the growth of passive activities. Note that the study cited above shows increased passivity in the 55 to 64 age group, when health considerations are not likely to be a major factor. However, health and frailty almost certainly play a large role in older age groups.

It would also be essential to know more about trends in the data, including changing patterns of time use as successive cohorts of people – with different educational and economic backgrounds – reach retirement age. To take the last point as an example, Canadian data in Figure 9.2 shows that there are large differences in work and retirement patterns according to educational attainment. Note also that, while there was not a great deal of unpaid work in any group of older people, higher educated people played a more active role here.

It is quite possible that future generations of older people, who will be more highly educated than today's older people, might spend their time differently. However, much research would be needed to assess the extent of these and the many other factors that could influence future time use trends. The comparative study of retirement income policies will shed a little more light on these issues. However, the basic problem is that there is a lack of comparable trend data that would allow changes to be consistently tracked over time, including a lack of longitudinal data that could track patterns in the same individuals over the course of their lives. Indeed, the state of time use data provides a good illustration of the point made in Part I about the importance of filling key information gaps.

INDIVIDUAL AND SOCIETAL AGEING SCENARIOS IN SELECTED COUNTRIES

Summary and main results

At the level of the society as a whole, the balance of time devoted to work and retirement is determined by the timing of individual retirement decisions and by population ageing (the numbers of people of working-age compared with those of retirement age). There is not much that policy can do to influence population ageing, at least not in the short- and medium-term. However, policy can influence the amount of time that individuals devote to work and to retirement.

This chapter therefore examines trends in the patterns of lifetime work and examines the extent to which changes at the level of individual working lives can ease the pressures of ageing on society as a whole. The descriptions are for those countries that are participating in the current OECD study of retirement income policies. In these countries, reasonably long time series of comparable data make this kind of analysis possible. The underlying demography – longevity in the case of individuals and the relative size of the older population in the case of the society as a whole – is explored in Annex 2.

At the level of society, the general pattern over recent decades has been one of an increasing share of the population that is employed, although trends are uneven as a result of unemployment. If existing trends were to be the same, the growth in employment would continue for about another decade in most countries and then fall.

A main driving factor has been, and will continue to be, population ageing, which is driven by fertility declines. There have been more people of working age relative to the size of the whole population. However, in most countries, larger cohorts of older people will be soon reaching retirement age.

Changing labour market participation patterns have also been a factor, although there are offsetting trends. In most countries there has been a dramatic fall in the number of lifetime years that men could expect to be employed, and an equal rise in the years they are not employed, often in increasing periods of retirement. Women, on the other hand, have been spending more of life in employment.

Of these two factors, the demographic effects of population ageing are well known. Less well understood are the effects of changes in the use of time by individuals. Chapter 9 examined the patterns of paid and unpaid activities over the course of life for a recent year. In this chapter, the focus turns to trends over time in work and non-work activities.

An initial exploration is made of the extent to which changes in labour force participation by individuals might effect dependency rates and the time spent in work in society as a whole. The main conclusion is that a reversal of trends towards early retirement could have a large effect in easing the negative economic effects of population ageing in most countries, although more work is needed to fine-tune the way in which this is measured. The reforms described in Part I could, if they are successful, have a large effect.

Expected lifetime years in work and out of work

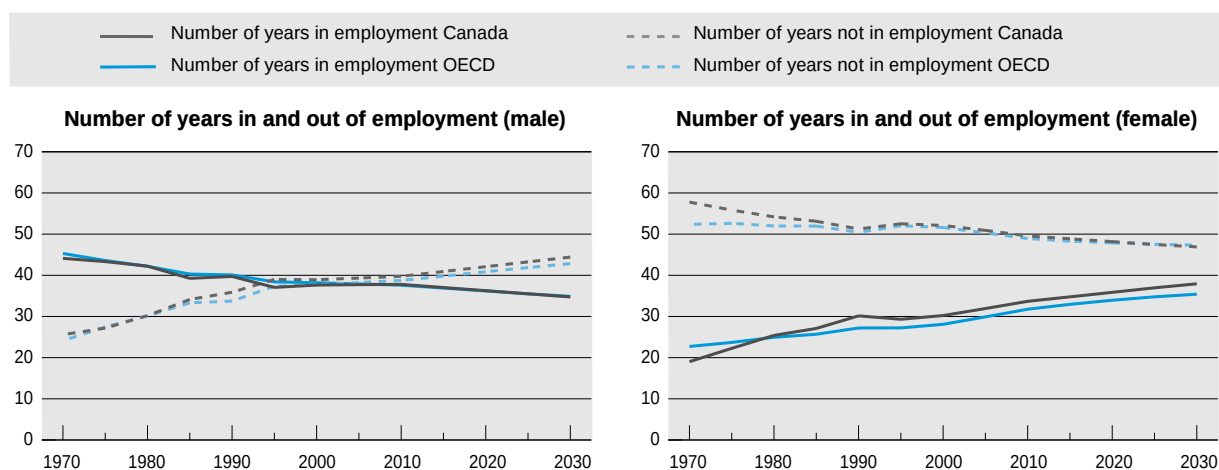
Chapter 9 examined the patterns over life in paid work and unpaid activities over life. This section explores trends over time in the portion of life that is devoted to employment and to activities other than employment. The data here comes from labour force surveys expressed in lifetime terms. These are not as rich as time use surveys in the way they categorise activities, but they do provide long and consistent time series.

The charts tell a consistent story in most of the countries studied. Men have been spending far less of their lives in employment. Men used to work for most of their life; if existing trends continue, men will soon be spending substantially more of their lives in activities other than work – especially in growing periods of retirement. Men are retiring earlier and living longer once retired. Women are also retiring earlier and living longer once retired. However, women have been spending more of their lives in work.

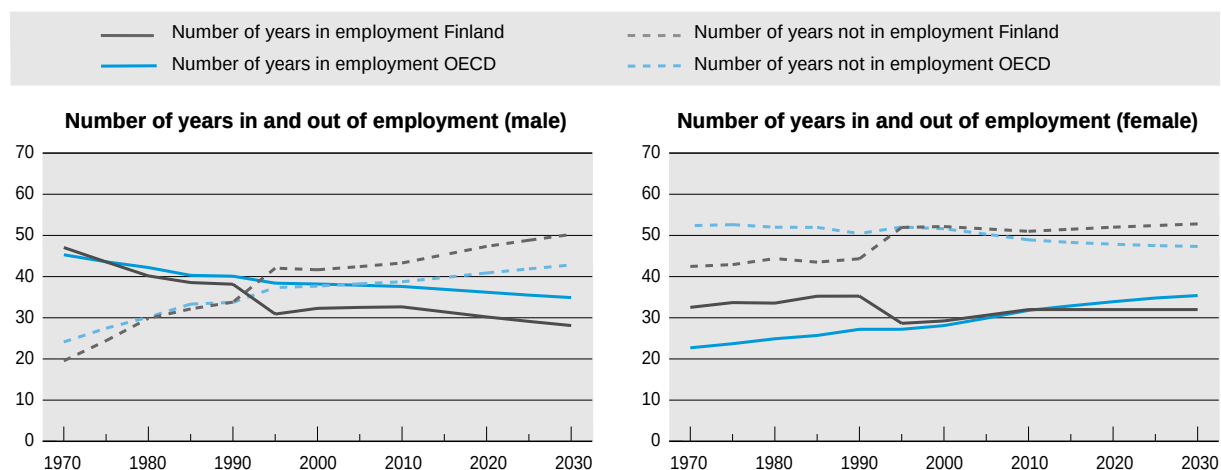
Take Canada, which is near the OECD average, as an example. In 1970, men could expect to work 44 years of their lives and be doing other things (such as going to school, being unemployed or retired) for another 26 years. Now more time is spent out of employment than in it. If existing trends were to continue by 2030, men would spend 35 years in paid work and 44 years not at work. Canada has just reached the cross-over point for men, where lifetime years in and out employment are equal. In 1970, Canadian women could have expected to spend 19 years in employment and 58 years not in employment. By 2030, 38 years could be spent in employment and 47 out of employment.

The Canadian pattern is typical of many countries. There are, of course, difference in the timing and extent of these trends. In Japan, for example, the trends levelled off in the 1980s. In the Netherlands, the trends for men may reverse, while the trends for women are sharper than elsewhere.

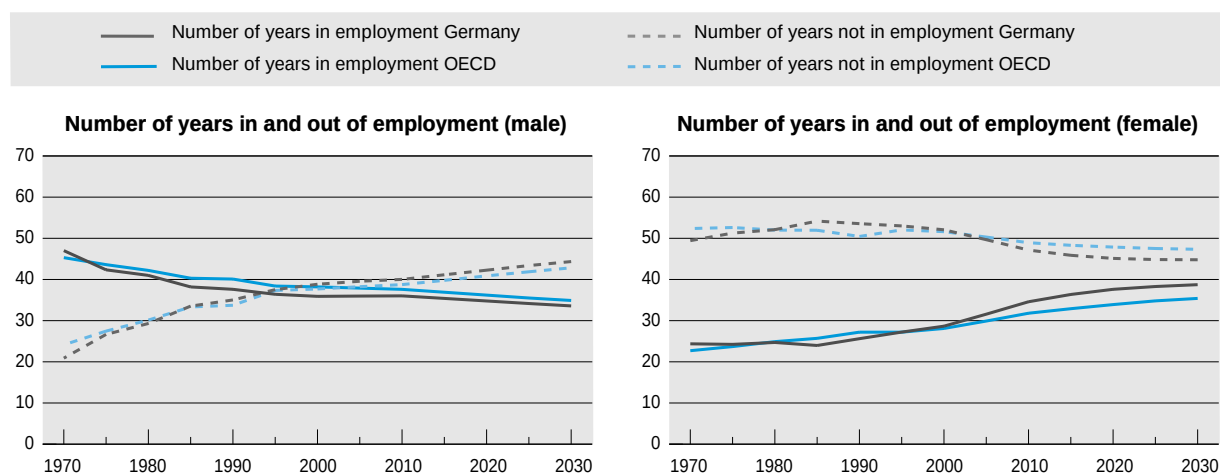
Canada



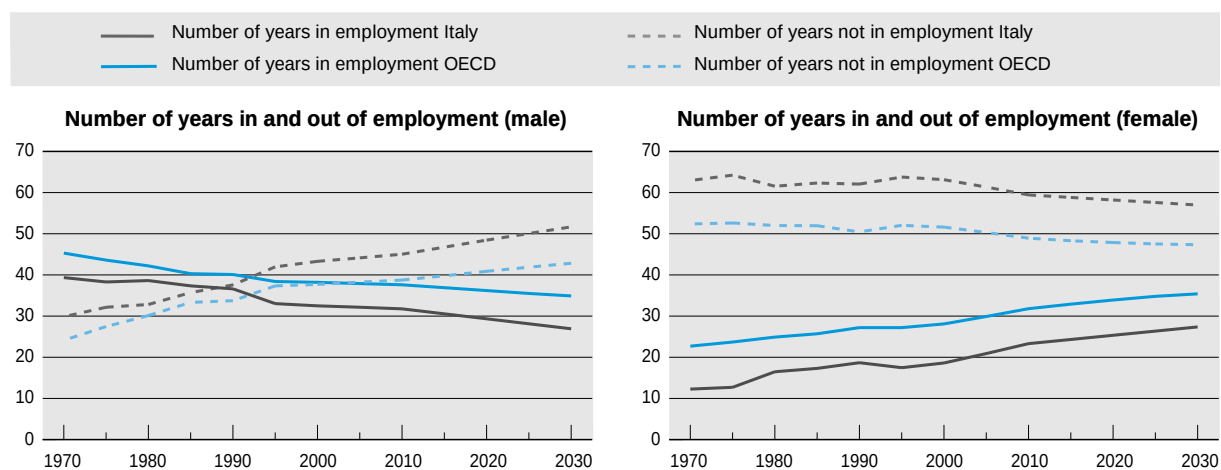
Finland



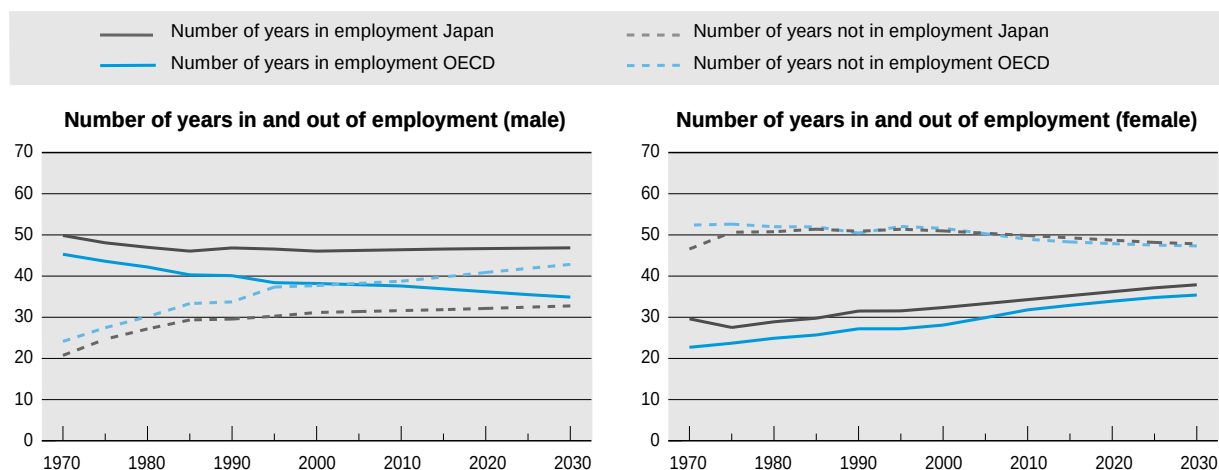
Germany



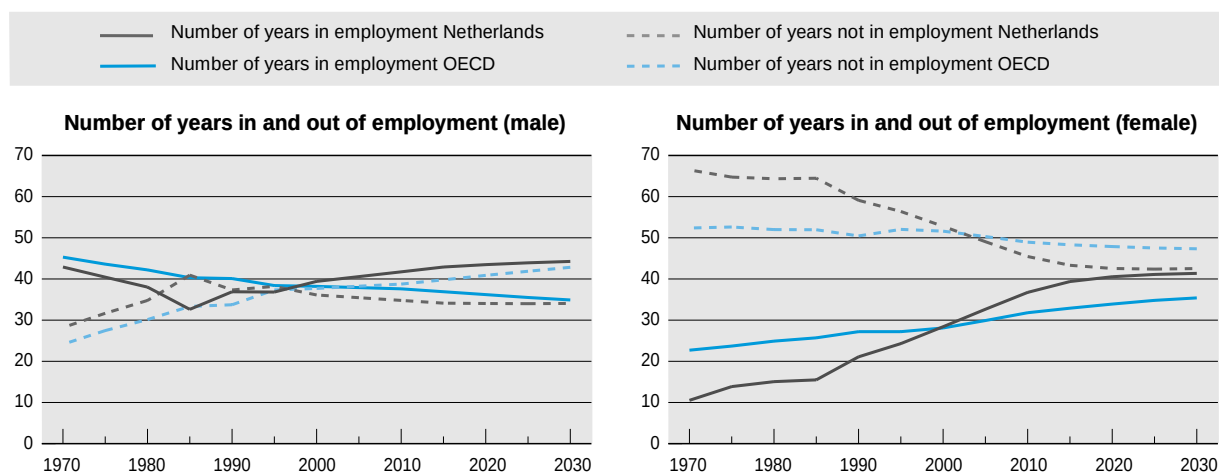
Italy



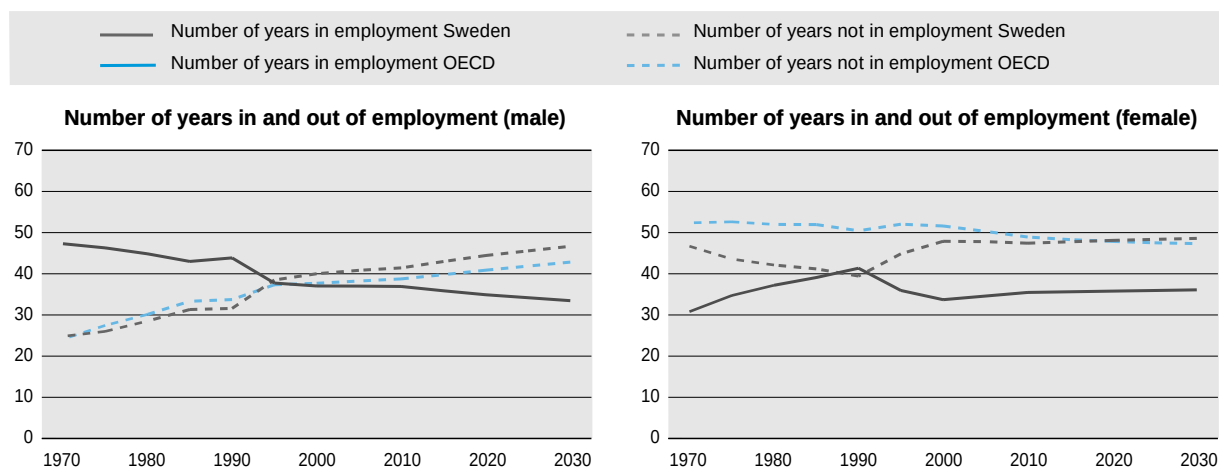
Japan



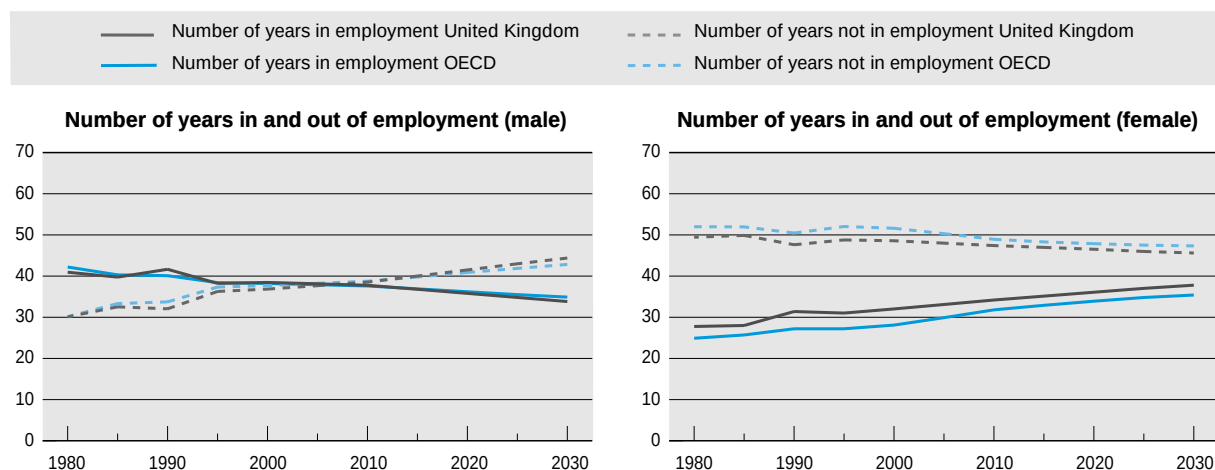
Netherlands



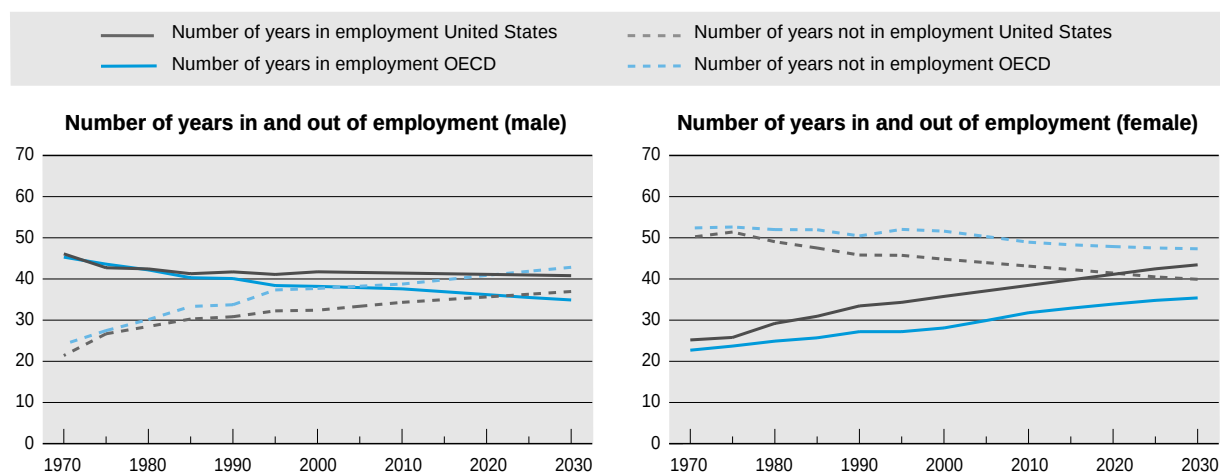
Sweden



United Kingdom



United States



Share of the total population that is employed

From a policy perspective, an important conclusion is that very large changes in the patterns of employment over life can, and do, occur. These changes are, without doubt, the product of many complex factors – the overall economic health and labour market performance, the incentives for work in the benefit systems, work place conditions, changing preferences for work and leisure, family and gender considerations. Yet most of these factors are, or could be, influenced, directly or indirectly, by government policy.

In other words, while policy cannot greatly influence population ageing directly, it can have an effect on employment patterns. How important is this policy lever? The remainder of this chapter addresses the question of the extent to which changes in lifetime employment patterns could offset the negative economic effects of population ageing at the level of the society as a whole.

A key measure of the economic effects of ageing is the share of the population that is employed – producing the goods and services that generate resources for consumption for the entire population. The share of the population that is employed is determined by two factors. This first is the changing employment pat-

terms of individuals as described above. The second is population ageing, that is, the size of the population that is working, relative to the size of the non-employed population.

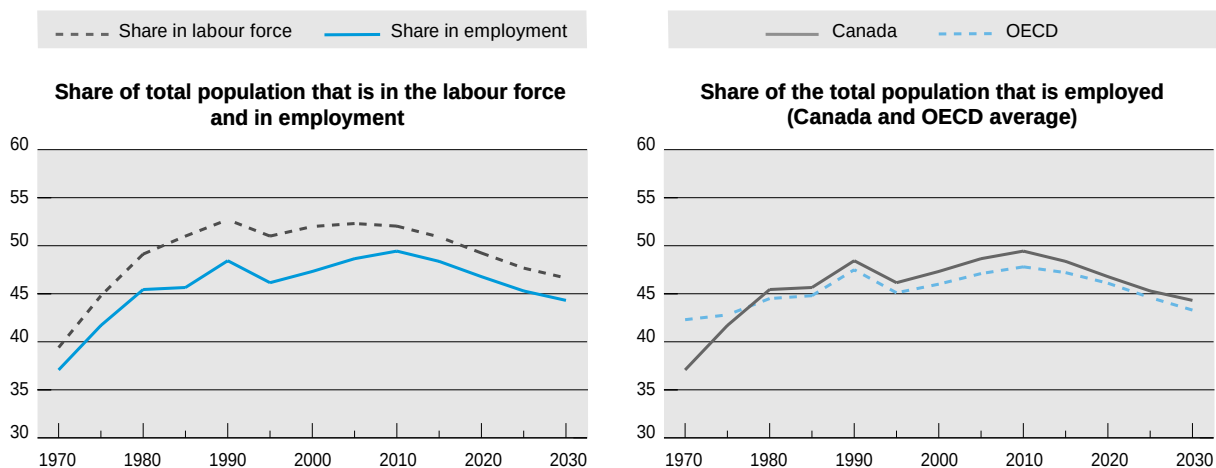
Labour force statistics often look at the employment rate – the percentage of people in a given age group that is employed. The charts in this section deal with a different topic, the extent to which the total population of all ages is employed.

Although there is much variation among countries, the dominant pattern in recent decades has been one of an increasing portion of the population that is employed. Demography has played a positive economic role. There are more people of working-age, with the potential for producing more goods and services and generate resources for the whole population. This growth will continue in most countries for a decade until the baby-boom generation reaches retirement age and then a decline will set in. The pattern varies, of course, from country to country. In Japan, for example, the peak has already been reached.

The dotted line in the left-hand charts below is the percentage of the total population that is in the labour force. The bottom line is the percentage in employment. Unemployment, the difference between these lines, has been a particularly major influence on the shape of the graphs in Finland and Sweden.²⁵ Those countries faced unusually high increases in unemployment in the 1990s and the projections for those countries need to be treated with caution.

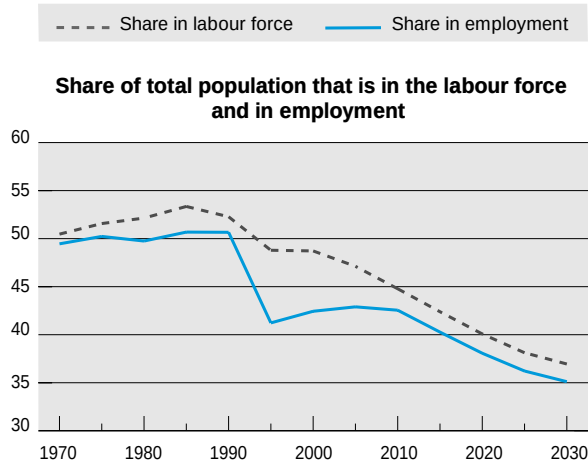
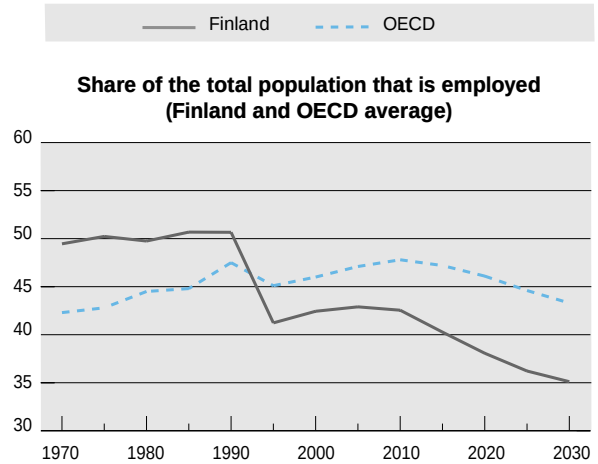
The right-hand charts show that, compared with the OECD average, employment growth has been particularly strong in the Netherlands, the United States and (nearer the beginning of the period) in Canada. The share of the population that is employed has been above average in Japan and below average in Italy. Finland and Sweden started out well above average and their lower projected rates may be, in part, an artificial reflection of the high weight of unemployment in the 1990s. Different scenarios about the future are explored in the next section.

Canada

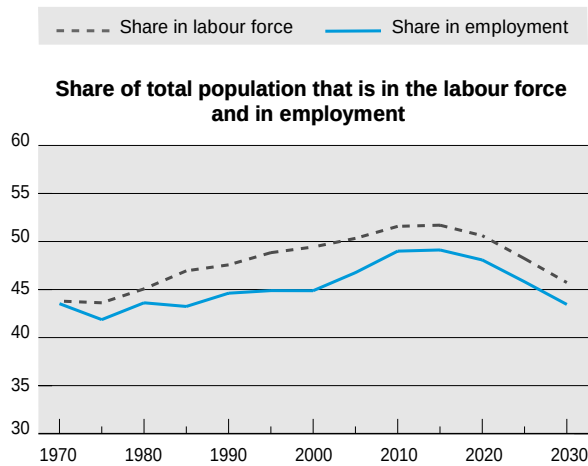
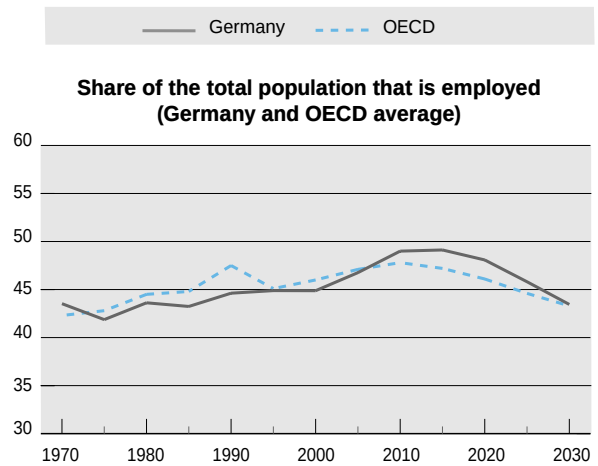


25. The projections assume that unemployment will fall to 5% in the coming years. As well, the data for Finland must be treated with caution because of a discontinuity in the data at the end of the 80s.

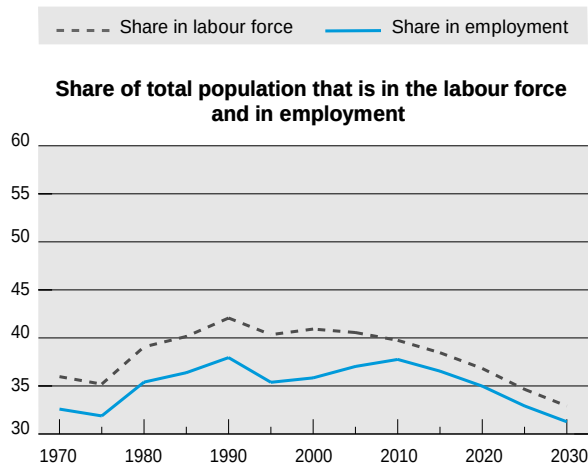
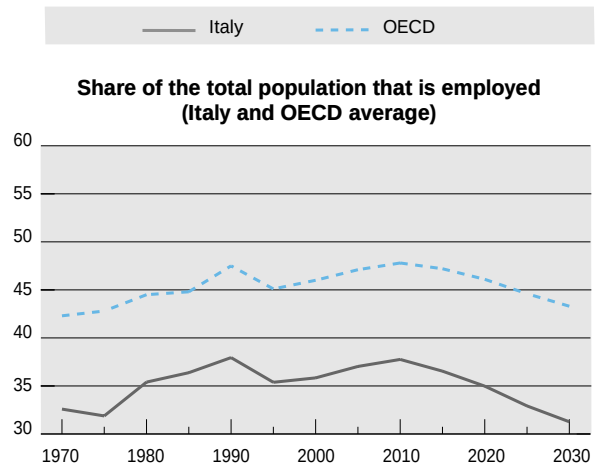
Finland



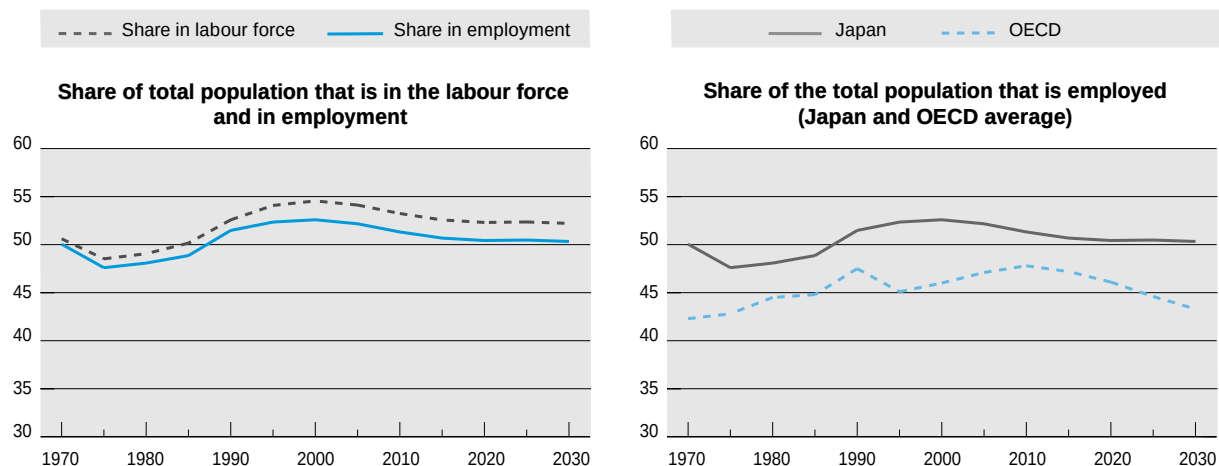
Germany



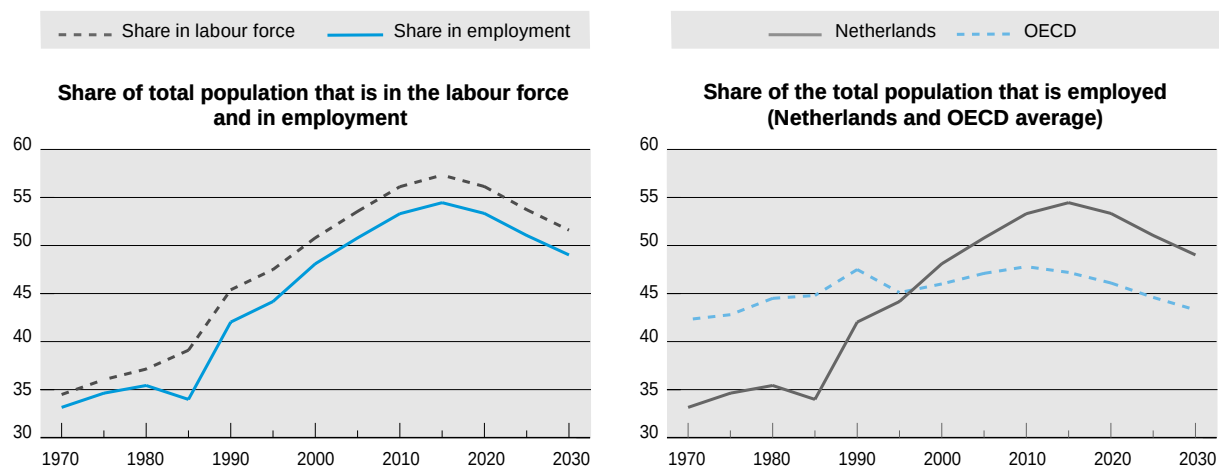
Italy



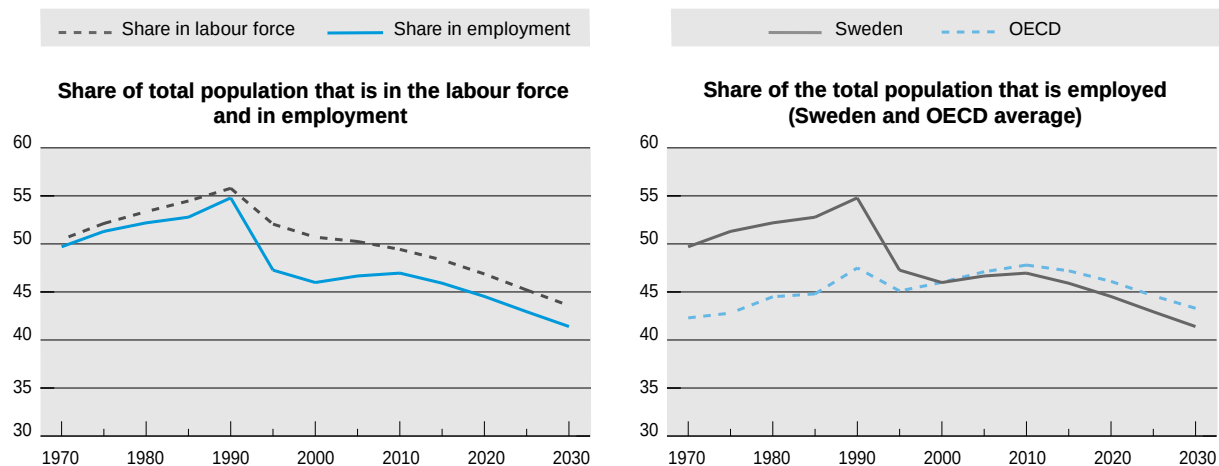
Japan



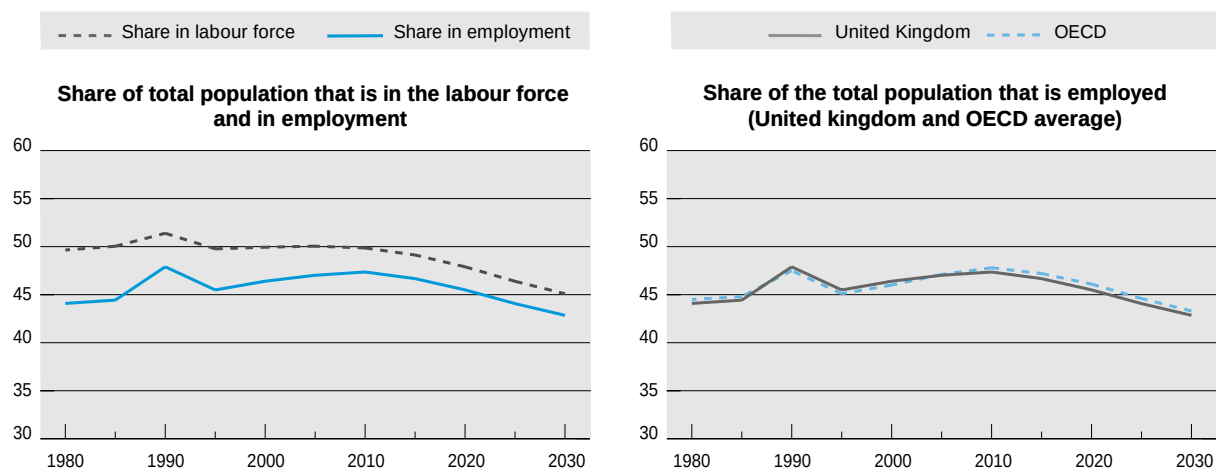
Netherlands



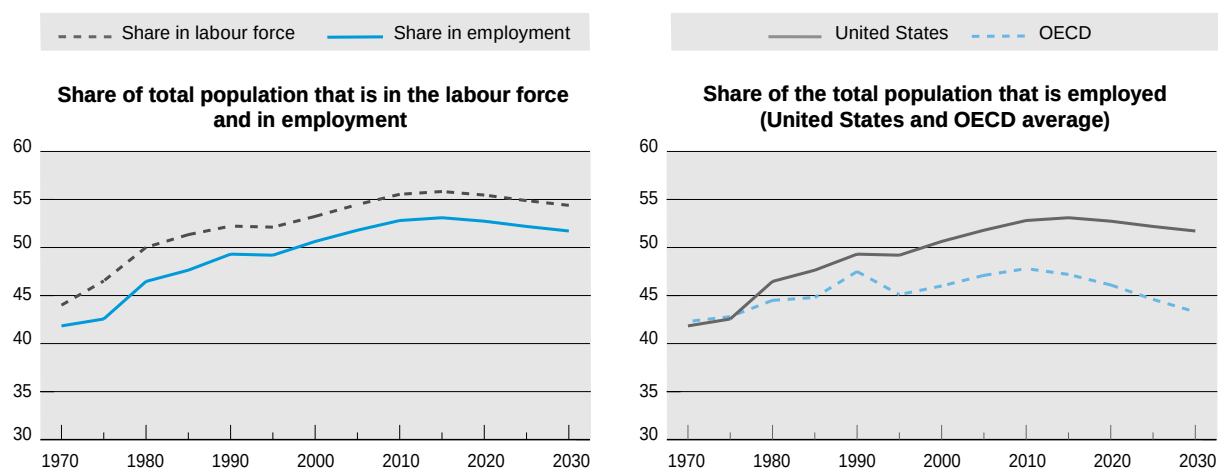
Sweden



United Kingdom



United States



Can changing labour market patterns offset population ageing? Scenarios for the future

The charts above assume that recent labour force participation trends will continue into the future. That may, however, not prove to be the case. As discussed in Chapter 8, there are signs that trends towards ever-earlier retirement may be already moderating and, in some cases, reversing. Certainly, as discussed in Part I, a policy goal in many countries is to change the balance of time spent in work and time spent in retirement.

This concluding section therefore examines the effects of some scenarios where lifetime patterns of work do change – whether as a result of policy action or of the normal operation of the market. They explain the extent to which changes at the level of individual labour market behaviour can offset the effects that population ageing has on the total amount of time that a society devotes to work.

Consistent data was available in the nine countries participating in the current study of retirement income policies to construct different scenarios about future labour market participation trends in these countries. The full study will explore the possible effects of different assumptions about demographic changes, but early

work has concentrated on exploring the possible effects of changes in labour market participation – the most uncertain of the variables, and the one most susceptible to policy action.

In the three scenarios that were developed, women's participation rates are assumed to continue increasing in line with recent trends. As explained in Chapter 8, the rates for women are driven less by changing retirement patterns and more by the total increase in the number of women who participate in the labour force over the course of their lives. Also, unemployment, which is a key factor, is assumed to drop to 5% (where it has not already done so), to ensure that the focus is on the underlying trends in participation over the course of life, especially the timing of retirement. Success in increasing the participation of older people will clearly depend on success in reducing unemployment.

In the first “benchmark scenario”,²⁶ which has been used to this point in the discussion, men's participation is assumed to continue falling in line with recent trends. In the second “constant scenario”, men's participation is assumed to stay constant at today's levels.

The third “reversal scenario” assumes a reversal of existing trends to early retirement and has men's participation returning to the same level as it was in 1960. This would be an improbably large reversal of early retirement trends if it were to take place suddenly. However, the scenario introduces the change gradually, with participation growing in the future at the same pace as it fell in the past. The 1960 levels would not be regained until 2030.

The left-hand charts show the effects of the scenarios on old age dependency ratios. The traditional dependency ratio compares the size of the population aged 65 and over with the working-age population, aged 16 to 64. This provides a rough measure of the size of the older population in comparison with the size of the potential population of those who produce the goods and services in an economy. The ratios in the charts below are adjusted to take account, in part, of the fact that many people below the age of 65 are not employed. They compare the older population with the estimated number of employees.

These adjusted dependency ratios show, of course, that the reversal scenario works to ease the effect of population ageing. Compared with the other scenarios, the reversal scenario usually results in a situation where there would be more employees in relation to the number of older people. In other words, for every 100 older people, there would be relatively more employed people producing goods and services.

Note, however, that the effects of the scenarios on the dependency ratios are not large in many countries. In all scenarios, the dependency ratios still increase, usually after 2005 or 2010 – and often quite sharply. The effects of population ageing, which is largely outside the control of policy, dominate in these charts. In part, however, this simply reflects limits on the usefulness of dependency ratios in this kind of analysis.

For this purpose, what is really wanted is a measure that compares the number of retirees (not only people over the age of 65) with the number of workers. In particular, the numerator of the ratio used in the charts does not take account of the large number of retired people under the age of 65. Although it is a better measure than the traditional dependency ratio that takes account of only demographic factors, it still understates the possible effects of changing retirement patterns.²⁷

26. In all cases, the scenarios are calculated using participation rates for separate age and gender groups. Unemployment rates are assumed to have reached 5% by 2010 and then remain constant until 2030. In countries where unemployment rates are now below 5%, current rates are used throughout the projection period. To avoid having more than 100% participation by women in the projection period, female participation rates are assumed to follow those of men once they reach 90% of the male rate. The benchmark scenario is based on a continuation of existing trends. It projects ahead using the trend from 1985 to today. In all scenarios this is also the assumption used to project women's participation rates. In the reversal scenario it is assumed that there will be gradual return to 1960 levels, reversing the actual trends – with participation in 2005 assumed to be the same as in 1990 and so on. The source of the data is OECD labour force database. The latest actual readings are for 1998. The scenarios begin in the year 2000 (with the year 2000 being a common projection in all). The demographic data and projections are from the United Nations.

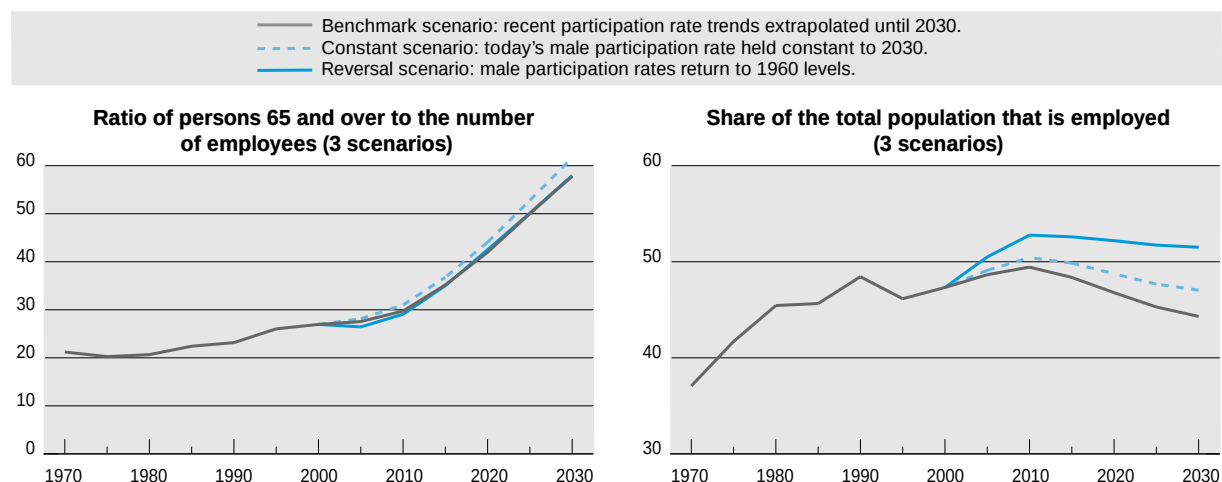
27. Improved measurement of dependency is being addressed in the context of the comparative OECD study of retirement income policies.

The right-hand charts below provide a better indicator of the possible effects of changing patterns of labour force participation. They return to the analysis in the preceding section and examine the share of the total population in the nine countries that might be employed under various assumptions about the future. They show that, under the reversal scenario, the effects of population ageing on employment would be considerably eased or even completely offset.

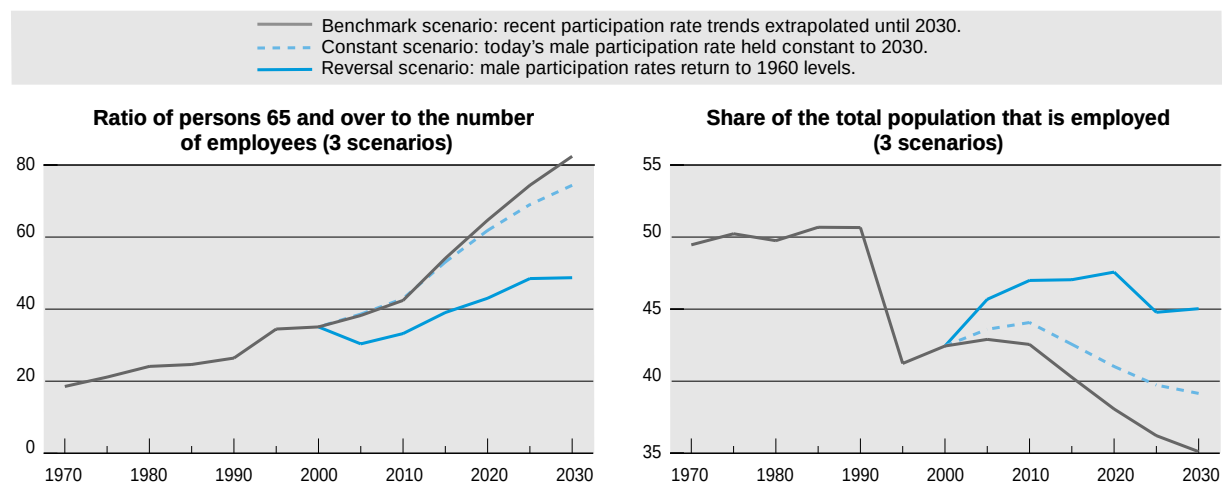
In most cases, employment (as a percentage of the total population) would continue to grow for another decade or two under the reversal scenario – at faster rate than in other scenarios. It would then remain constant or fall at lesser rate than in other scenarios. The effects depend, of course, on national circumstances. They are, for example, less pronounced in Japan where existing participation rates are high.

The charts are a strong reminder that there is nothing inevitable about the effects of population ageing. Policies directed to increasing the participation of older workers in the labour market – to shifting the lifetime balance between work and retirement – could, if successful, make a large difference. And, as indicated in *Maintaining Prosperity in an Ageing Society*, reforms in these directions make good social and economic sense quite apart from their role in addressing age-related challenges.

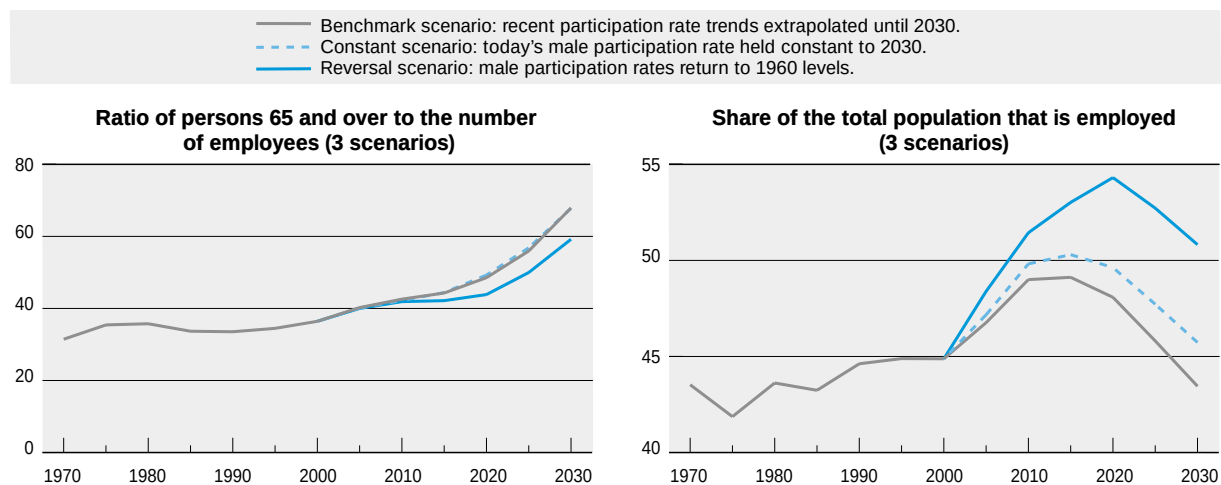
Canada



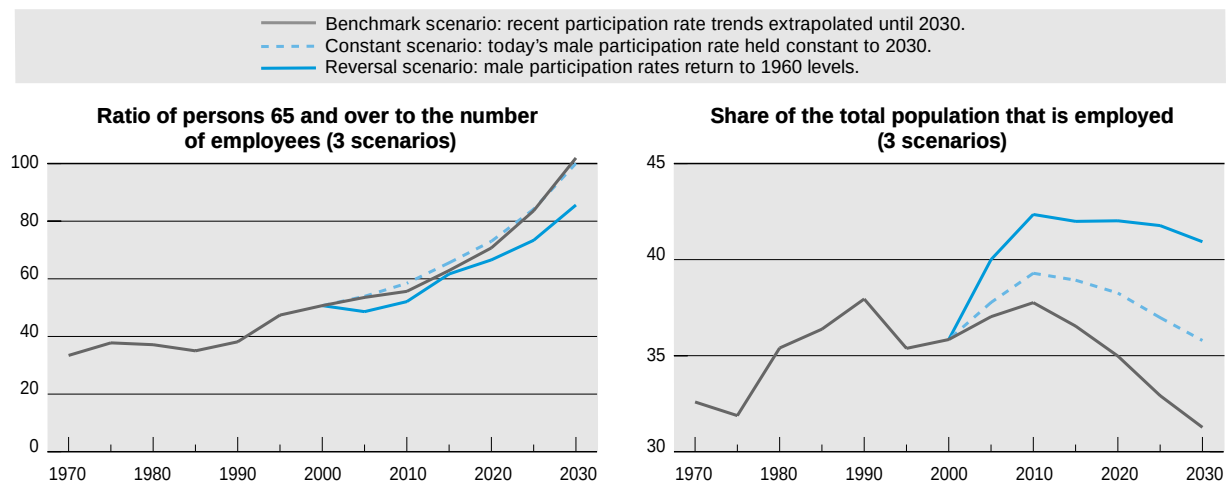
Finland



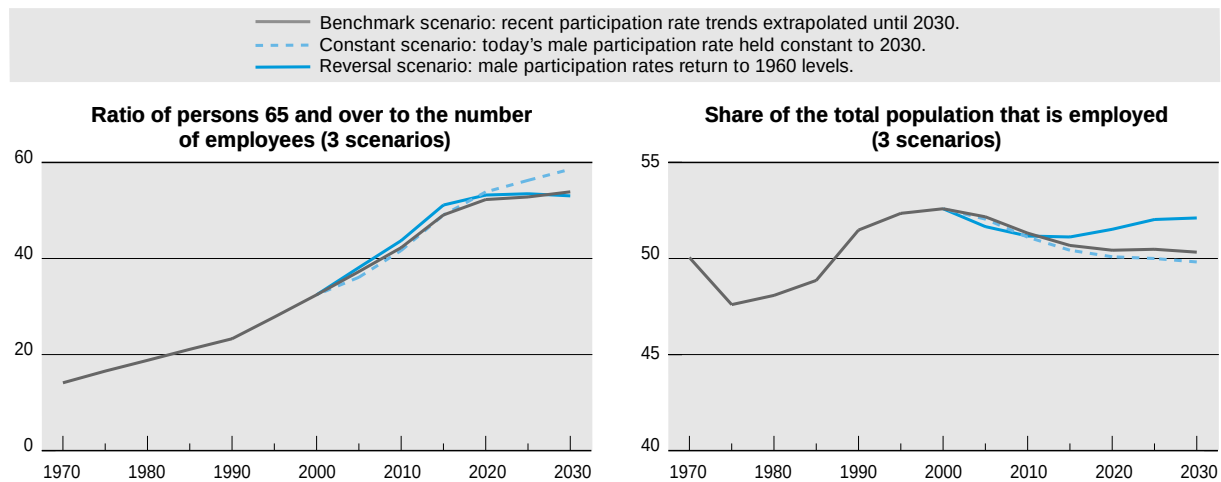
Germany



Italy



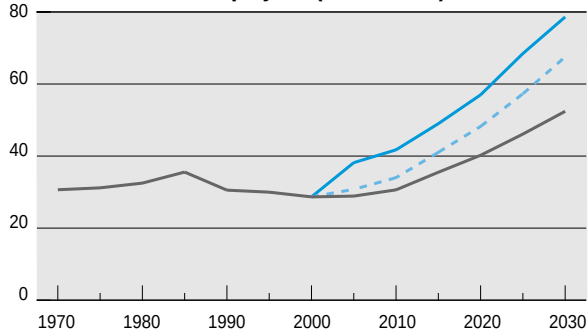
Japan



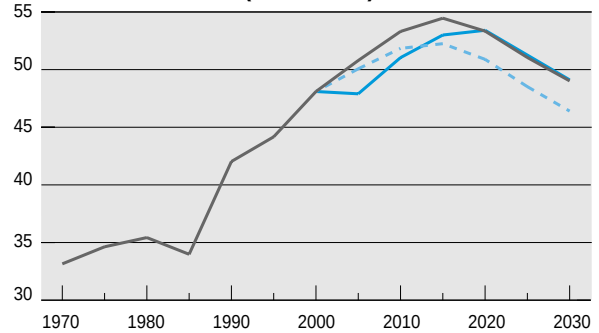
Netherlands

— Benchmark scenario: recent participation rate trends extrapolated until 2030.
 - - - Constant scenario: today's male participation rate held constant to 2030.
 — Reversal scenario: male participation rates return to 1960 levels.

Ratio of persons 65 and over to the number of employees (3 scenarios)



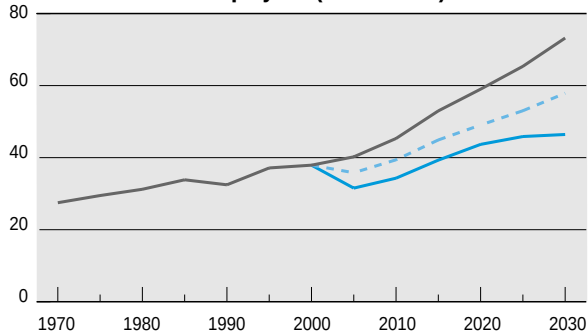
Share of the total population that is employed (3 scenarios)



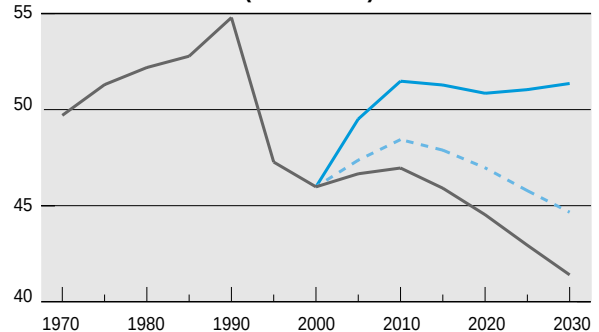
Sweden

— Benchmark scenario: recent participation rate trends extrapolated until 2030.
 - - - Constant scenario: today's male participation rate held constant to 2030.
 — Reversal scenario: male participation rates return to 1960 levels.

Ratio of persons 65 and over to the number of employees (3 scenarios)



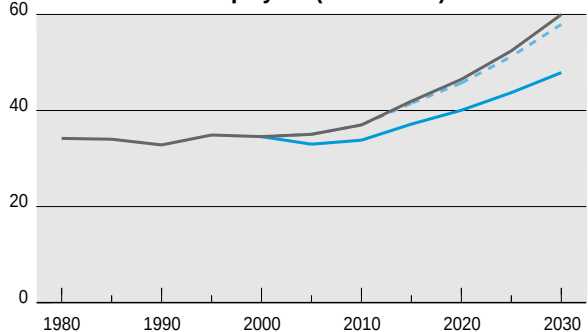
Share of the total population that is employed (3 scenarios)



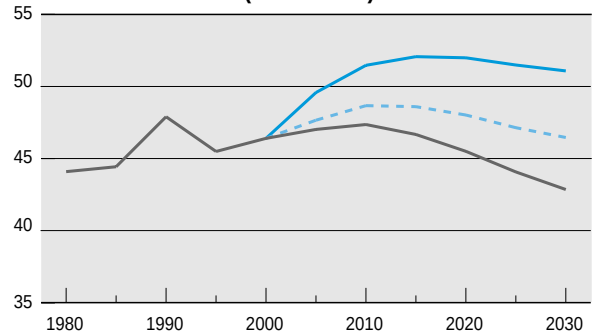
United Kingdom

— Benchmark scenario: recent participation rate trends extrapolated until 2030.
 - - - Constant scenario: today's male participation rate held constant to 2030.
 — Reversal scenario: male participation rates return to 1960 levels.

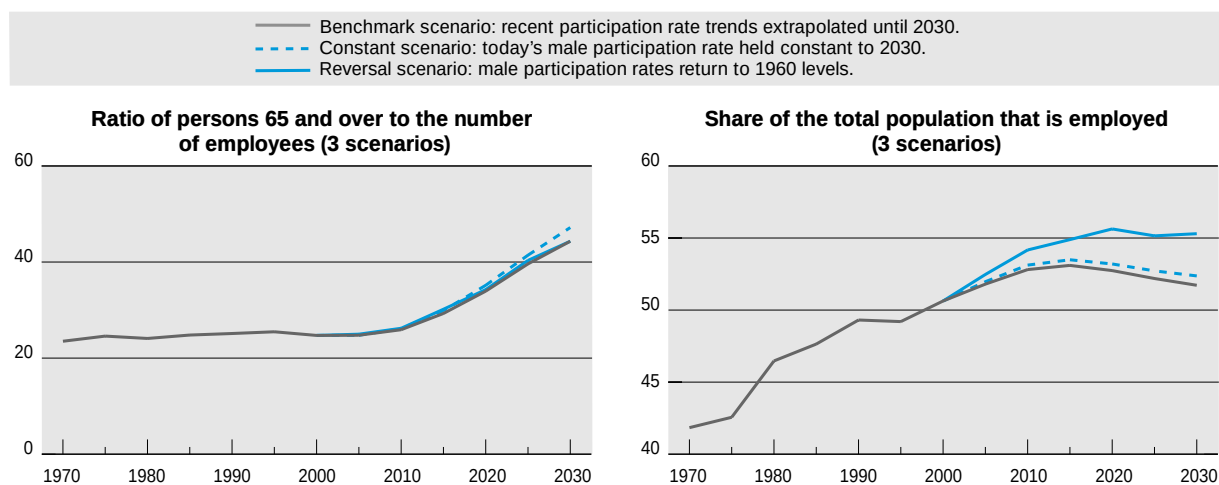
Ratio of persons 65 and over to the number of employees (3 scenarios)



Share of the total population that is employed (3 scenarios)



United States



NEXT STEPS AT THE INTERNATIONAL LEVEL

Summary and main results

Part I concluded that current policy reforms could have large future effects on the institution of retirement and its finances. Part II showed that, at least in some OECD countries, major changes may already be underway. Although there are many areas of uncertainty, the possibility exists that social and economic trends, reinforced by the policy reforms, could have large consequences for future policy-making in this area. In these circumstances, it is important to place high priority on monitoring, and on the data gathering and applied research that could reduce at least some of the uncertainties. Policy analysis also needs to take account of a variety of future scenarios. At the international level:

- The focus should be on retirement, broadly defined to include the balance of time spent over the course of life in employment and in retirement, the work-to-retirement process (including jobs for older workers), the conditions of life among older people and their contribution to the economy and society, as well as the retirement income system.
- Attention should be given to verifying the extent of change that is taking place, examining the role of public policy in influencing those changes, and reviewing the conditions (including statistical information) that are needed to sustain reform initiatives over time.

The scope of future monitoring: older people, ageing people, retired people?

National strategic frameworks for monitoring and policy analysis tend to focus on: (a) policies that affect older people or (b) policies that affect all people as they grow older (that is, the active ageing approach). Neither, however, is ideally suited for monitoring at the international level.

A focus only on older people would miss the main target

Reforms related to the employability of older workers suggest that there might not be high payoff from monitoring of policies that are specifically directed to older workers. The most important policies are those, such as lifelong learning, that affect workers of all ages. What is important is that employment and education policies take account of the changing requirements that are associated with an ageing workforce.

Similarly, an examination of how the health care system as a whole takes account of the ageing of the population – and of age-related diseases – would likely achieve more than an examination that concentrated only on the health of older people. Long-term care, which is heavily concentrated among frail elderly people, can be more reasonably monitored under a “policies that affect older people” label. However, even here, this would make it difficult to see frailty in old age as part of a continuum of dependence, care-giving and care-receiving that touch people of all ages.

The same situation exists with respect to fiscal consolidation. Here, monitoring exercises must necessarily place much attention on age-related spending and revenues – such as pensions and health-care.

However, there may be less need for a separate exercise that attempts to monitor the fiscal implications of ageing taken in isolation from other factors.

A similar comment can be made about financial markets. The growth of pension funds assets must be a central element of international monitoring and sharing of experiences, but there may be little point in a study that excluded other pressures on financial markets. The development of an appropriate regulatory and supervisory framework will also call for a global intersectoral approach and integration of various national policy approaches.

Older people should not, therefore, be the main organising principle for future monitoring at the international level.

A focus on growing older would be too broad

Active ageing – the life-course perspective set out in *Maintaining Prosperity in an Ageing Society* – also fails as an organising principle for monitoring. As described in the box below this is a strong tool for understanding policy themes that are held in common across a number of different disciplines. It is useful in formulating longer-term policy alternatives. It can be a useful framework for developing supports to policy such as data development. However, it is far too inclusive to be a manageable theme for international monitoring and sharing of experiences. It encompasses the transition from school to work, as well as from work to retirement. It encompasses policies that range from lifelong learning to healthy ageing.

What is active ageing?

Active ageing refers to the capacity of people, as they grow older, to lead productive lives in society and the economy. This means that people can make flexible choices in the way they spend time over life – learning, working, and partaking in leisure activities and giving-care. These choices are often constrained in ways that harm both individuals and society:

- Some of these are related to health-sickness or invalidity preventing people from working or enjoying leisure.
- Others are physical such as the lack of wheel chair ramps in buildings.
- Some are related to the inflexibilities in the work place – such as time-off for raising children, giving care to elderly, or further education.
- Still others are the result of public policies that have not kept up with changes in demography, families and employment. Educational arrangements that are aimed only at young people rather than lifelong learning are an example. Social and labour market programming that encourage early retirement is another.

Active ageing reforms are those that remove these undesirable constraints on life course flexibility and that strengthen support for citizens in making lifetime choices. Examples of the former are the removal of incentives to early retirement that are embedded in social programmes. Examples of the latter are lifelong learning and medical interventions that help people maintain autonomy as they grow older.

What is gained by grouping these diverse reforms under the heading of active ageing?

Reform directions in many of these programme areas are similar. Convergent themes include:

- Greater emphasis on prevention – making inexpensive interventions such as providing public information at an early stage of life and thereby reducing the need for later remedial action.
- Use of remedial interventions that are less fragmented and that are concentrated at critical transition points in life – early identification of problems, use of case management techniques, on-the-ground co-ordination among various agencies responsible, and measurement of outcomes.
- Better balance in the lifetime costs and benefits of programming to provide less constrained choices and greater responsibility at the level of individuals – such as greater linkage of lifetime pension contributions and benefits.
- Without a common strategic framework for reform, changes in one area can offset reforms in another; reforms necessarily cut across traditional programme boundaries. A common framework would also improve the quality of on-the-ground service delivery by facilitating co-operation among many agencies. There would be opportunity for sharing of lessons learned across disciplines and providing of the common data and applied research that is needed.

What is active ageing? (cont.)***Insight now; effectiveness later***

Active ageing is a different way of looking at policies, a shift in paradigms that can result in new insights. At core, it is based on the simple notion that policy should take account of the continuity of life. This suggests, for example, that while the symptoms of ageing are found in older people, policy solutions usually involve interventions when people are younger. It suggests that policies should take account

of their effects on the subsequent lives of individuals. This is rarely the case at present. The data does not yet exist to allow a systematic measurement of outcomes.

The full utility of active ageing in terms of improved priority-setting and programme effectiveness will only be realised once statistical information about the effects of policy life-course paths has been collected. Starting work on gathering that data should be a priority now.

Retirement may be a more useful focus

Rather, the changing institution of retirement itself may provide the best focus in the coming years for further monitoring and sharing of experiences. It is here where current policy reforms are likely to have their greatest impact. Such a focus would include the financing and duration of retirement, the work-retirement transition as well as the health, social and economic well-being of people of traditional retirement ages and their contribution to economy and society.

A coherent ageing package would result from (a) a special initiative targeted on retirement and (b) the incorporation of ageing as a factor in other on-going monitoring and policy-development initiatives – for example in fiscal, taxation, health, financial and labour markets activities.

The content of future work

The reform process is well launched in most countries. The emphasis should now shift to managing and sustaining reform. At the international level this might be accomplished through:

- More disaggregated policy analysis that takes account of the situation of individual countries and the retirement situation of different groups of people. Better understanding here is crucial to the substance of policy-making and to the process of building understanding and support for policy directions.
- More systematic analysis. For example, discussions of risk, benefits and costs should be at the level of the retirement income system as whole – as well as in terms of the individual components such as public and private pensions of various types, earning and taxation.
- More analysis of the process of reform – examining the processes by which policies are developed and communicated. This might involve, for example, a better understanding of the depth of public attitudes on matters such as later retirement and the characteristics of consultative mechanisms that have worked well.
- Supporting the development of tools to help monitor the results of reforms whose effects will not be fully felt for many years. There are a number of immediate challenges here. The demographic assumptions underlying pension projections have been consistently underestimated longevity increases. There are no routine cross-national mechanisms for identifying a reasonable range of scenarios about the future of retirement and for making fiscal or other projections based on those scenarios.
- Supporting the development of consistent data and applied research that would verify the magnitude of trends, how those trends are affected by policy and that would facilitate the sharing of experiences across countries.

This final point about data is especially important. As earlier chapters noted, there is much uncertainty about future trends in retirement patterns, and even more uncertainty about how policy can influence these trends. Most countries are far from having the data and information that the previous box suggests is needed to ensure policy effectiveness. The following box provides an example that arises from the issues discussed in preceding chapters. There is particularly a lack of consistent time series and of the longitudinal information that is needed to understand the transitional areas of life such as the work-retirement transition. The system-wide information referred to at the end of Chapter 7 is particularly weak. Even basic administrative data, such as that related to private pensions, can be thin.

An example of a typical data gap

Internationally comparable data related to ageing is particularly thin. Take the responses to the question on retirement ages as an example. Some responses point to boldness in reform, while others point to caution. On the cautious side are responses that point to public opposition to increasing retirement ages and to the fact that changing the age of entitlement to benefit may not have a large effect on actual retirement ages. On the other hand, however, are responses that describe quite large reforms that have been introduced quickly, with large effects and little public opposition.

These differences undoubtedly reflect the different situations of the countries. However, the data are not yet in place to fully understand those differences and, hence, to fully learn from the experience of others.

In this example, what is missing is comparative information about the pathways from work to retirement. This would include the institutional characteristics of those pathways, the characteristics of the people who follow various paths, how the paths interact, and the potential effects of policy interventions. Ideally, one would want data that could track the experiences of individuals as they moved through work to retirement and how trends changed over time.

This kind of information does yet not exist in most countries. But it can be created. Indeed, as the answers to questionnaires indicate, it is already been developed in some countries. There would be gains from building in international comparability from the outset.

OECD response

Many organisations must be involved in activities that support of the new directions, including the OECD. For example, the OECD is currently undertaking a comparative study of retirement income policies in nine countries that will explore many of these themes, especially related to disaggregation, systematic analysis, the process of reform and data requirements.

A second avenue for exploring a number of these themes is a series of special chapters on ageing that are being included in the *OECD Economic Surveys* of individual Member countries. These will be compiled into a special study that can explore many of these and other issues that relate to retirement and ageing issues.

Work on age-related fiscal projections is now underway in the OECD Secretariat with participating countries. It is being conducted in co-operation with a similar European Union exercise.

Ageing perspectives have been built into work in several other areas of the OECD including financial markets and private pensions. Financial market and regulatory structures provide a good example of the need to shift away from general statements about the need for reform to more disaggregated analysis supporting the implementation of practical reforms. Chapter 6 provided an example of the much finer examination that is required. At the OECD the response has included the creation of new working party on private pensions whose terms of reference include data collection, policy analysis and recommendation and the development of a policy dialogue with emerging countries. Large statistical and regulatory data gathering exercises have also been launched to fill the large information gaps that exist in this area.

As well, current work in the areas of health, disability and age-related diseases will shed light on ageing and information gaps.

NOTE ON THE QUESTIONNAIRE

In the questionnaire which was the source of information for Part I, there were seven main questions, one for each of the principles found in *Maintaining Prosperity in an Ageing Society*. For each, major challenges and major effects were identified by using a benchmarking technique. Countries were asked to compare the likely effects of reforms in their country against an arbitrary reference point that was described in the questionnaire. A similar technique was used in another question (Question 8) to identify the scale of challenge. The descriptive material in the responses was also taken into account and, in some cases, there were bilateral communications with countries to clarify answers.

This process for identifying the scale of reforms was crude. However, any projections of future trends in this area are necessarily highly uncertain, even using the most sophisticated tools. The resulting comparisons should be treated as illustrative only.

The way in which the countries categorised their reforms is shown in table below [see the OECD website (www.oecd.org/subject/ageing) for further information on the questionnaire and the processes that were followed].

Summary of reforms identified as major and challenges

	Retirement incentives and disincentives	Employability of older workers	Fiscal consolidation	Diversification of the retirement income system	Reducing poverty ¹	Health and long-term care ¹		Financial market and private pensions	Strategic framework ¹
						Health	Long-term care		
Australia	A, B	D	A, B, C	A	A, B, C		A, B, C	A, B, C, D	B
Austria	A	A, B	A	A		B	A	A, B	
Belgium	B, C	B, C, E	A, B, E			A, B		A, B, C	A, B, C
Canada						A, B, C	B, C		A, B
Czech Republic	A, D, E	C, E	A, D, E	A, E		C		A, E	B
Denmark	A, B	A, B	A, B	A, B				A	A, B
Finland	E	E	B, C, E						B
France	A, C	A, B	A	B, C, D	D	C	C	B	
Germany	A	A, C, E	D	B	D		A	A, B, D	D
Greece	A, B, D, E		A, D, E	E	B		B	D, E	A, B
Hungary	B, E	E	B, E	E	B		B	B, E	B
Iceland			E	A, B, E		A	A	A, B, C, D, E	
Ireland	B, C, D	D	A, B, C	C, D	D			C	D
Italy	A, B, E	A, B, E	A, B, E	A, E	A, B, C			A, B, E	B, C, D
Japan	A, B	A	B, C, D, E	D			A, C	D	A
Korea	D, E		B, E	B, E	B	A		A	B
Luxembourg		A, D			A, C		B	B, E	
Mexico	B	B, D	A	B	B	A, B, C, D		B	
Netherlands	C, D, E	B, C, D, E	E					A, B, C	
New Zealand	A		A, B, D			D	D		D
Norway	E	E	A	E		C	A, B		
Poland									
Portugal									
Spain	A, B, C, E	E	B, E	A, B, E	A	A, B, C		A, B, D, E	A
Sweden	E	E	B, E	B, E	C	B, C	A, B	A, C, D	
Switzerland	A, D, E	D		A	A	A, C, D	D	A, B, D	D
Turkey	B, C		B	C	B, C			C	B, C
United Kingdom	A, B, E	B, C	A, C	D, E	B	B	B, D	A	
United States	C		A, B, D, E			A, B	B, C		A

Note: Countries reporting reforms that are expected to have major effects in relation to an arbitrary set of reference reforms. Note that emphasis is given to recent reforms. In some cases, major reforms exist but are not directly related to the benchmark. In other cases, major reform is not needed because existing arrangements are satisfactory. The coded reforms are the following:

A: introduced before 1997.

B: introduced in 1997 or later.

C: have been announced.

D: are under active consideration.

E: the issue is a major challenge for public policy.

1. The scale of the challenge is not identified.

THE PRESSURES OF AGEING IN THE 29 OECD MEMBER COUNTRIES

This annex shows the pressures of ageing in each of the 29 OECD Member countries. This provides a context for the reforms described in Part I.

The section for each country has been drafted to stand alone, with common descriptive paragraphs repeated for each country. Each section opens with a description of how individual life expectancies are growing and of changing patterns of lifetime employment. This is followed by charts showing how the societies of the Member countries, taken as a whole, are ageing and how this affects dependency ratios and the percentage of the total population that is employed.

The data in the following charts are based on the OECD labour force database and on UN demographic projections. They have many limitations. The actual data used ends in 1998 and the data are simple cross-sections that ignore important cohort effects that are described in Chapter 1. The projections, for example, assume that existing labour force participation trends continue. As Chapter 10 described, other assumptions are equally, or more, probable – especially in countries where the 1990s was an abnormal period.

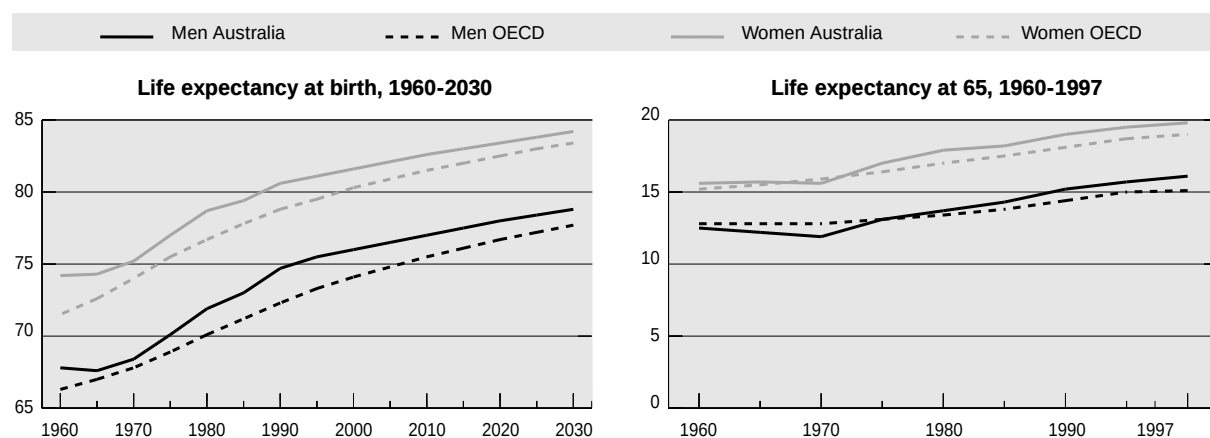
In each country, it would be possible to provide more sophisticated data on trends and projections and to devise scenarios for the future that would be more appropriate to national circumstances. However, even these national projections and scenarios would be crude. As described in Part I, the longitudinal and time use data does not currently exist in many countries to fully understand the policy implications of ageing and changing patterns of behaviour over the course of life.

Nevertheless, despite all these limitations, the annex has the merit of providing comparative information that is calculated in a consistent way across countries. The results should be interpreted, however, as just one of the many ways that the future could unfold. The purpose is not to forecast that future, but to help provide a rough understanding of the possible effects of ageing trends and changing labour market behaviour.

AUSTRALIA

Individual Australians are living longer

Life expectancy is above the OECD average. As in most countries, life expectancy is growing for both men and women, with the largest gains arising from declines in mortality at young ages. In Australia life expectancy at birth was 68 years for men and 74 years for women in 1960. By the end of the projection period in 2030 this will likely grow to 79 and 84 years respectively. At age 65, an Australian woman today could expect to live another 20 years. A man could expect to live another 16 years.



Lifetime years spent in work

How do people spend those extended lives? A typical pattern for men in OECD countries has been a dramatic fall over recent decades in the number of expected years of life that are spent in employment. There has been a corresponding growth in the expected number of years spent in other activities such as school, unemployment in some cases and, especially retirement. Men have been retiring earlier and living longer once retired. In a typical OECD country today, a man might spend only half of his life in employment. Women, on the other hand, are spending more of their lives in employment. However, as noted in Chapter 8, they too are retiring earlier and living longer once retired.

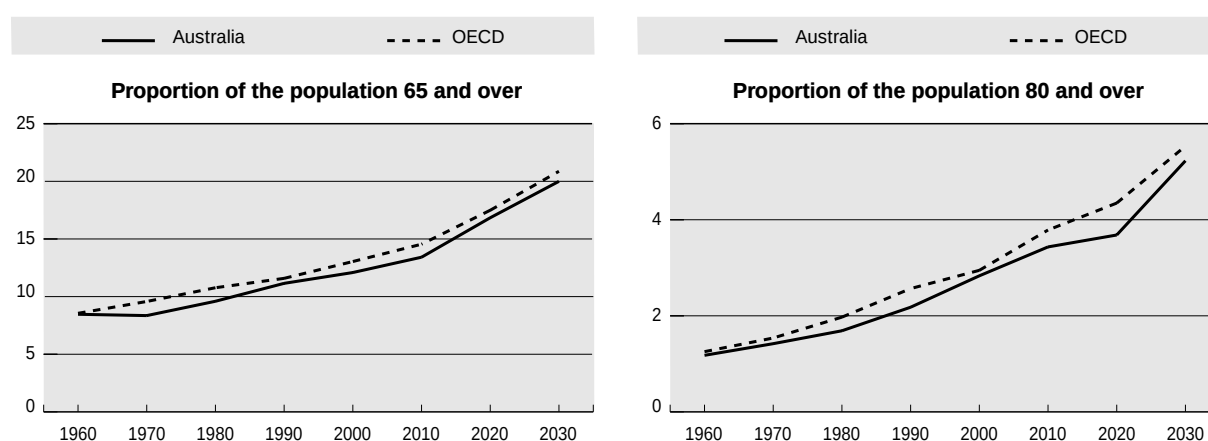
The situation in Australia is near the OECD average:

- Given the labour market situation of today, Australian men could expect to be employed for about half of their expected life – 38 years – and be out of work for the other 38. In a scenario where existing trends continue, by 2030 men could expect to be employed somewhat less (36 years), but with a larger increase in time (43 years) spent outside of employment as a result of longevity increases.

- Today, women in Australia could expect to be employed for 29 years and not be employed for 53 years. By 2030, the expected time in employment may grow to 39 years, with 45 years not in employment.

The Australian population is ageing

Increasing life expectancy is the key demographic change at the level of individuals. However, at the level of society as a whole, it is falling fertility that has been responsible for population ageing – more people in older age groups. Turning from individuals to the society as a whole, the Australian population is growing older – at about the OECD average rate. The charts below show that the percentage of the population that is aged 65 and over has grown from under 10% in 1960 to about 12% today. By 2030 over 20% of the population will be aged 65 and over. The rate of increase for people aged 80 and over is much sharper, from about 1% in 1960 to 5% in 2030.

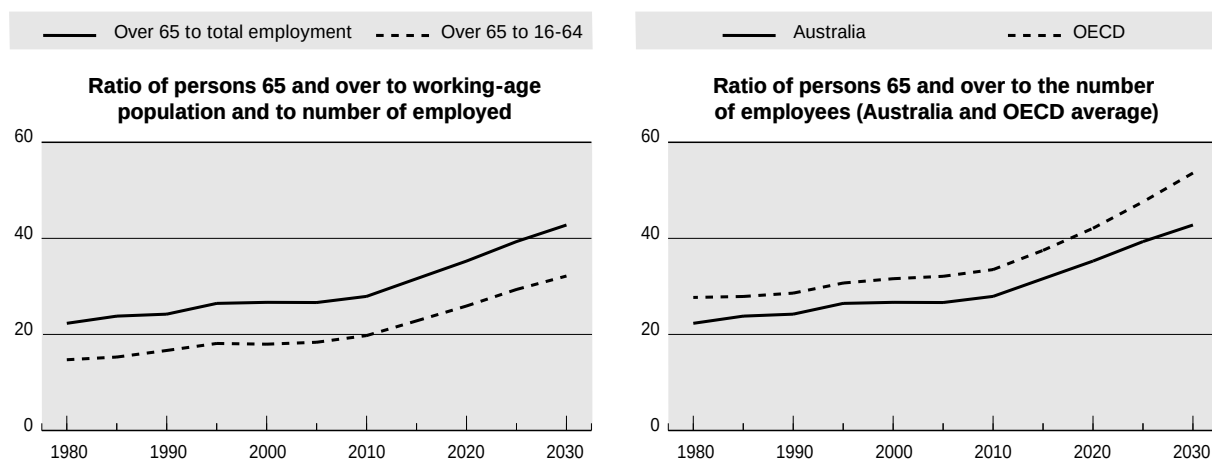


As a result, old age dependency ratios are growing

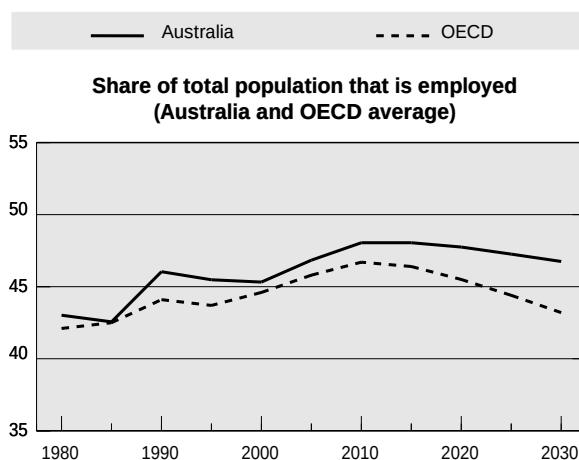
Demographers typically examine the pressures of ageing populations by examining the size of the “dependent” population in relation to the size of the working age population. This is a useful measure of the pressure that an older population creates for the economy as a whole – on the number of older people whose material living standards are “dependent” on the goods and service produced by those of working age. A dependency ratio can, in some cases, also be used to examine the pressures of ageing on public finance – an approximation of the number of contributors and tax-payers that support the number of people in receipt of benefits such as public pensions. However, fiscal comparisons need to be treated with caution since they are considerably influenced by the way these benefits are financed and by the fact that older people also pay taxes.

The bottom line on the left-hand chart below shows the old age dependency ratio – the number of people aged 65 and over, compared with people aged 16 to 64. This ratio starts to grow more sharply after about 2010 in Australia. A useful adjustment is to compare the number of older people with the number of people actually employed. Doing this takes account of the growing number of people under the age of 65 who are also not at work as a result of early retirement and other factors. This is the top line in the chart. In the case of Australia, the two lines have about the same trend. There are almost 4 employees for every older person today. By 2030, there will be only 2½ employees for every older person, if existing trends were to continue.

Somewhat less pressure than in most countries. While the growth in the dependency ratio is pronounced, the chart on the right below shows that the ratio for Australia is, nevertheless, lower than for the OECD average and the rate of increase after 2010 is also a little less.



As discussed in Chapter 10, perhaps a more useful way of looking at the combined effects of demographic and labour market trends is to examine the changing percentage of the population that is employed – and producing the goods and services. About 45% of the Australian population as a whole are employed today. If existing trends continue, that number could reach a peak of 48% in 2010 and then might fall to about 47% by 2030 – above the OECD average, which would be about 43% in 2030.

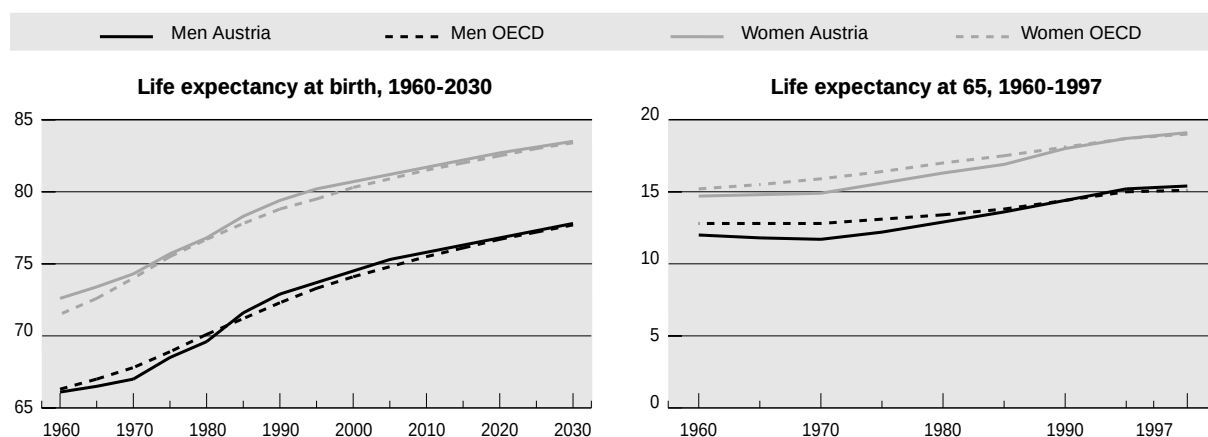


Of course, existing trends need not continue. Indeed, a goal of public policy in some countries is to reverse trends away from fewer lifetime years spent in employment. A wide range of scenarios for the future is possible, as discussed in Chapter 10. As noted in the introduction to this annex, the results should be interpreted as just one of the many ways in which the future could unfold. The purpose is not to forecast that future, but to help provide a rough understanding of the possible effects of ageing trends and changing labour market behaviour.

AUSTRIA

Individuals are living longer

Life expectancy is increasing and is close to the OECD average. As in most countries, life expectancy is growing for both men and women, with the largest gains arising from declines in mortality at young ages. In Austria, life expectancy at birth was 66 years for men and 73 years for women in 1960. By the end of the projection period in 2030 this will likely grow to 78 and 84 years respectively. At age 65, an Austrian woman today could expect to live another 20 years. A man could expect to live another 16 years.



Lifetime years spent in work

How do people spend those extended lives? A typical pattern for men in OECD countries has been a dramatic fall over recent decades in the number of expected years of life that are spent in employment. There has been a corresponding growth in the expected number of years spent in other activities such as school, unemployment in some cases and, especially retirement. Men have been retiring earlier and living longer once retired. In a typical OECD country today, a man might spend only half of his life in employment. Women, on the other hand, are spending more of their lives in employment. However, as noted in Chapter 8, they too are retiring earlier and living longer once retired.

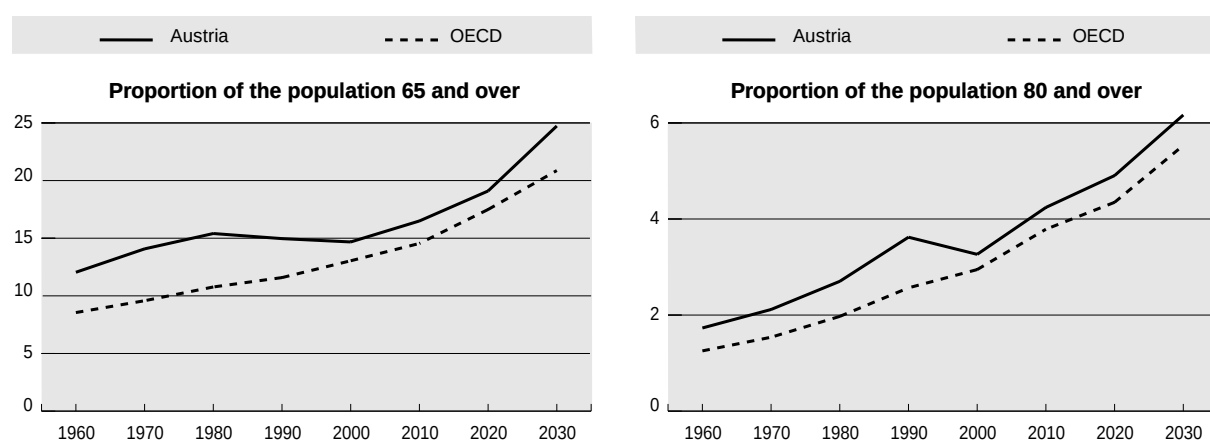
The situation in Austria is near the OECD average:

- Given the labour market situation of today, Austrian men could expect to be employed for about half of their expected life – 37 years – and be out of work for the other 37. In a scenario where existing trends continue, by 2030 men could expect to be employed for only 32 years of their lives and be out of employment for 45 years, with a major growth in the period of life spent in retirement.

- Today, women in Austria could expect to be employed for 28 years and not employed for 52 years. By 2030, the expected years in employment may not change much, but the time spent out of employment will grow as a result of longevity increases.

The Austrian population is growing older

Increasing life expectancy is the key demographic change at the level of individuals. However, at the level of society as a whole, it is falling fertility that has been responsible for population ageing – more people in older age groups. The charts below show that the percentage of the population that is aged 65 and over has grown modestly from about 12% in 1960 to about 15% today. By 2030 about 25% of the population will be aged 65 and over. The rate of increase for people aged 80 and over is much sharper, from about 2% in 1960 to 6% in 2030. The population of Austria has been older than the OECD average throughout the period.

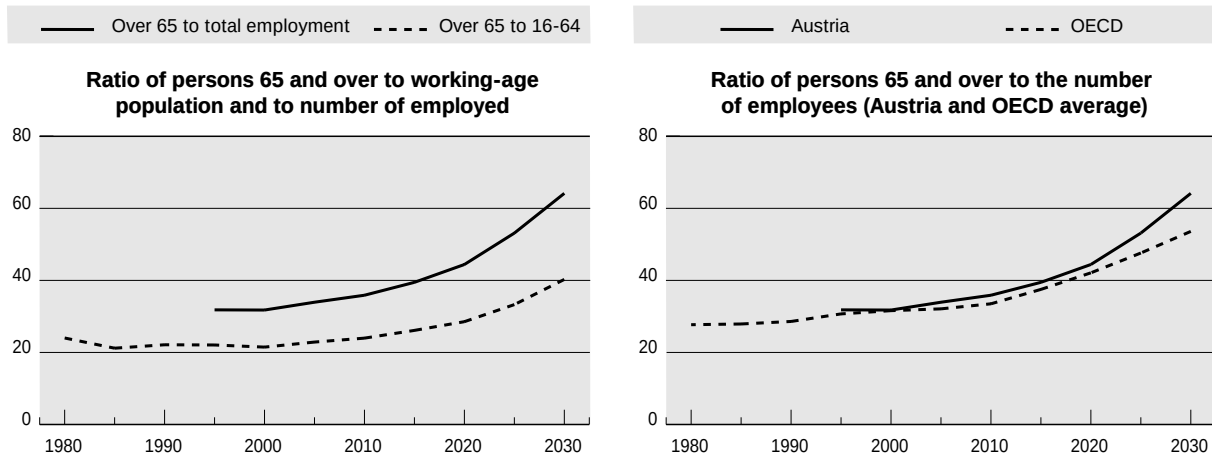


As a result, old age dependency ratios are growing

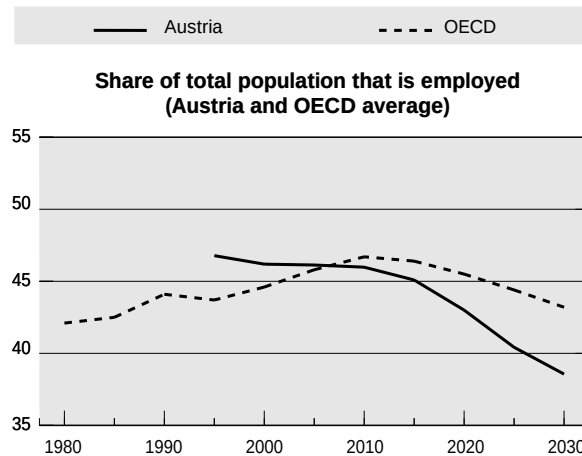
Demographers typically examine the pressures of ageing populations by examining the size of the “dependent” population in relation to the size of the working age population. This is a useful measure of the pressure that an older population creates for the economy as a whole – on the number of older people whose material living standards are “dependent” on the goods and service produced by those of working age. A dependency ratio can, in some cases, also be used to examine the pressures of ageing on public finance – an approximation of the number of contributors and tax-payers that support the number of people in receipt of benefits such as public pensions. However, fiscal comparisons need to be treated with caution since they are considerably influenced by the way these benefits are financed and by the fact that older people also pay taxes.

The bottom line on the left chart shows the old age dependency ratio – the number of people aged 65 and over, compared with people aged 16 to 64. This ratio starts to grow after about 2010 in Austria. A useful adjustment is to compare the number of older people with the number of people actually employed. Doing this takes account of the growing number of people under the age of 65 who are also not at work as a result of early retirement and other factors. This is the top line in the chart, which grows more steeply after 2010 than does the traditional measure. There are about 3 employees for every older person today. By 2030, there will be only about 1½ employees for every older person – if existing trends were to continue.

Pressure is roughly similar to that in other OECD countries. The chart on the right shows the adjusted dependency ratio has about the same pattern in Austria as the OECD average, although becoming greater near the end of the projection period.



As discussed in Chapter 10, perhaps a more useful way of looking at the combined effects of demographic and labour market trends is to examine the changing percentage of the population that is employed – and producing the goods and services that are consumed by the population as a whole. About 46% of the Austrian population as a whole are employed. If trends continue, that number might remain steady for several decades and then fall to about 39% by 2030 – below the OECD average which would be about 43% in 2030.

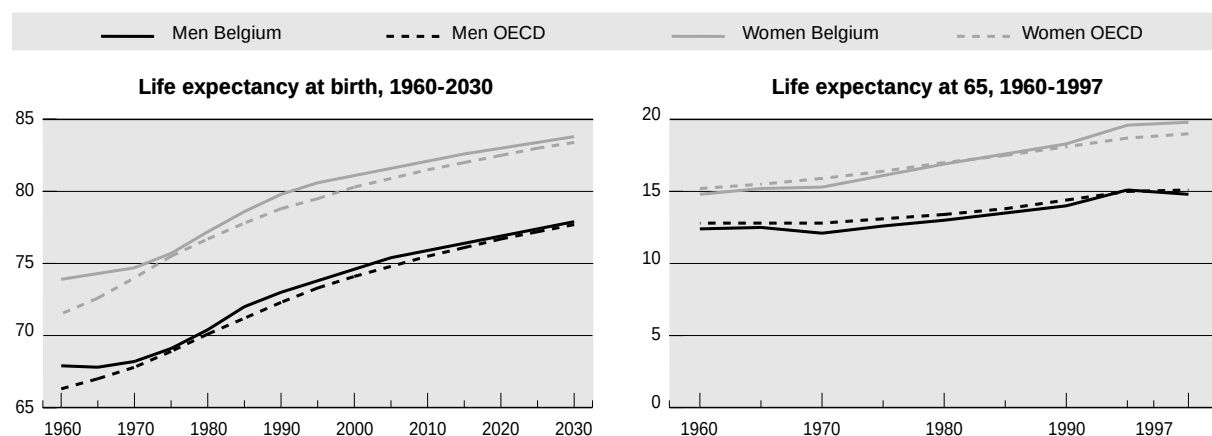


Of course, existing trends need not continue. Indeed, a goal of public policy in some countries is to reverse trends away from fewer lifetime years spent in employment. A wide range of scenarios for the future is possible, as discussed in Chapter 10. As noted in the introduction to this annex, the results should be interpreted as just one of the many ways in which the future could unfold.

BELGIUM

Individual Belgians are living longer, close to the OECD average

As in most countries, life expectancy is growing for both men and women, with the largest gains arising from declines in mortality at young ages. In Belgium, life expectancy at birth was 68 years for men and 74 years for women in 1960. By the end of the projection period in 2030 this will likely grow to 78 and 84 years respectively. At age 65, a Belgian woman today could expect to live another 20 years. A man could expect to live another 15 years.



Lifetime years spent in work

How do people spend those extended lives? A typical pattern for men in OECD countries has been a dramatic fall over recent decades in the number of expected years of life that are spent in employment. There has been a corresponding growth in the expected number of years spent in other activities such as school, unemployment in some cases and, especially retirement. Men have been retiring earlier and living longer once retired. In a typical OECD country today, a man might spend only half of his life in employment. Women, on the other hand, are spending more of their lives in employment. However, as noted in Chapter 8, they too are retiring earlier and living longer once retired.

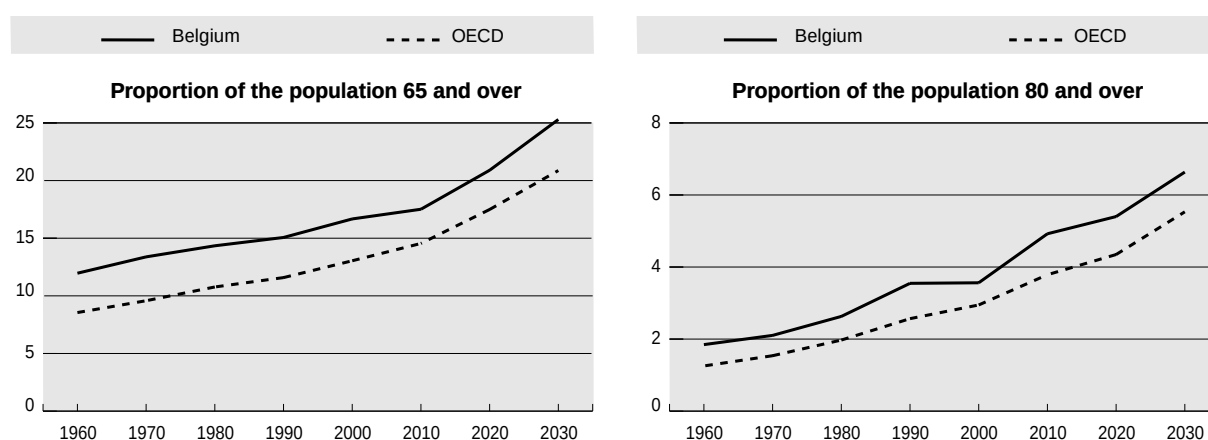
In Belgium, there is less lifetime work than in OECD average and the cross-over – when men spend as much of their life not in employment as in employment – occurred several decades ago:

- Given the labour market situation of today, Belgian men could expect to be employed for only about 32 years of their life and not to be in employment for 42 years. In a scenario where existing labour force participation trends were to continue, by 2030 men could expect to be employed for only 28 years of their lives and be out of employment for 50 years, with a major growth in the period of life spent in retirement.

- Today, women in Belgium could expect to be employed for 23 years and not employed for 58 years. By 2030, the expected years in employment might grow to about 33 years.

The Belgian population is also growing older – and is older than the OECD average

Increasing life expectancy is the key demographic change at the level of individuals. However, at the level of society as a whole, it is falling fertility that has been responsible for population ageing – more people in older age groups. The charts below show that the percentage of the population that is aged 65 and over has grown from under 12% in 1960 to about 17% today. By 2030 about 25% of the population will be aged 65 and over. The rate of increase for people aged 80 and over is much sharper, from about 2% in 1960 to nearly 7% in 2030. Trends are similar to that for the OECD average, but the Belgian population is older than the OECD average throughout the whole projection period.

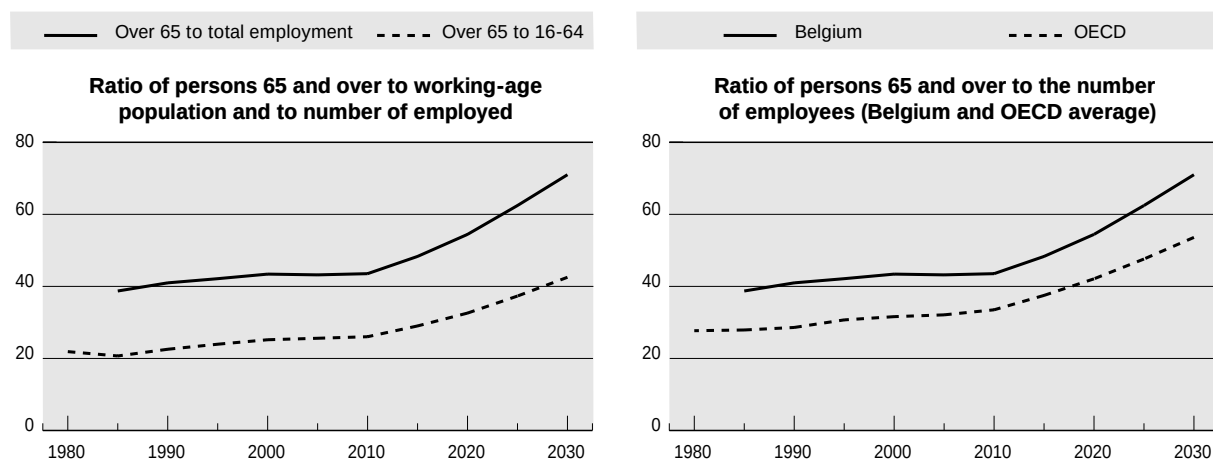


Old age dependency ratios are increasing

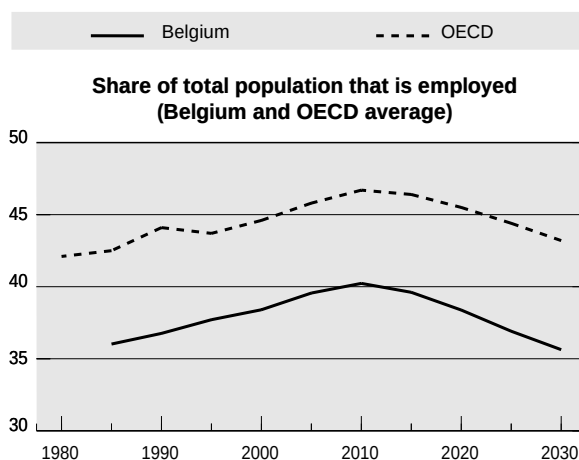
Demographers typically examine the pressures of ageing populations by examining the size of the “dependent” population in relation to the size of the working age population. This is a useful measure of the pressure that an older population creates for the economy as a whole – on the number of older people whose material living standards are “dependent” on the goods and service produced by those of working age. A dependency ratio can, in some cases, also be used to examine the pressures of ageing on public finance – an approximation of the number of contributors and tax-payers that support the number of people in receipt of benefits such as public pensions. However, fiscal comparisons need to be treated with caution since they are considerably influenced by the way these benefits are financed and by the fact that older people also pay taxes.

The bottom line on the left-hand chart below shows the old age dependency ratio – the number of people aged 65 and over, compared with people aged 16 to 64. This ratio starts to grow more sharply after about 2010 in Belgium. A useful adjustment is to compare the number of older people with the number of people actually employed. Doing this takes account of the growing number of people under the age of 65 who are also not at work as a result of early retirement and other factors. This is the top line in the chart, which grows a little more steeply than the traditional measure. There are nearly 2½ employees for every older person today. By 2030, there will be only 1½ employees for every older person, if existing trends continue.

Greater pressure than in most countries. The right-hand chart below shows that the basic upward shape of dependency ratio trends in Belgium are similar to the OECD average, but are at higher levels.



As discussed in Chapter 10, perhaps a more useful way of looking at the combined effects of demographic and labour market trends is to examine the changing percentage of the population that is employed – and producing the goods and services that are consumed by the population as a whole. About 38% of the Belgian population as a whole are employed today. If existing trends were to continue, that number might continue to grow until a peak of 40% in 2010, and then fall to about 36% by 2030 – well below the OECD average which would be 43% in 2030.

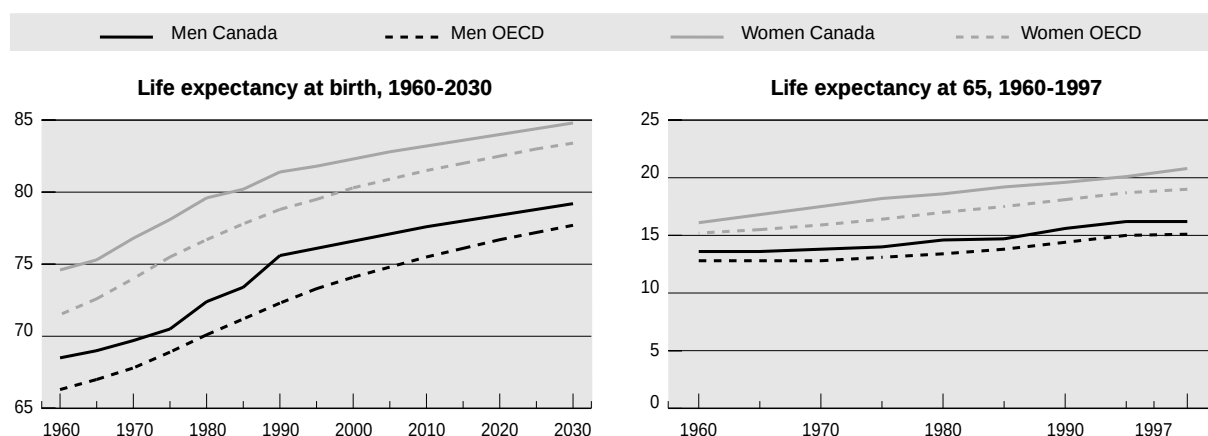


Of course, existing trends need not continue. Indeed, a goal of public policy in some countries is to reverse trends away from fewer lifetime years spent in employment. A wide range of scenarios for the future is possible, as discussed in Chapter 10. As noted in the introduction to this annex, the results should be interpreted as just one of the many ways in which the future could unfold. The purpose is not to forecast that future, but to help provide a rough understanding of the possible effects of ageing trends and changing labour market behaviour.

CANADA

Individual Canadians are living longer

As in most countries, life expectancy is growing for both men and women, with the largest gains arising from declines in mortality at young ages. In Canada, life expectancy at birth was 69 years for men and 74 years for women in 1960. By the end of the projection period in 2030, this will likely grow to 79 and 85 years respectively. At age 65, a Canadian woman today could expect to live another 20 years. A man could expect to live another 16 years. These figures are above the OECD average.



Lifetime years spent in work

How do people spend those extended lives? A typical pattern for men in OECD countries has been a dramatic fall over recent decades in the number of expected years of life that are spent in employment. There has been a corresponding growth in the expected number of years spent in other activities such as school, unemployment in some cases and, especially retirement. Men have been retiring earlier and living longer once retired. In a typical OECD country today, a man might spend only half of his life in employment. Women, on the other hand, are spending more of their lives in employment. However, as noted in Chapter 8, they too are retiring earlier and living longer once retired.

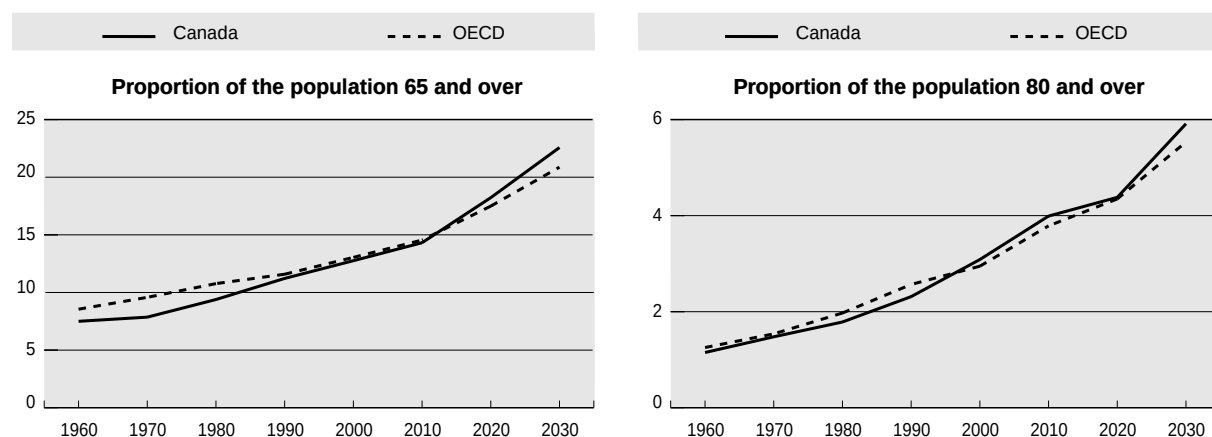
The situation in Canada is near the OECD average:

- Given the labour market situation of today, Canadian men could expect to be employed for about half of their expected life – 38 years – and be out of work for the other 39 years. In a scenario where existing trends continue, by 2030 men could expect to be employed for 35 years, but with a larger increase in time (44 years) spent outside of employment.

- Today, women in Canada could expect to be employed for 30 years and not be employed for 52 years. By 2030, the expected time in employment may grow to 38 years, with 47 years not in employment.

The Canadian population is also growing older – at about the OECD average rate

Increasing life expectancy is the key demographic change at the level of individuals. However, at the level of society as a whole, it is falling fertility that has been responsible for population ageing – more people in older age groups. The charts below show that the percentage of the population that is aged 65 and over has grown from under 10% in 1960 to about 12% today. By 2030 over 20% of the population will be aged 65 and over. The rate of increase for people aged 80 and over is much sharper, from about 1% in 1960 to 5% in 2030.

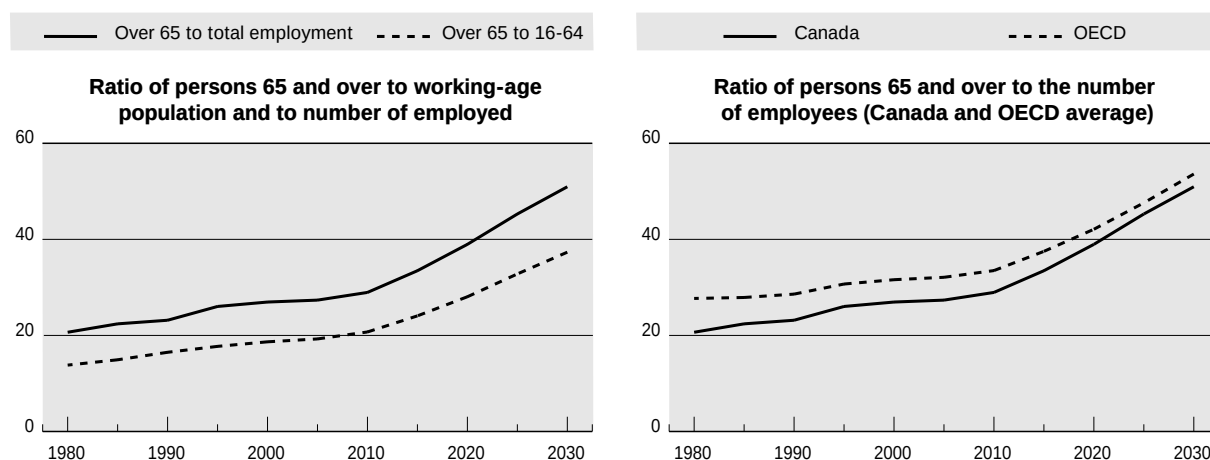


Old age dependency ratios are increasing

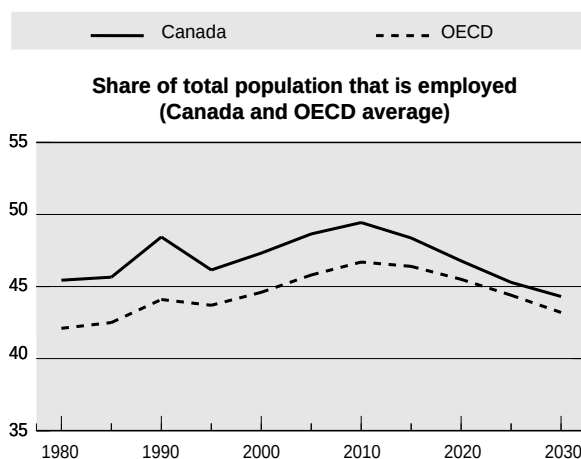
Demographers typically examine the pressures of ageing populations by examining the size of the “dependent” population in relation to the size of the working age population. This is a useful measure of the pressure that an older population creates for the economy as a whole – on the number of older people whose material living standards are “dependent” on the goods and service produced by those of working age. A dependency ratio can, in some cases, also be used to examine the pressures of ageing on public finance – an approximation of the number of contributors and tax-payers that support the number of people in receipt of benefits such as public pensions. However, fiscal comparisons need to be treated with caution since they are considerably influenced by the way these benefits are financed and by the fact that older people also pay taxes.

The bottom line on the left-hand chart below shows the old age dependency ratio – the number of people aged 65 and over, compared with people aged 16 to 64. This ratio starts to grow more sharply after about 2010 in Canada. In many countries a useful adjustment is to compare the number of older people with the number of people actually employed. Doing this takes account of the growing number of people under the age of 65 who are also not at work as a result of early retirement and other factors. This is the top line in the chart. In the case of Canada, the two lines have about the same trend. There are more than 3½ employees for every older person today. By 2030, there will be only about 2 employees for every older person, if existing trends continue.

Slightly less pressure than in most countries. While the growth in the dependency ratio is pronounced, the chart on the right below shows that the ratio for Canada is, nevertheless, a little lower than for the OECD average.



As discussed in Chapter 10, perhaps a more useful way of looking at the combined effects of demographic and labour market trends is to examine the changing percentage of the population that is employed – and producing the goods and services that are consumed by the population as a whole. About 47% of the Canadian population as a whole are employed today. If existing trends were to continue, that number might continue to grow a little until 2010, and then fall to about 44% by 2030 – close to the OECD average, which would be 43% in 2030.

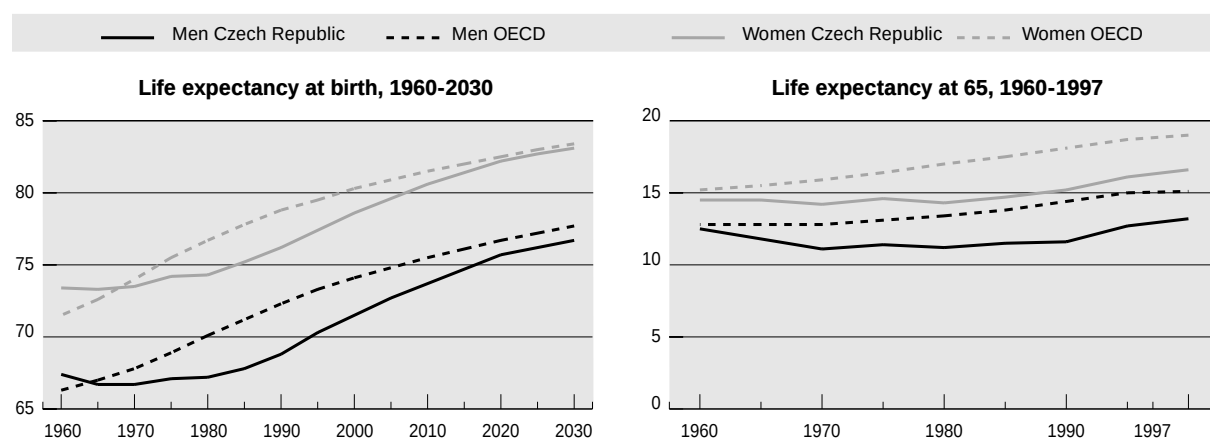


Of course, existing trends need not continue. Indeed, a goal of public policy in some countries is to reverse trends away from fewer lifetime years spent in employment. A wide range of scenarios for the future is possible, as discussed in Chapter 10, where Canada was one of the examples used.

CZECH REPUBLIC

Individual Czechs are living longer

As in most countries, life expectancy is growing for both men and women, with the largest gains arising from declines in mortality at young ages. In the Czech republic, life expectancy at birth was 67 years for men and 74 years for women in 1960. By the end of the projection period in 2030 this will likely grow to 77 and 83 years respectively. At age 65, a Czech woman today could expect to live another 17 years. A man could expect to live another 13 years. These figures are under the OECD average.

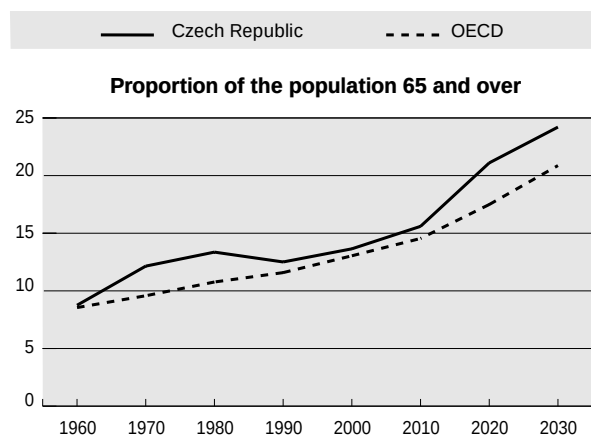
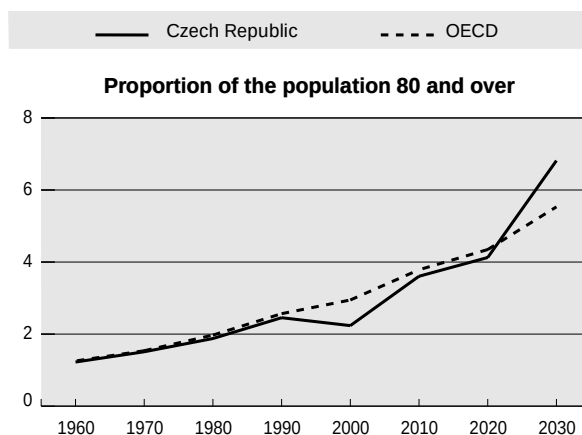


Lifetime years spent in work are difficult to project for the Czech Republic

How do people spend those extended lives? A typical pattern for men in OECD countries has been a dramatic fall over recent decades in the number of expected years of life that are spent in employment. There has been a corresponding growth in the expected number of years spent in other activities such as school, unemployment in some cases and, especially retirement. Men have been retiring earlier and living longer once retired. In a typical OECD country today, a man might spend only half of his life in employment. Women, on the other hand, are spending more of their lives in employment. However, as noted in Chapter 8, they too are retiring earlier and living longer once retired. Unfortunately, the techniques used in this publication would give unrealistic projections of lifetime years in employment given the limited historical data that is available for the Czech Republic.

The Czech population is growing older – not far from the OECD average rate

Increasing life expectancy is the key demographic change at the level of individuals. However, at the level of society as a whole, it is falling fertility that has been responsible for population ageing – more people in older age groups. The charts below show that the percentage of the population that is aged 65 and over has grown from under 10% in 1960 to about 13% today. By 2030 nearly 25% of the population will be aged 65 and over. The rate of increase for people aged 80 and over is much sharper, from about 1% in 1960 to over 6% in 2030.

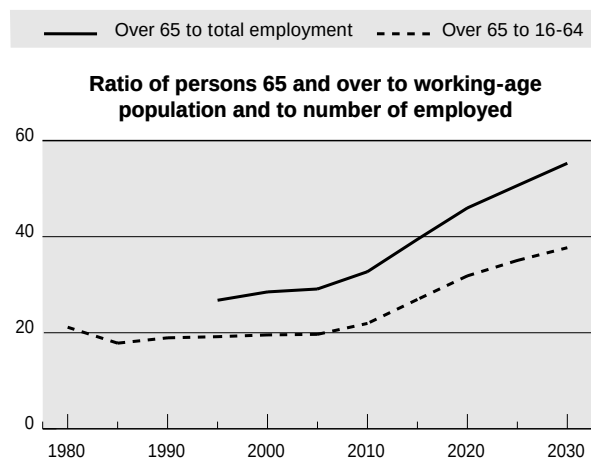
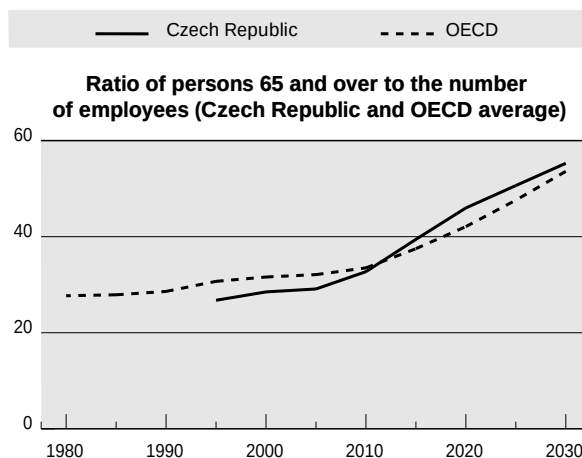


Old age dependency ratios are increasing

Demographers typically examine the pressures of ageing populations by examining the size of the “dependent” population in relation to the size of the working age population. This is a useful measure of the pressure that an older population creates for the economy as a whole – on the number of older people whose material living standards are “dependent” on the goods and service produced by those of working age. A dependency ratio can, in some cases, also be used to examine the pressures of ageing on public finance – an approximation of the number of contributors and tax-payers that support the number of people in receipt of benefits such as public pensions. However, fiscal comparisons need to be treated with caution since they are considerably influenced by the way these benefits are financed and by the fact that older people also pay taxes.

The bottom line on the left-hand chart below shows the old age dependency ratio – the number of people aged 65 and over, compared with people aged 16 to 64. This ratio starts to grow more sharply after about 2010 in the Czech Republic. A useful adjustment is to compare the number of older people with the number of people actually employed. Doing this takes account of the growing number of people under the age of 65 who are also not at work as a result of early retirement and other factors. This is the top line in the chart, which increases a little more sharply than the traditional measure. There are about 3½ employees for every older person today. By 2030, there will be less than 2 employees for every older person, if existing trends continue. Note however that, because of limited historical data, the projection for employment is poor in the Czech Republic.

Similar pressure to the OECD average. The left-hand chart below shows that the growth in the dependency ratio is quite close to the average for the OECD.

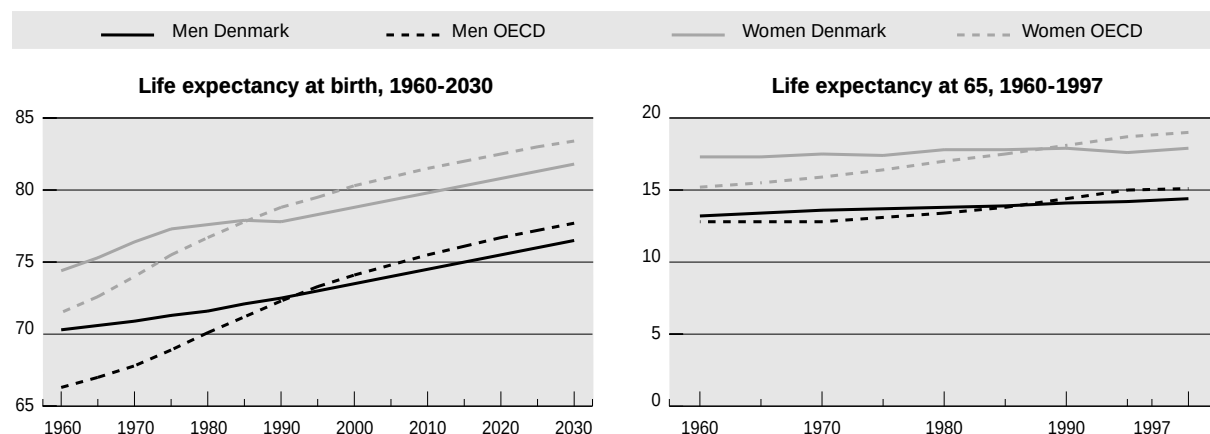


As discussed in Chapter 10, existing trends need not continue. There is much uncertainty about the future, including in the Czech Republic.

DENMARK

Individual Danes are living longer

As in most countries, life expectancy is growing for both men and women, with the largest gains arising from declines in mortality at young ages. In Denmark, life expectancy at birth was 70 years for men and 74 years for women in 1960. By the end of the projection period in 2030 this will likely grow to 77 and 82 years respectively. At age 65, a Danish woman today could expect to live another 18 years. A man could expect to live another 14 years.



Lifetime years spent in work

How do people spend those extended lives? A typical pattern for men in OECD countries has been a dramatic fall over recent decades in the number of expected years of life that are spent in employment. There has been a corresponding growth in the expected number of years spent in other activities such as school, unemployment in some cases and, especially retirement. Men have been retiring earlier and living longer once retired. In a typical OECD country today, a man might spend only half of his life in employment. Women, on the other hand, are spending more of their lives in employment. However, as noted in Chapter 8, they too are retiring earlier and living longer once retired.

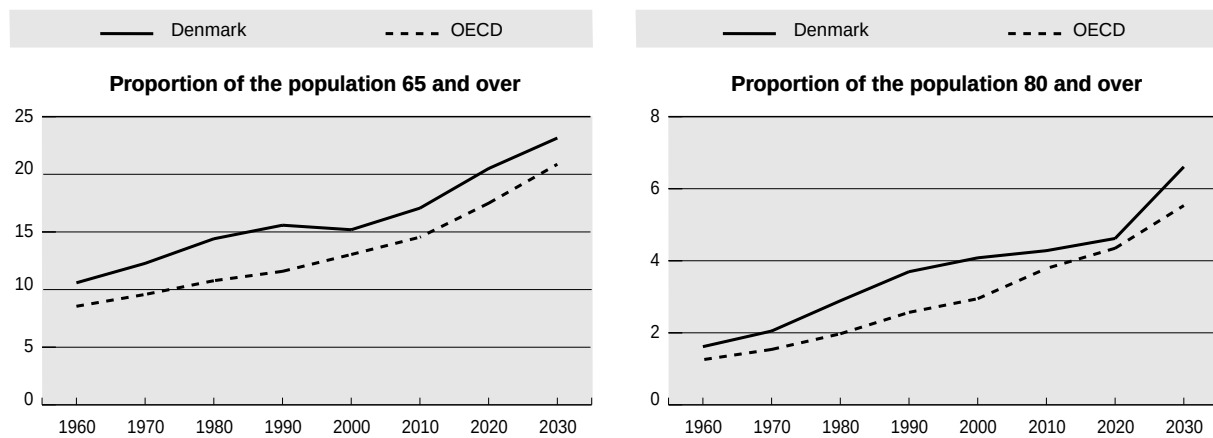
The situation in Denmark is near the OECD average, except that, in recent decades, Danish women have spent more of their lives in work:

- Given the labour market situation of today, Danish men could expect to be employed for about 40 years of their life and not to be in employment 34. In a scenario where existing trends were to continue, by 2030 men could expect to be employed for 35 years of their lives and be out of employment for 42 years
- a reversal of the present situation.

- Today, women in Denmark could expect to be employed for 35 years and not be employed for 44 years. By 2030, the expected years in employment might grow to about 38 years.

The Danish population is growing older, and its people are a little older than the OECD average

Increasing life expectancy is the key demographic change at the level of individuals. However, at the level of society as a whole, it is falling fertility that has been responsible for population ageing – more people in older age groups. The charts below show that the percentage of the population that is aged 65 and over has grown from about 10% in 1960 to about 15% today. By 2030 about 23% of the population will be aged 65 and over. The rate of increase for people aged 80 and over is much sharper, from nearly 2% in 1960 to over 6% in 2030.

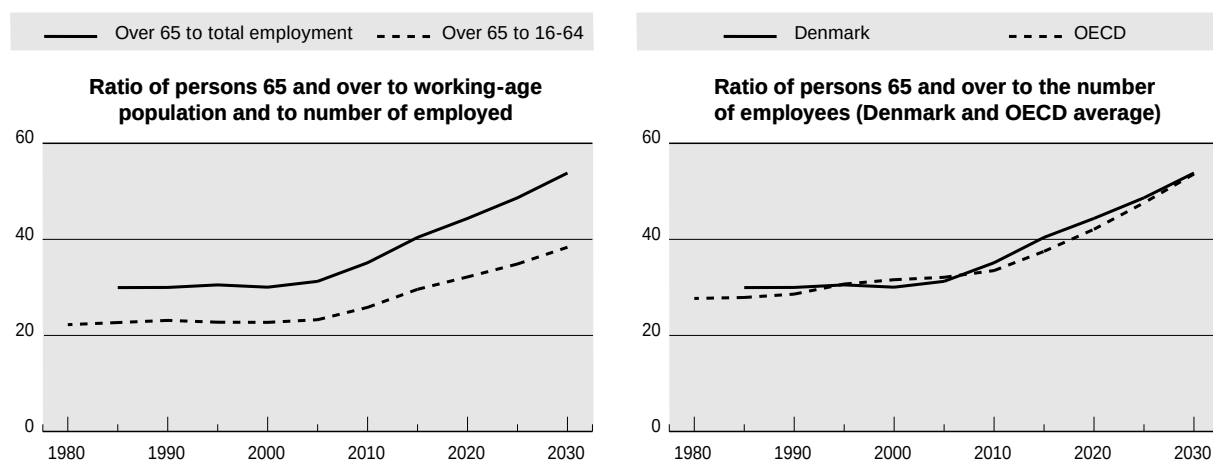


As a result old age dependency ratios are rising

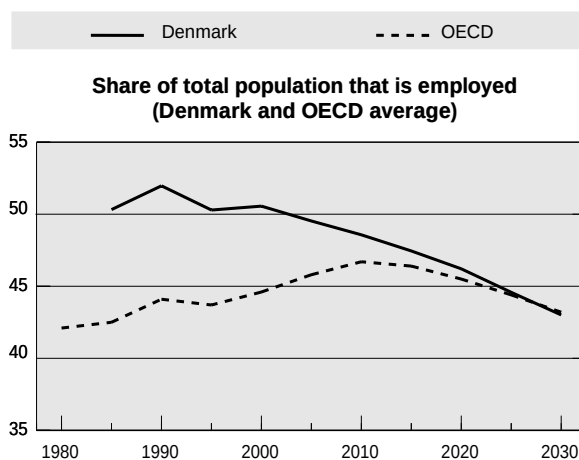
Demographers typically examine the pressures of ageing populations by examining the size of the “dependent” population in relation to the size of the working age population. This is a useful measure of the pressure that an older population creates for the economy as a whole – on the number of older people whose material living standards are “dependent” on the goods and service produced by those of working age. A dependency ratio can, in some cases, also be used to examine the pressures of ageing on public finance – an approximation of the number of contributors and tax-payers that support the number of people in receipt of benefits such as public pensions. However, fiscal comparisons need to be treated with caution since they are considerably influenced by the way these benefits are financed and by the fact that older people also pay taxes.

The bottom line on the left-hand chart below shows the old age dependency ratio – the number of people aged 65 and over, compared with people aged 16 to 64. This ratio starts to grow more sharply after about 2005 in Denmark. A useful adjustment is to compare the number of older people with the number of people actually employed. Doing this takes account of the growing number of people under the age of 65 who are also not at work as a result of early retirement and other factors. This is the top line in the chart, which rises a little more steeply than the traditional measure. There are nearly 3½ employees for every older person in 1960. By 2030, there will be only about 2½ employees for every older person, if existing trends continue.

Similar pressure to that in most countries. The chart on the right below shows that the ratio for Denmark is about the same as for the OECD average.



As discussed in Chapter 10, perhaps a more useful way of looking at the combined effects of demographic and labour market trends is to examine the changing percentage of the population that is employed – and producing the goods and services that are consumed by the population as a whole. About 51% Danish population as a whole are employed today. If existing trends were to continue, that number might fall gradually to about 43% by 2030, about the same as the OECD average.

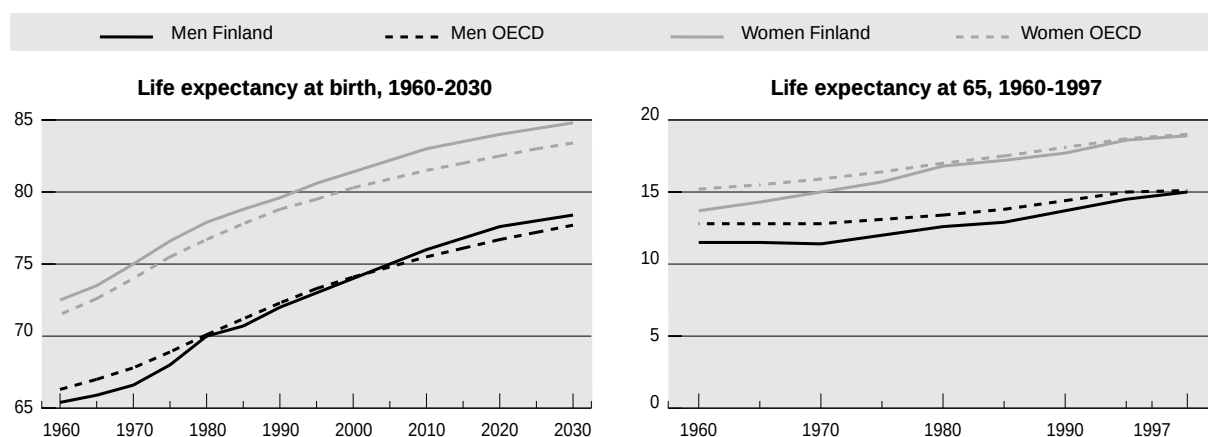


Of course, existing trends need not continue. Indeed, a goal of public policy in some countries is to reverse trends away from fewer lifetime years spent in employment. A wide range of scenarios for the future is possible, as discussed in Chapter 10. As noted in the introduction to this annex, the results should be interpreted as just one of the many ways in which the future could unfold. The purpose is not to forecast that future, but to help provide a rough understanding of the possible effects of ageing trends and changing labour market behaviour.

FINLAND

Individuals Finns are living longer

As in most countries, life expectancy is growing for both men and women, with the largest gains arising from declines in mortality at young ages. In Finland, life expectancy at birth was 65 years for men and 73 years for women in 1960. By the end of the projection period in 2030 this will likely grow to 78 and 85 years respectively. At age 65, a Finnish woman today could expect to live another 19 years. A man could expect to live another 15 years.



Lifetime years spent in work

How do people spend those extended lives? A typical pattern for men in OECD countries has been a dramatic fall over recent decades in the number of expected years of life that are spent in employment. There has been a corresponding growth in the expected number of years spent in other activities such as school, unemployment in some cases and, especially retirement. Men have been retiring earlier and living longer once retired. In a typical OECD country today, a man might spend only half of his life in employment. Women, on the other hand, are spending more of their lives in employment. However, as noted in Chapter 8, they too are retiring earlier and living longer once retired.

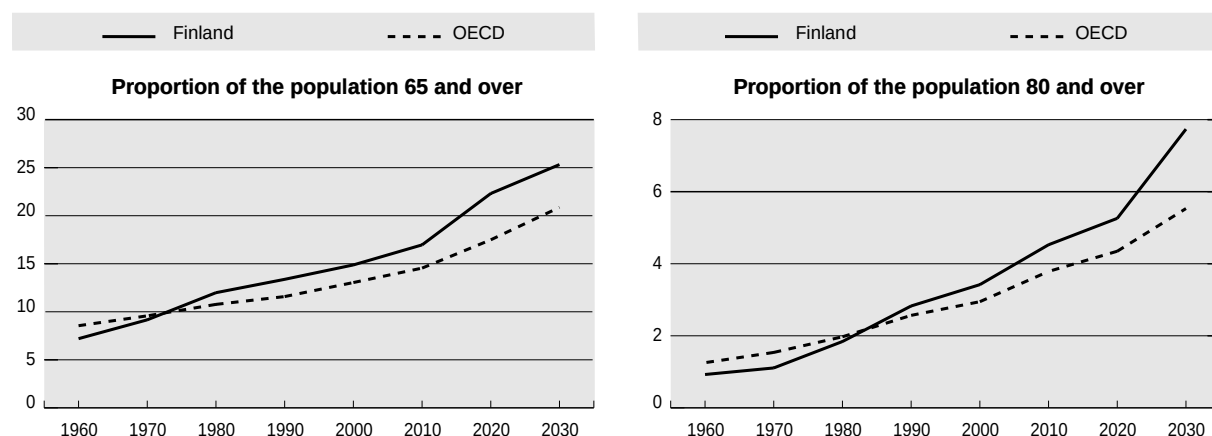
The situation in Finland is roughly similar to the OECD average, although the cross-over point where years in and out of employment are equal came earlier for men:

- Given the labour market situation of today, Finnish men could expect to be employed for about 32 years of their life and not to be in employment for 42 years. In a scenario where existing trends were to continue, by 2030 men could expect to be employed for 28 years of their lives and be out of employment for 50 years – a reversal of the present situation.

- Today, women in Finland could expect to be employed for 29 years and not be employed for 51 years. By 2030, the expected years in employment might grow to about 32 years.

The Finnish population is growing older, and its people have become older than the OECD average

Increasing life expectancy is the key demographic change at the level of individuals. However, at the level of society as a whole, it is falling fertility that has been responsible for population ageing – more people in older age groups. The charts below show that the percentage of the population that is aged 65 and over has grown from about 7% in 1960 to about 15% today. By 2030 about 25% of the population will be aged 65 and over. The rate of increase for people aged 80 and over is much sharper, from 1% in 1960 to nearly 8% in 2030. Finland is getting older a little faster than the OECD average.

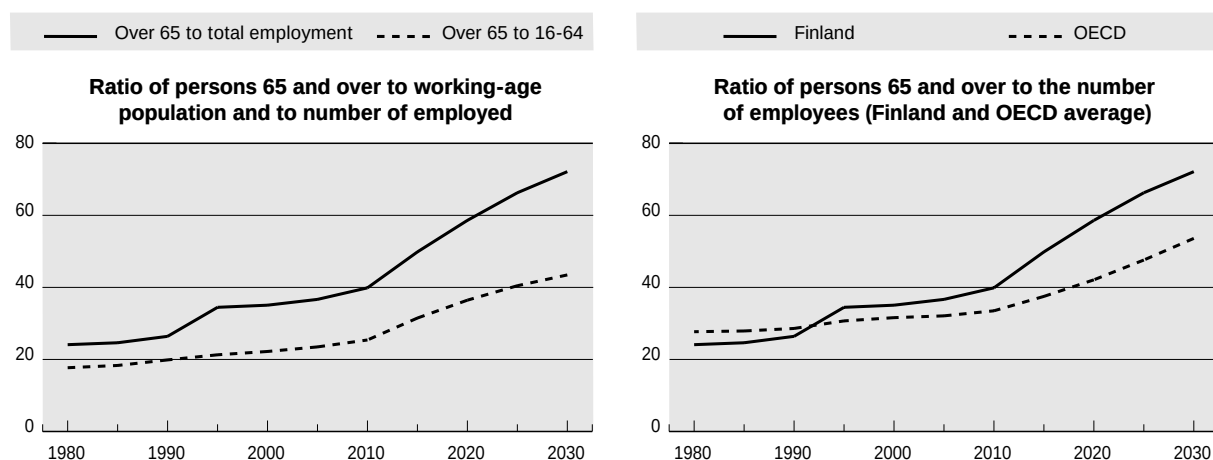


Old age dependency ratios are increasing

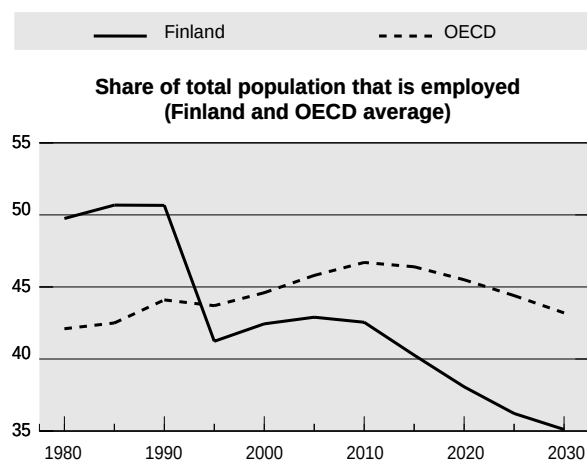
Demographers typically examine the pressures of ageing populations by examining the size of the “dependent” population in relation to the size of the working age population. This is a useful measure of the pressure that an older population creates for the economy as a whole – on the number of older people whose material living standards are “dependent” on the goods and service produced by those of working age. A dependency ratio can, in some cases, also be used to examine the pressures of ageing on public finance – an approximation of the number of contributors and tax-payers that support the number of people in receipt of benefits such as public pensions. However, fiscal comparisons need to be treated with caution since they are considerably influenced by the way these benefits are financed and by the fact that older people also pay taxes.

The bottom line on the left-hand chart below shows the old age dependency ratio – the number of people aged 65 and over, compared with people aged 16 to 64. This ratio starts to grow more sharply after about 2005 in Finland. A useful adjustment is to compare the number of older people with the number of people actually employed. Doing this takes account of the growing number of people under the age of 65 who are also not at work as a result of early retirement and other factors. This is the top line in the chart, which rises more steeply than the traditional measure. There are nearly 3 employees for every older person in Finland today. By 2030, there will be only about 1½ workers per older person, if existing trends continue.

More pressure than in many countries. The chart on the right below shows that the ratio for Finland is growing faster than the OECD average.



As discussed in Chapter 10, perhaps a more useful way of looking at the combined effects of demographic and labour market trends is to examine the changing percentage of the population that is employed – and producing the goods and services that are consumed by the population as a whole. About 42% Finnish population as a whole is employed today. If existing trends were to continue, that number might fall gradually to about 35% by 2030, well below the OECD average.

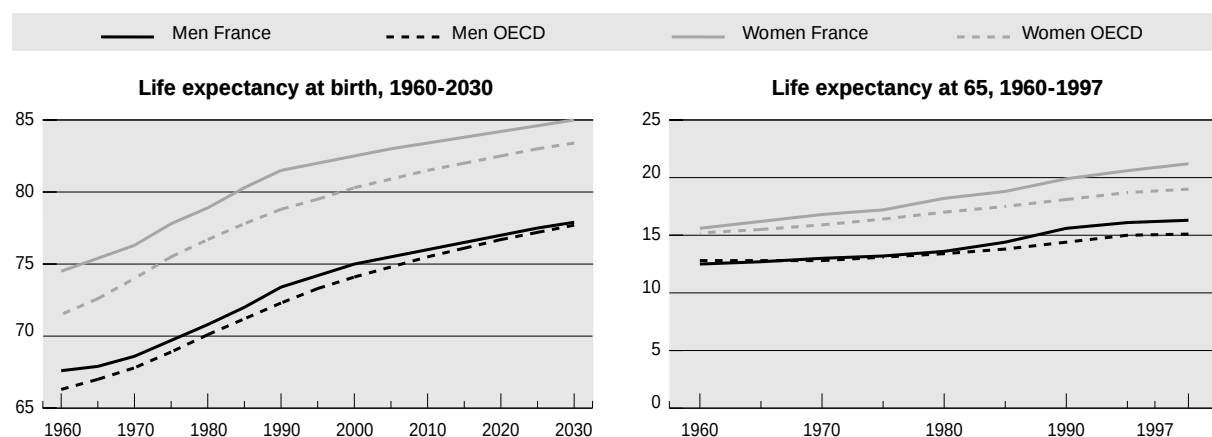


Note that the projection in Finland is greatly affected by the high unemployment of the early and mid 1990s together with the assumption – used in all countries – that unemployment drops quickly in the future. Other assumptions about the future may well be more appropriate. However, existing trends need not continue in any country. Indeed, a goal of public policy in some countries is to reverse trends away from fewer lifetime years spent in employment. A wide range of scenarios for the future is possible, as discussed in Chapter 10, where Finland was one of the examples used. As noted in the introduction to this annex, the results should be interpreted as just one of the many ways in which the future could unfold. The purpose is not to forecast that future, but to help provide a rough understanding of the possible effects of ageing trends and changing labour market behaviour.

FRANCE

Individual French people are living longer

As in most countries, life expectancy is growing for both men and women, with the largest gains arising from declines in mortality at young ages. In France, life expectancy at birth was 68 years for men and 75 years for women in 1960. By the end of the projection period in 2030 this will likely grow to 78 and 85 years respectively. At age 65, a French woman today could expect to live another 21 years. A man could expect to live another 16 years. Life expectancy is above the OECD average.



Lifetime years spent in work

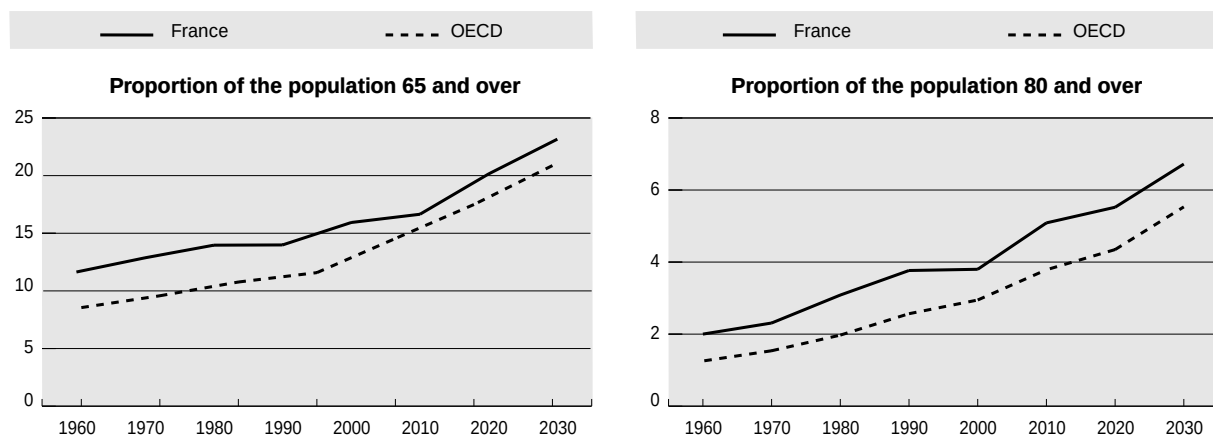
How do people spend those extended lives? A typical pattern for men in OECD countries has been a dramatic fall over recent decades in the number of expected years of life that are spent in employment. There has been a corresponding growth in the expected number of years spent in other activities such as school, unemployment in some cases and, especially retirement. Men have been retiring earlier and living longer once retired. In a typical OECD country today, a man might spend only half of his life in employment. Women, on the other hand, are spending more of their lives in employment. However, as noted in Chapter 8, they too are retiring earlier and living longer once retired. In France, the decline in employment by men was sharper than the OECD average, with the cross-over point – where men could expect to spend the same number of years in and out of employment – was reached in the 1980s.

- Given the labour market situation of today, French men could expect to be employed for less than half of their expected life – 32 years – and not to be in employment for 43 years. In a scenario where existing trends continue, by 2030 men could expect to be employed for only 29 years, with time spent outside of employment rising to 49 years.

- Today, women in France could expect to be employed for 25 years and not be employed for 58 years. By 2030, the expected time in employment may grow to 33 years, with 52 years not to be in employment.

The French population is older than the OECD average

Increasing life expectancy is the key demographic change at the level of individuals. However, at the level of society as a whole, it is falling fertility that has been responsible for population ageing – more people in older age groups. The charts below show that the percentage of the population that is aged 65 and over has grown from under 12% in 1960 to about 16% today. By 2030, 23% of the population will be aged 65 and over. The rate of increase for people aged 80 and over is much sharper, from 2% in 1960 to nearly 7% in 2030. These trends are similar to the OECD average.

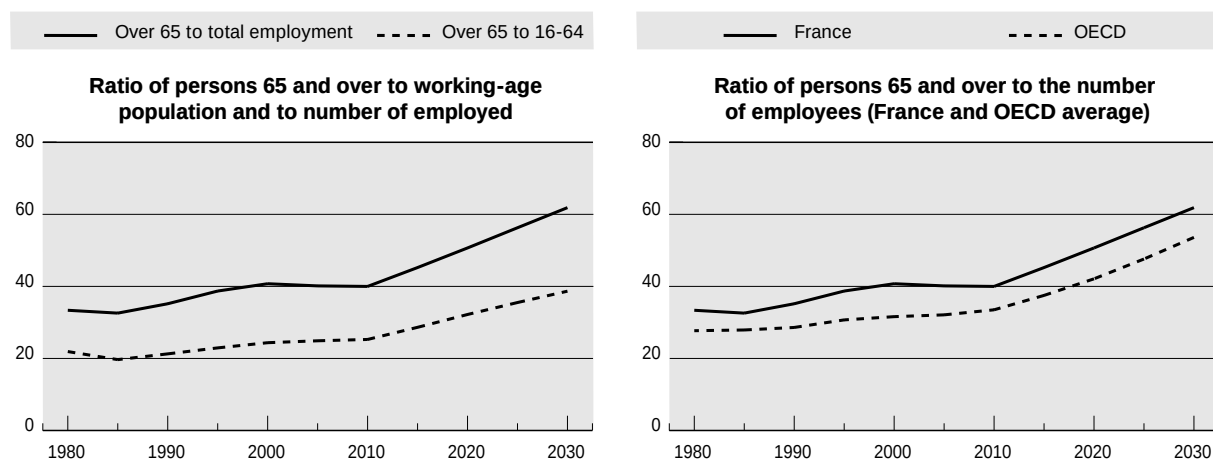


Old age dependency ratios are increasing

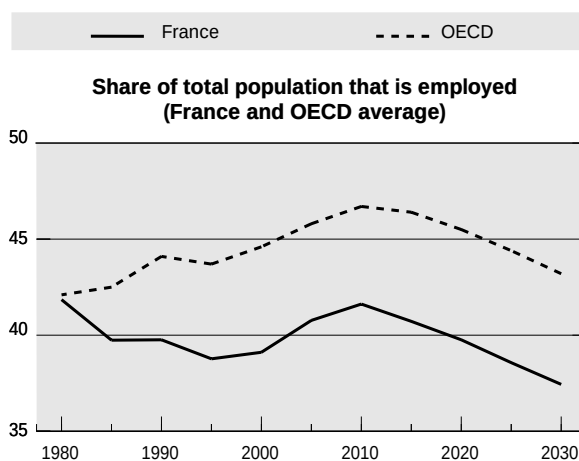
Demographers typically examine the pressures of ageing populations by examining the size of the “dependent” population in relation to the size of the working age population. This is a useful measure of the pressure that an older population creates for the economy as a whole – on the number of older people whose material living standards are “dependent” on the goods and service produced by those of working age. A dependency ratio can, in some cases, also be used to examine the pressures of ageing on public finance – an approximation of the number of contributors and tax-payers that support the number of people in receipt of benefits such as public pensions. However, fiscal comparisons need to be treated with caution since they are considerably influenced by the way these benefits are financed and by the fact that older people also pay taxes.

The bottom line on the left-hand chart below shows the old age dependency ratio – the number of people aged 65 and over, compared with people aged 16 to 64. This ratio grows gradually throughout this period in France. A useful adjustment is to compare the number of older people with the number of people actually employed. Doing this takes account of the growing number of people under the age of 65 who are also not at work as a result of early retirement and other factors. This is the top line in the chart, which shows a slightly higher increase than the traditional measure after 2010. There are about 2½ employees for every older person today. By 2030, there will be only about 1½ employees for every older person, if existing trends continue.

Somewhat more pressure than in most countries. The chart below to the right shows that the shape of the dependency ratio in France is similar to the OECD average, but at a slightly higher level.



As discussed in Chapter 10, perhaps a more useful way of looking at the combined effects of demographic and labour market trends is to examine the changing percentage of the population that is employed – and producing the goods and services that are consumed by the population as a whole. About 40% of the French population as a whole are employed today. If existing trends continue, that number could reach a peak of 42% in 2010 and then might fall to about 37% by 2030 – below the OECD average which would be about 43% in 2030.

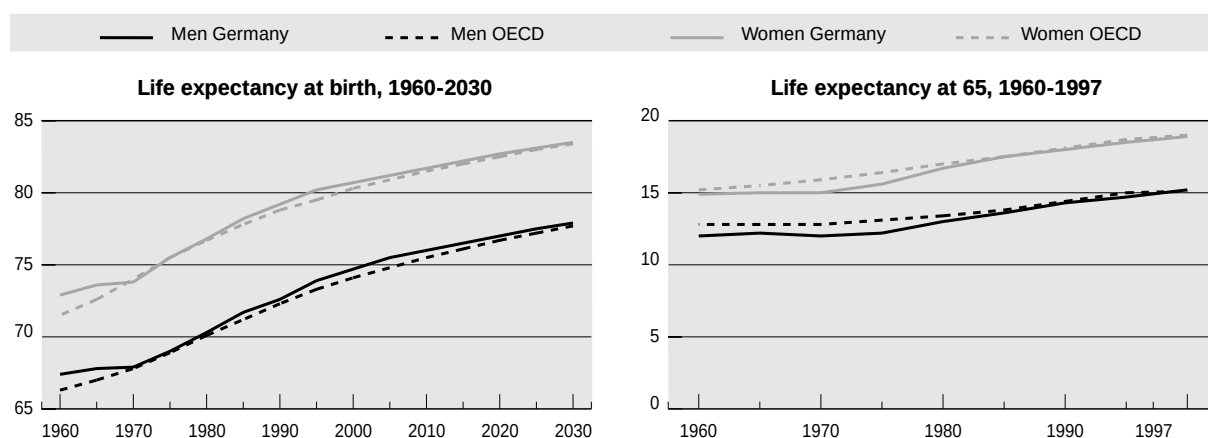


Of course, existing trends need not continue. Indeed, a goal of public policy in some countries is to reverse trends away from fewer lifetime years spent in employment. A wide range of scenarios for the future is possible, as discussed in Chapter 10. As noted in the introduction to this annex, the results should be interpreted as just one of the many ways in which the future could unfold. The purpose is not to forecast that future, but to help provide a rough understanding of the possible effects of ageing trends and changing labour market behaviour.

GERMANY

Individual Germans are living longer

As in most countries, life expectancy is growing for both men and women, with the largest gains arising from declines in mortality at young ages. In Germany, life expectancy at birth was 67 years for men and 73 years for women in 1960. By the end of the projection period in 2030 this will likely grow to 78 and 84 years respectively. At age 65, a German woman today could expect to live another 19 years. A man could expect to live another 15 years.



Lifetime years spent in work

How do people spend those extended lives? A typical pattern for men in OECD countries has been a dramatic fall over recent decades in the number of expected years of life that are spent in employment. There has been a corresponding growth in the expected number of years spent in other activities such as school, unemployment in some cases and, especially retirement. Men have been retiring earlier and living longer once retired. In a typical OECD country today, a man might spend only half of his life in employment. Women, on the other hand, are spending more of their lives in employment. However, as noted in Chapter 8, they too are retiring earlier and living longer once retired.

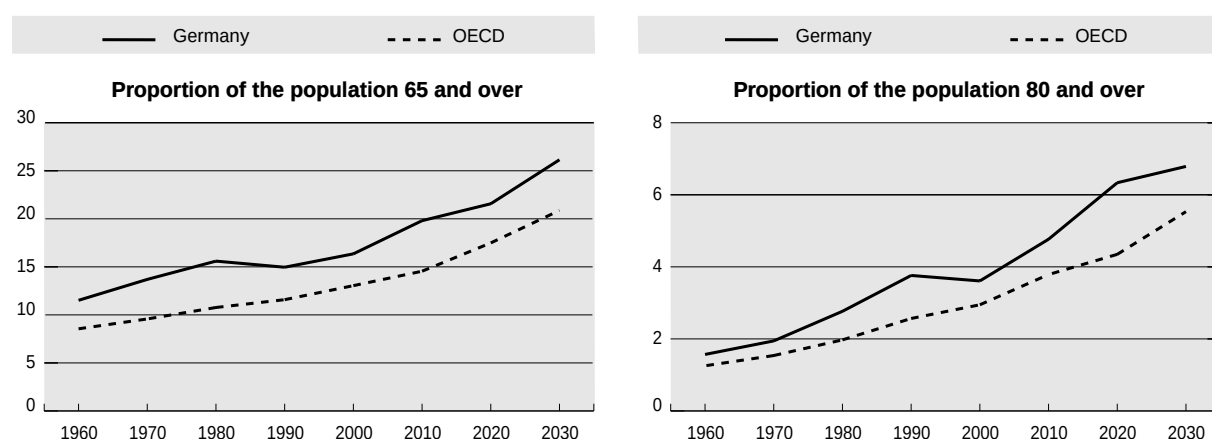
The situation in Germany is near the OECD average:

- Given the labour market situation of today, German men could expect to be employed about 36 years of their life – and not be in employment for 38 years. In a scenario where existing trends continue, by 2030 men could expect to be employed for 34 years, with time spent outside of employment rising to 44 years.

- Today, women in Germany could expect to be employed for 29 years and not be employed for 52 years. By 2030, the expected time in employment may grow to 39 years, with 45 years not in employment.

The German population is older than the OECD average

Increasing life expectancy is the key demographic change at the level of individuals. However, at the level of society as a whole, it is falling fertility that has been responsible for population ageing – more people in older age groups. The charts below show that the percentage of the population that is aged 65 and over has grown from under 12% in 1960 to about 16% today. By 2030 over 25% of the population will be aged 65 and over. The rate of increase for people aged 80 and over is much sharper, from about 1.5% in 1960 to 6.5% in 2030.

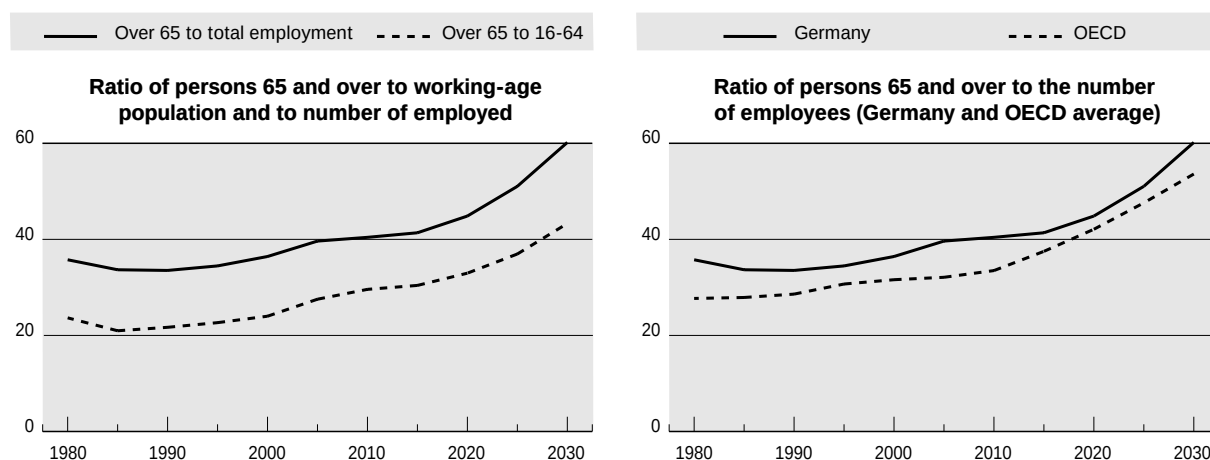


Old age dependency ratios are increasing

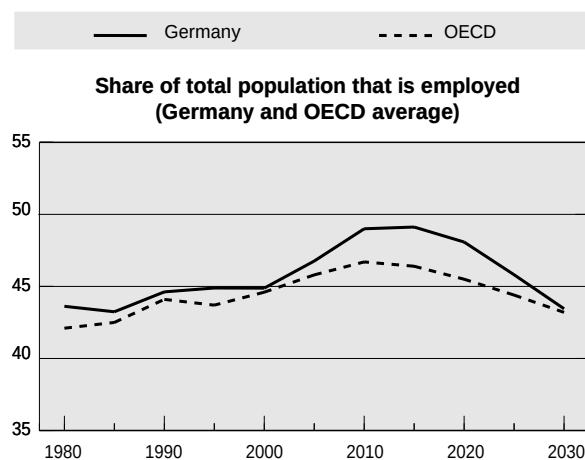
Demographers typically examine the pressures of ageing populations by examining the size of the “dependent” population in relation to the size of the working age population. This is a useful measure of the pressure that an older population creates for the economy as a whole – on the number of older people whose material living standards are “dependent” on the goods and service produced by those of working age. A dependency ratio can, in some cases, also be used to examine the pressures of ageing on public finance – an approximation of the number of contributors and tax-payers that support the number of people in receipt of benefits such as public pensions. However, fiscal comparisons need to be treated with caution since they are considerably influenced by the way these benefits are financed and by the fact that older people also pay taxes.

The bottom line on the left-hand chart below shows the old age dependency ratio – the number of people aged 65 and over, compared with people aged 16 to 64. This ratio starts to grow throughout the period in Germany. A useful adjustment is to compare the number of older people with the number of people actually employed. Doing this takes account of the growing number of people under the age of 65 who are also not at work as a result of early retirement and other factors. This is the top line in the chart. In the case of Germany, the two lines have about the same trend. There are over 2½ employees for every older person today. By 2030, there will be about 1½ employees for every older person, if existing trends continue.

Somewhat more pressure than in most countries. The chart on the right below shows that the ratio for Germany is a little higher than for the OECD average, although the gap narrows near the end of projection period.



As discussed in Chapter 10, perhaps a more useful way of looking at the combined effects of demographic and labour market trends is to examine the changing percentage of the population that is employed – and producing the goods and services that are consumed by the population as a whole. About 45% of the German population as a whole are employed today. If existing trends were to continue, that number might continue to grow to a peak of 49% in 2015 and then fall to about 43% by 2030 – about the same as the OECD average.

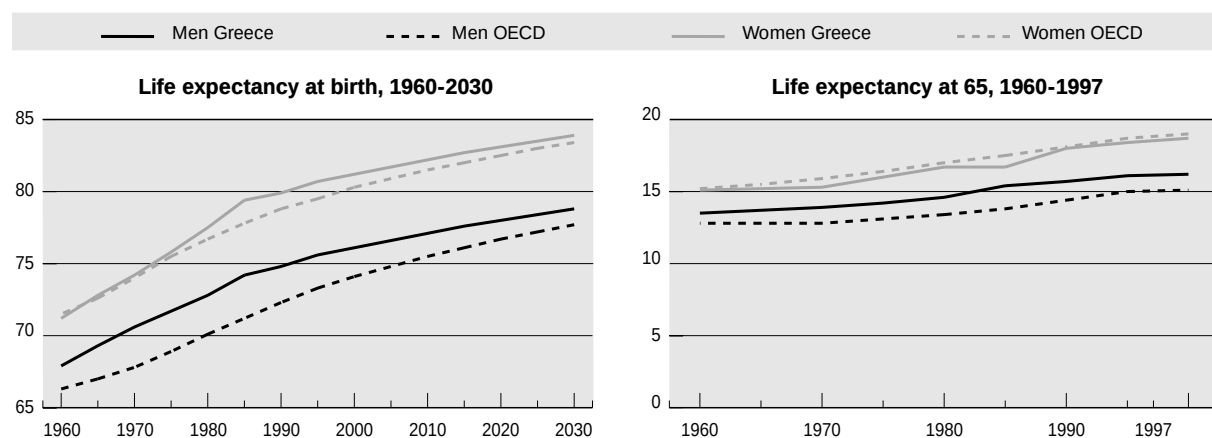


Of course, existing trends need not continue. Indeed, a goal of public policy in some countries is to reverse trends away from fewer lifetime years spent in employment. A wide range of scenarios for the future is possible, as discussed in Chapter 10, where Germany was one of the examples used. In Germany, for example, more sophisticated internal analysis than is possible here suggests that the employment of cohorts of older men and women are now increasing. As noted in the introduction to this annex, the results should be interpreted as just one of the many ways in which the future could unfold. The purpose is not to forecast that future, but to help provide a rough understanding of the possible effects of ageing trends and changing labour market behaviour.

GREECE

Individual Greeks are living longer

As in most countries, life expectancy is growing for both men and women, with the largest gains arising from declines in mortality at young ages. In Greece, life expectancy at birth was 68 years for men and 71 years for women in 1960. By the end of the projection period in 2030 this will likely grow to 78 and 84 years respectively. At age 65, a Greek woman today could expect to live another 19 years. A man could expect to live another 16 years. These figures are close to the OECD average.



Lifetime years spent in work

How do people spend those extended lives? A typical pattern for men in OECD countries has been a dramatic fall over recent decades in the number of expected years of life that are spent in employment. There has been a corresponding growth in the expected number of years spent in other activities such as school, unemployment in some cases and, especially retirement. Men have been retiring earlier and living longer once retired. In a typical OECD country today, a man might spend only half of his life in employment. Women, on the other hand, are spending more of their lives in employment. However, as noted in Chapter 8, they too are retiring earlier and living longer once retired.

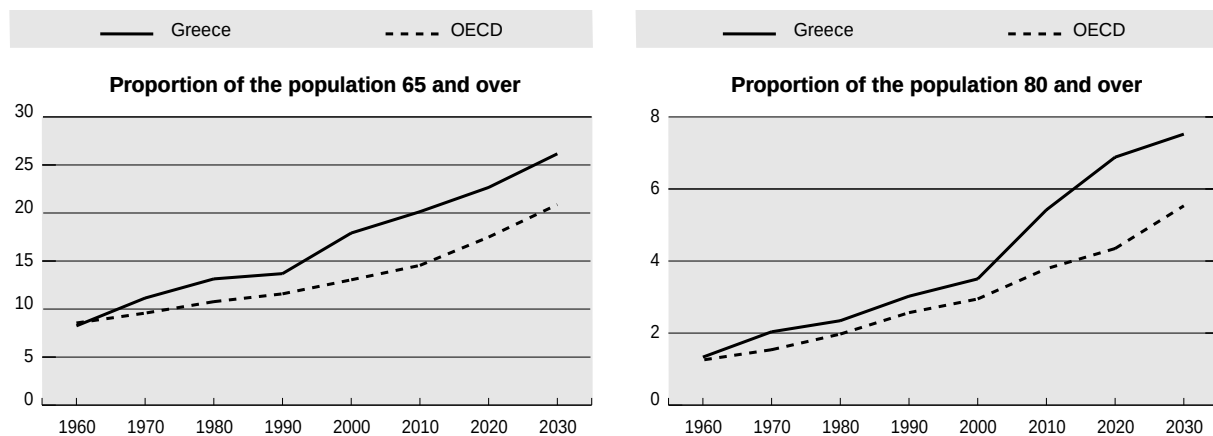
The situation in Greece is near the OECD average, except that there is a considerably lower percentage of women at work than the OECD average:

- Given the labour market situation of today, Greek men could expect to be employed for about half of their expected life – 37 years – and be out of work for 39 years. In a scenario where existing trends continue, by 2030 men could expect to be employed for only 33 years of their lives and be out of employment for 45 years, with a major growth in the period of life spent in retirement.

- Today, women in Greece could expect to be employed for 21 years and not employed for 60 years. By 2030, the expected years in employment may reach about 32 years and the expected years not in employment will then fall to 52 years.

The Greek population is older than the OECD average, and getting older a little faster

Increasing life expectancy is the key demographic change at the level of individuals. However, at the level of society as a whole, it is falling fertility that has been responsible for population ageing – more people in older age groups. The charts below show that the percentage of the population that is aged 65 and over has grown from 8% in 1960 to about 18% today. By 2030, more than 25% of the population will be aged 65 and over. The rate of increase for people aged 80 and over is sharper, from a little over 1% in 1960 to over 7% in 2030.

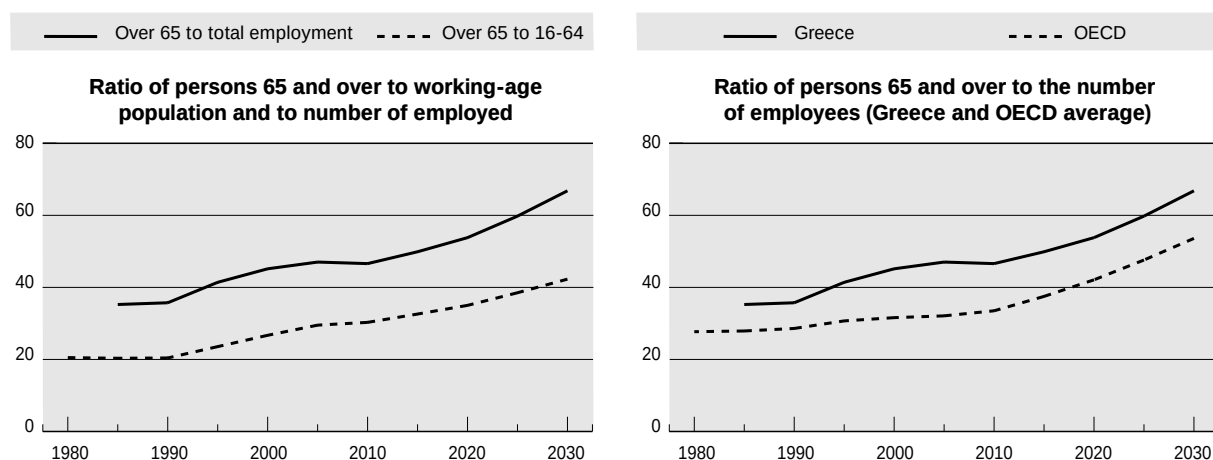


As a result, old age dependency ratios are rising

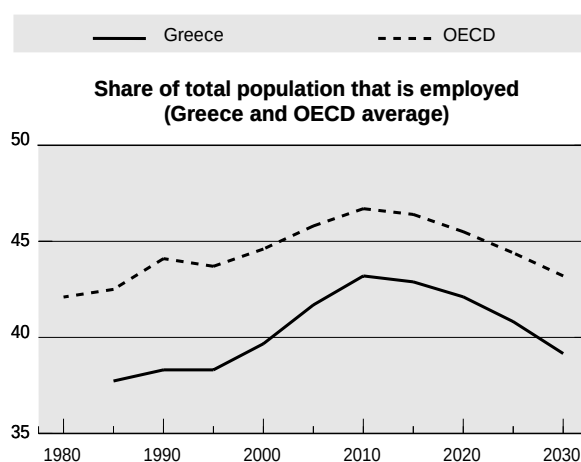
Demographers typically examine the pressures of ageing populations by examining the size of the “dependent” population in relation to the size of the working age population. This is a useful measure of the pressure that an older population creates for the economy as a whole – on the number of older people whose material living standards are “dependent” on the goods and service produced by those of working age. A dependency ratio can, in some cases, also be used to examine the pressures of ageing on public finance – an approximation of the number of contributors and tax-payers that support the number of people in receipt of benefits such as public pensions. However, fiscal comparisons need to be treated with caution since they are considerably influenced by the way these benefits are financed and by the fact that older people also pay taxes.

The bottom line on the left-hand chart below shows the old age dependency ratio – the number of people aged 65 and over, compared with people aged 16 to 64. This ratio grows steadily throughout the entire period in Greece. A useful adjustment is to compare the number of older people with the number of people actually employed. Doing this takes account of the growing number of people under the age of 65 who are also not at work as a result of early retirement and other factors. This is the top line in the chart. In the case of Greece, the two lines have about the same trend. There are over 2 employees for every older person in 1960. By 2030, there will be only 1½ employees for every older person, if existing trends continue.

Somewhat more pressure than in most countries. The chart on the right below shows that the ratio for Greece has been rising a little faster than for the OECD average.



As discussed in Chapter 10, perhaps a more useful way of looking at the combined effects of demographic and labour market trends is to examine the changing percentage of the population that is employed – and producing the goods and services that are consumed by the population as a whole. About 40% of the Greek population as a whole are employed today. If existing trends were to continue that number could also be 40% in 2030 – after having first risen to a peak of 43% in 2010 and then declined to 39%. This would be below the comparable OECD average figure of about 43% in 2030.

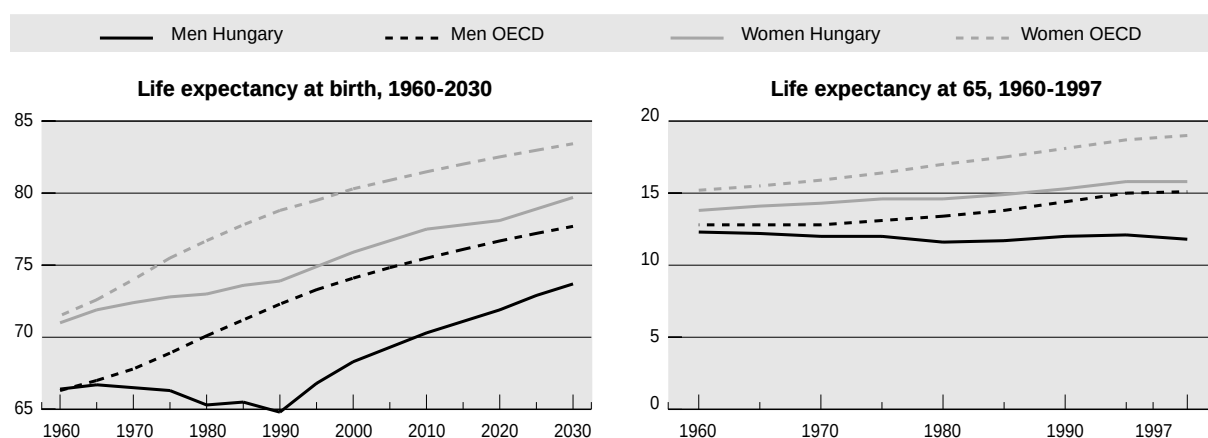


Of course, existing trends need not continue. Indeed, a goal of public policy in some countries is to reverse trends away from fewer lifetime years spent in employment. A wide range of scenarios for the future is possible, as discussed in Chapter 10. As noted in the introduction to this annex, the results should be interpreted as just one of the many ways in which the future could unfold.

HUNGARY

Individual Hungarians are living longer

As in most countries, life expectancy is growing for both men and women. In Hungary, life expectancy at birth was 66 years for men and 71 years for women in 1960. By the end of the projection period in 2030 this could grow to 74 and 80 years respectively. At age 65, a woman from Hungary today could expect to live another 16 years. A man could expect to live another 12 years. These figures are below the OECD average.

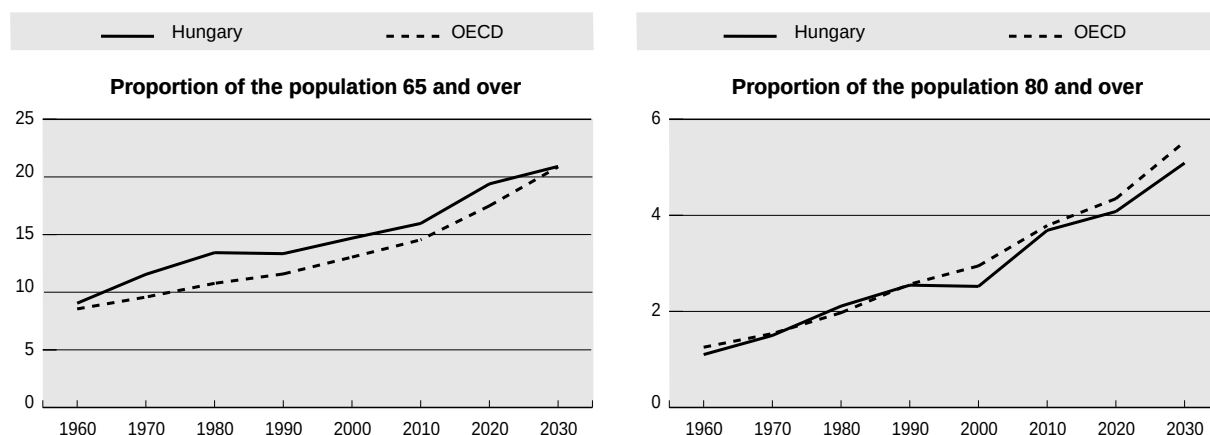


Lifetime years spent in work are difficult to project for Hungary

How do people spend those extended lives? A typical pattern for men in OECD countries has been a dramatic fall over recent decades in the number of expected years of life that are spent in employment. There has been a corresponding growth in the expected number of years spent in other activities such as school, unemployment in some cases and, especially retirement. Men have been retiring earlier and living longer once retired. In a typical OECD country today, a man might spend only half of his life in employment. Women, on the other hand, are spending more of their lives in employment. However, as noted in Chapter 8, they too are retiring earlier and living longer once retired. Unfortunately, the techniques used in this publication would give unrealistic projections of lifetime years in employment given the limited consistent historical data that is available for Hungary.

The Hungarian population is growing older – at about the OECD average rate

Increasing life expectancy is the key demographic change at the level of individuals. However, at the level of society as a whole, it is falling fertility that has been responsible for population ageing – more people in older age groups. The charts below show that the percentage of the population that is aged 65 and over has grown from under 9% in 1960 to about 15% today. By 2030, about 19% of the population will be aged 65 and over. The rate of increase for people aged 80 and over is much sharper, from about 1% in 1960 to 5% in 2030.

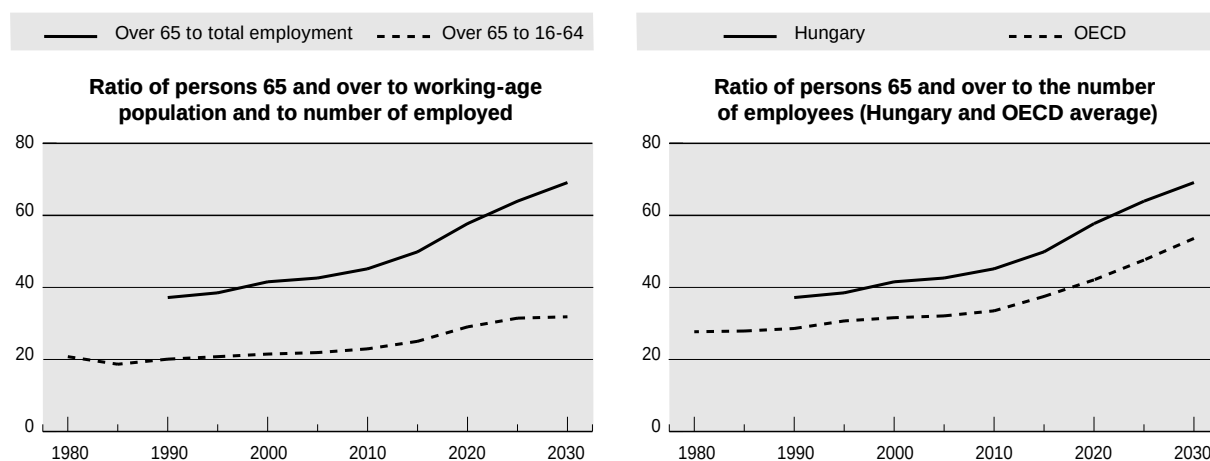


Old age dependency ratios are rising

Demographers typically examine the pressures of ageing populations by examining the size of the “dependent” population in relation to the size of the working age population. This is a useful measure of the pressure that an older population creates for the economy as a whole – on the number of older people whose material living standards are “dependent” on the goods and service produced by those of working age. A dependency ratio can, in some cases, also be used to examine the pressures of ageing on public finance – an approximation of the number of contributors and tax-payers that support the number of people in receipt of benefits such as public pensions. However, fiscal comparisons need to be treated with caution since they are considerably influenced by the way these benefits are financed and by the fact that older people also pay taxes.

The chart below, to the left, shows the old age dependency ratio – the number of people aged 65 and over, compared with people aged 16 to 64. A useful adjustment is to compare the number of older people with the number of people actually employed. Doing this takes account of the growing number of people under the age of 65 who are also not at work as a result of early retirement and other factors. This is the top line in the chart, which shows a more rapid growth than the traditional measure, if existing labour market trends were to continue. There are about 2½ employees for every older person today. By 2030, there could be only 1½ workers for every older person – if existing trends were to continue. Note however that, because of limited historical data, projection techniques are weak for Hungary.

Somewhat more pressure than in most countries. The chart on the right below shows that the ratio for Hungary may rise faster than for the OECD average, again if existing labour market trends persist into the future.

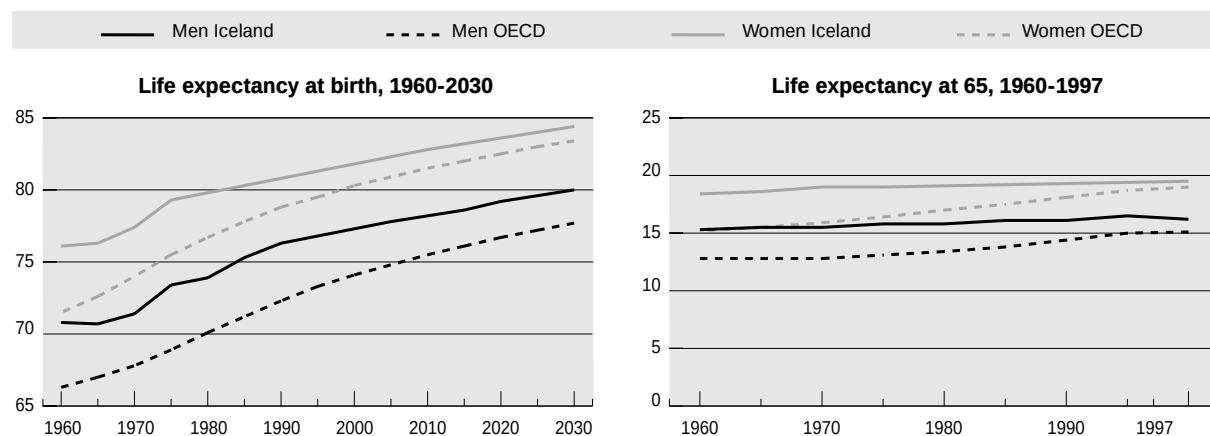


As discussed in Chapter 10 existing trends need not continue. There is much uncertainty about the future, clearly so in the case of Hungary. As noted in the introduction to this annex, the results should be interpreted as just one of the many ways that the future could unfold. The purpose is not to forecast that future, but to help provide a rough understanding of the possible effects of ageing trends and changing labour market behaviour.

ICELAND

Individuals in Iceland are living longer and longevity is above the OECD average

As in most countries, life expectancy is growing. In Iceland, life expectancy at birth was 71 years for men and 76 years for women in 1960. By the end of the projection period in 2030 this will likely grow to 80 and 84 years respectively. At age 65, a woman today could expect to live another 20 years. A man could expect to live another 16 years.



Lifetime years spent in work are much higher than the OECD average

How do people spend those extended lives? A typical pattern for men in OECD countries has been a dramatic fall over recent decades in the number of expected years of life that are spent in employment. There has been a corresponding growth in the expected number of years spent in other activities such as school, unemployment in some cases and, especially retirement. Men have been retiring earlier and living longer once retired. In a typical OECD country today, a man might spend only half of his life in employment. Women, on the other hand, are spending more of their lives in employment. However, as noted in Chapter 8, they too are retiring earlier and living longer once retired.

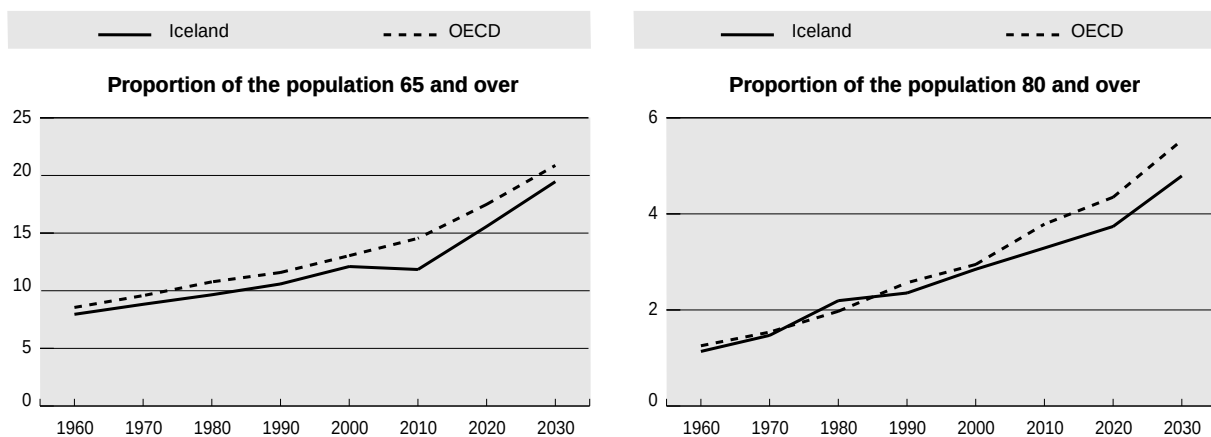
The situation in Iceland is quite different from the OECD average:

- Given the labour market situation of today, men in Iceland could expect to be employed for about 48 years and be out of work for 30 years, a much longer period of time spent in employment than the OECD average. In a scenario where existing trends continue, by 2030 men could expect to be employed somewhat less (45 years), but with a larger increase in time (35 years) spent outside of employment as a result of longevity increases.

- Today, women in Iceland could expect to be employed for 42 years and not be employed for 39 years, again with employment well above OECD averages. By 2030, the expected time in employment may grow to 47 years, with 37 years not in employment.

The Iceland population is growing older – at about the OECD average rate

Increasing life expectancy is the key demographic change at the level of individuals. However, at the level of society as a whole, it is falling fertility that has been responsible for population ageing – more people in older age groups. The charts below show that the percentage of the population that is aged 65 and over has grown from under 8% in 1960 to about 12% today. By 2030, about 19% of the population will be aged 65 and over. The rate of increase for people aged 80 and over is much sharper, from about 1% in 1960 to 5% in 2030.

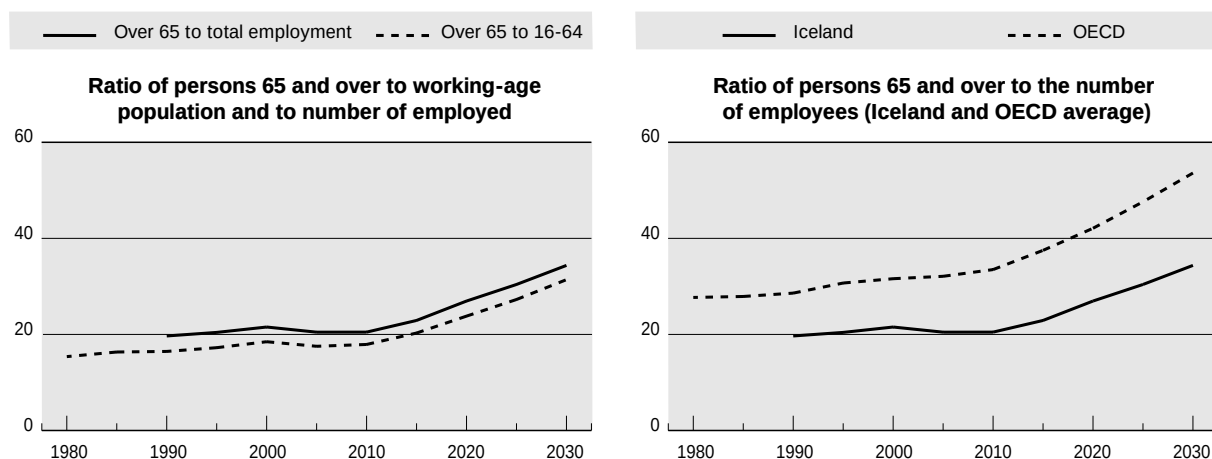


As a result old age dependency ratios will rise

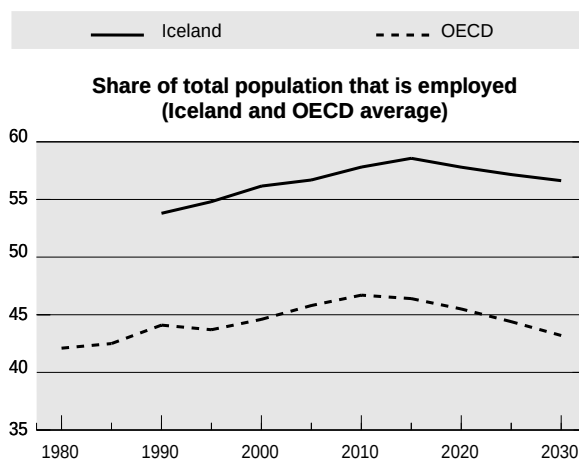
Demographers typically examine the pressures of ageing populations by examining the size of the “dependent” population in relation to the size of the working age population. This is a useful measure of the pressure that an older population creates for the economy as a whole – on the number of older people whose material living standards are “dependent” on the goods and service produced by those of working age. A dependency ratio can, in some cases, also be used to examine the pressures of ageing on public finance – an approximation of the number of contributors and tax-payers that support the number of people in receipt of benefits such as public pensions. However, fiscal comparisons need to be treated with caution since they are considerably influenced by the way these benefits are financed and by the fact that older people also pay taxes.

The bottom line on the left-hand chart below shows the old age dependency ratio – the number of people aged 65 and over, compared with people aged 16 to 64. This ratio is flat until about 2010 and then starts to grow. A useful adjustment is to compare the number of older people with the number of people actually employed. Doing this takes account of the growing number of people under the age of 65 who are also not at work as a result of early retirement and other factors. This is the top line in the chart. In the case of Iceland, the two lines have about the same trend. There are about 4½ employees for every older person today. By 2030, there will be nearly 3 employees for every older person, if existing trends continue – considerably higher than the OECD average.

Less pressure than in most countries. The chart on the right below shows that the ratio for Iceland is lower than for the OECD average and is not likely to rise as rapidly.



As discussed in Chapter 10, perhaps a more useful way of looking at the combined effects of demographic and labour market trends is to examine the changing percentage of the population that is employed – and producing the goods and services that are consumed by the population as a whole. About 56% of the Iceland population as a whole are employed today. If existing trends continue, that number could reach a peak of 59% in 2015 and then might fall to about 57% by 2030 – very much above the OECD average, which would be about 43% in 2030.

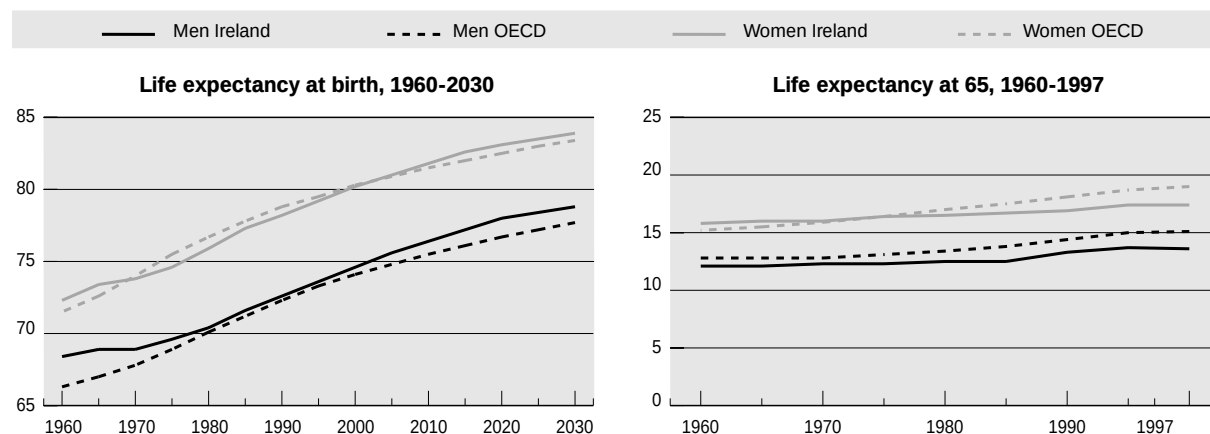


Of course, existing trends need not continue. Indeed, a goal of public policy in some countries is to reverse trends away from fewer lifetime years spent in employment. A wide range of scenarios for the future is possible, as discussed in Chapter 10. As noted in the introduction to this annex, the results should be interpreted as just one of the many ways in which the future could unfold. The purpose is not to forecast that future, but to help provide a rough understanding of the possible effects of ageing trends and changing labour market behaviour.

IRELAND

Individuals in Ireland are living longer, with life expectancy close to the OECD average

As in most countries, life expectancy is growing for both men and women. In Ireland, life expectancy at birth was 68 years for men and 72 years for women in 1960. By the end of the projection period in 2030 this could grow to 79 and 84 years respectively. At age 65, a woman in Ireland today could expect to live another 17 years. A man could expect to live another 14 years.



Lifetime years spent in work

How do people spend those extended lives? A typical pattern for men in OECD countries has been a dramatic fall over recent decades in the number of expected years of life that are spent in employment. There has been a corresponding growth in the expected number of years spent in other activities such as school, unemployment in some cases and, especially retirement. Men have been retiring earlier and living longer once retired. In a typical OECD country today, a man might spend only half of his life in employment. Women, on the other hand, are spending more of their lives in employment. However, as noted in Chapter 8, they too are retiring earlier and living longer once retired.

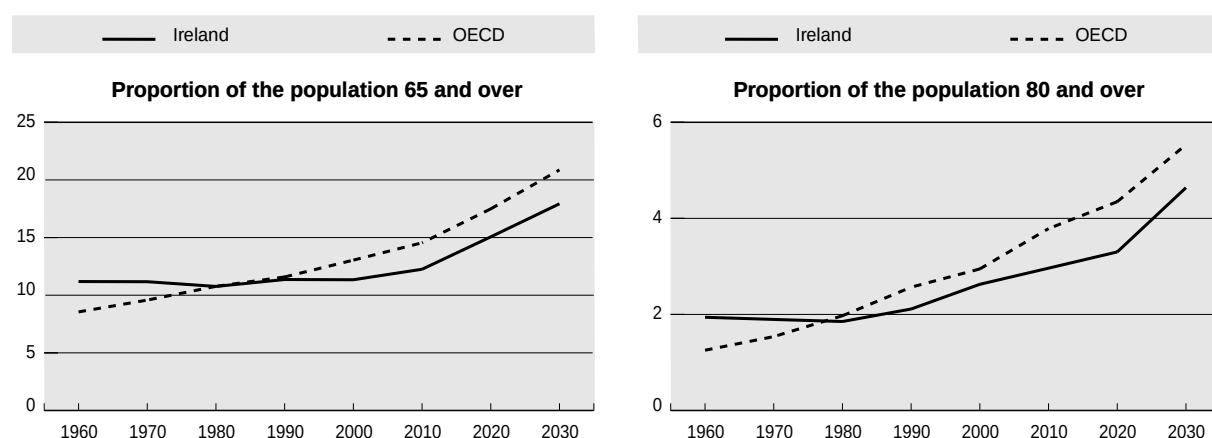
The situation in Ireland is similar to the OECD average today, following a sharper rise in employment by women in the 1980s and 1990s:

- Given the labour market situation of today, men in Ireland could expect to be employed for about half their life – 38 years – and be out of work for 37 years. In a scenario where existing trends continue, by 2030 men could expect to be employed for 34 years and to be not in work for 45 years.

- Today, Irish women could expect to be employed for 24 years and not be employed for 55 years. By 2030, the expected time in employment may grow to 38 years, with 45 years not in employment.

The Irish population will start growing older

Increasing life expectancy is the key demographic change at the level of individuals. However, at the level of society as a whole, it is falling fertility that has been responsible for population ageing – more people in older age groups. The charts below show that the percentage of the population that is aged 65 and over has been stable in recent decades at about 11%. However, that will change. By 2030, about 18% of the population will be aged 65 and over. The rate of increase for people aged 80 and over is much sharper, from about 2% in 1960 to 5% in 2030.

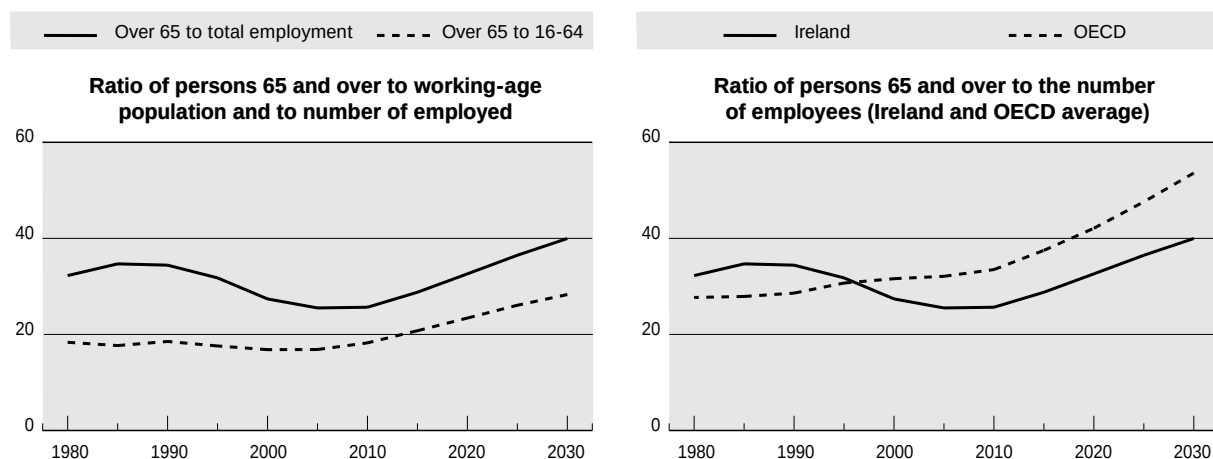


As a result, old age dependency ratios will rise

Demographers typically examine the pressures of ageing populations by examining the size of the “dependent” population in relation to the size of the working age population. This is a useful measure of the pressure that an older population creates for the economy as a whole – on the number of older people whose material living standards are “dependent” on the goods and service produced by those of working age. A dependency ratio can, in some cases, also be used to examine the pressures of ageing on public finance – an approximation of the number of contributors and tax-payers that support the number of people in receipt of benefits such as public pensions. However, fiscal comparisons need to be treated with caution since they are considerably influenced by the way these benefits are financed and by the fact that older people also pay taxes.

The bottom line on the left-hand chart below shows the old age dependency ratio – the number of people aged 65 and over, compared with people aged 16 to 64. This ratio starts to grow after about 2005 in Ireland. A useful adjustment is to compare the number of older people with the number of people actually employed. Doing this takes account of the growing number of people under the age of 65 who are also not at work as a result of early retirement and other factors. This is the top line in the chart, which rises a little more steeply especially after 2010. There are about 3½ employees for every older person today. By 2030, there will be only 2½ employees for every older person, if existing trends were to continue.

Less pressure than in most countries for a decade. The chart on the right below shows that the ratio for Ireland will fall for a decade, but then will rise at about the average OECD rate.



As discussed in Chapter 10, perhaps a more useful way of looking at the combined effects of demographic and labour market trends is to examine the changing percentage of the population that is employed – and producing the goods and services that are consumed by the population as a whole. About 41% of the Irish population as a whole are employed today and the share of people who are employed has been growing rapidly. If existing trends continue, that number could reach a peak of 48% in 2010 and then might fall to about 45% by 2030 – a little above the OECD average, which would be about 43% in 2030.

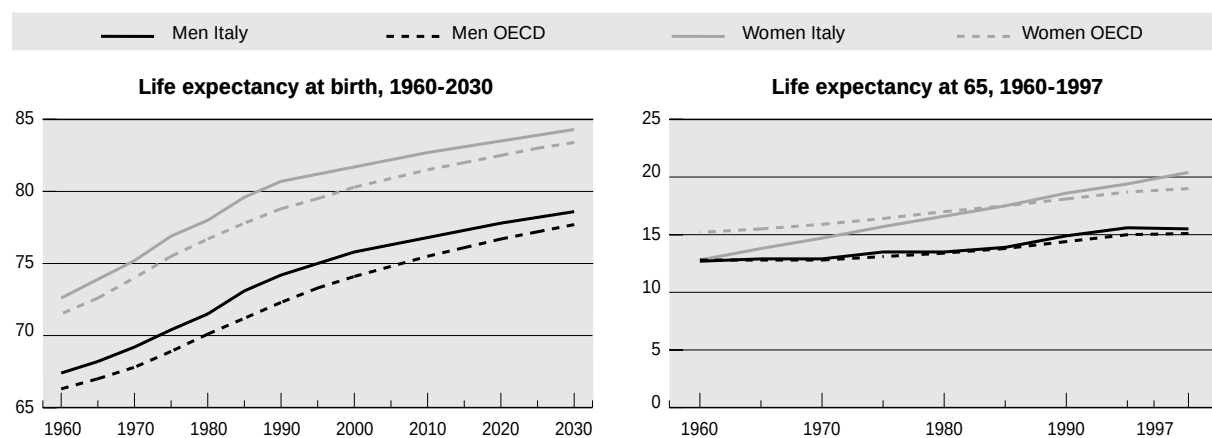


Of course, existing trends need not continue. Indeed, a goal of policy in some countries is to reverse future trends away from fewer lifetime years being spent in employment. A wide range of scenarios for the future is possible, as discussed in Chapter 10. As noted in the introduction to this annex, the results should be interpreted as just one of the many ways in which the future could unfold. The purpose is not to forecast that future, but to help provide a rough understanding of the possible effects of ageing trends and changing labour market behaviour.

ITALY

Individual Italians are living longer

In Italy, life expectancy at birth was 67 years for men and 72 years for women in 1960. By the end of the projection period in 2030 this could grow to 79 and 84 years respectively. At age 65, a woman in Italy today could expect to live another 20 years. A man could expect to live another 16 years.



Lifetime years spent in work

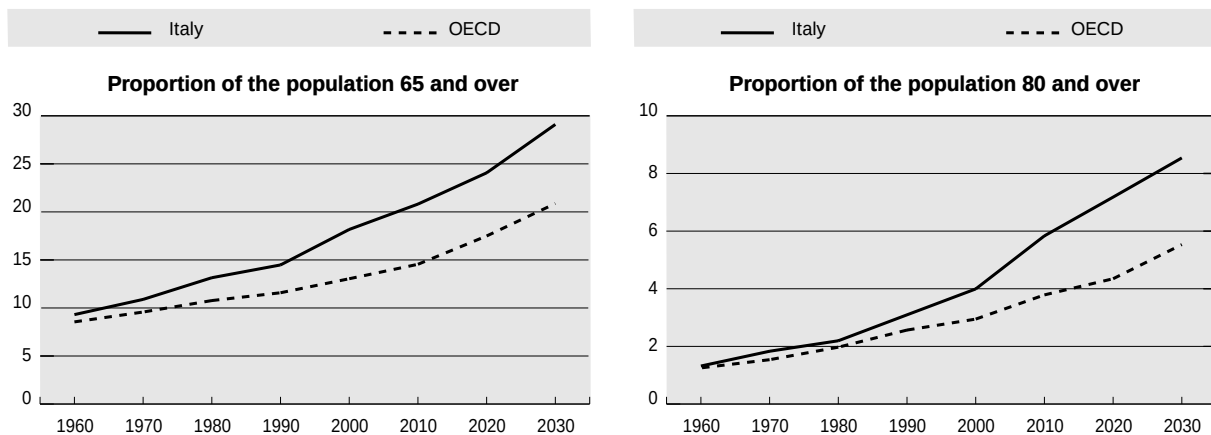
How do people spend those extended lives? A typical pattern for men in OECD countries has been a dramatic fall over recent decades in the number of expected years of life that are spent in employment. There has been a corresponding growth in the expected number of years spent in other activities such as school, unemployment in some cases and, especially retirement. Men have been retiring earlier and living longer once retired. In a typical OECD country today, a man might spend only half of his life in employment. Women, on the other hand, are spending more of their lives in employment. However, as noted in Chapter 8, they too are retiring earlier and living longer once retired. In Italy, the decline in work has been very sharp. In an average OECD country, men have only now reached the point where they can expect to spend only half of their life in work. Italy reached that point a decade ago:

- Given the labour market situation of today, Italian men could expect to be employed for much less than half of their expected life – 33 years – and be out of work for the other 43 years. In a scenario where existing trends continue, by 2030 men could expect to be employed for only 27 years of life and to be not in work for 52 years.

- Today, women in Italy could expect to be employed for 19 years and not be employed for 63 years. By 2030, the expected time in employment may grow to 27 years, with 58 years not in employment. These figures are, as well, below the OECD average.

The Italian population is ageing more quickly than the OECD average

Increasing life expectancy is the key demographic change at the level of individuals. However, at the level of society as a whole, it is falling fertility that has been responsible for population ageing – more people in older age groups. The charts below show that the percentage of the population that is aged 65 and over has grown at a faster rate than the OECD average. It was 10% in 1960 and has reached about 16% today. By 2030 nearly 30% of the population will be aged 65 and over. The rate of increase for people aged 80 and over is also sharp, from about 1% in 1960 to over 8% in 2030.

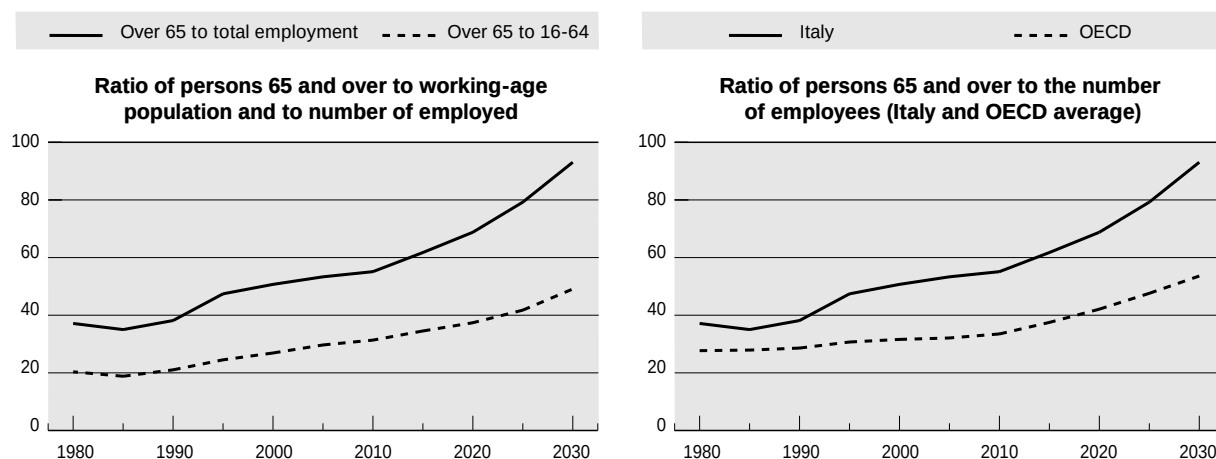


As a result, old age dependency ratios are growing

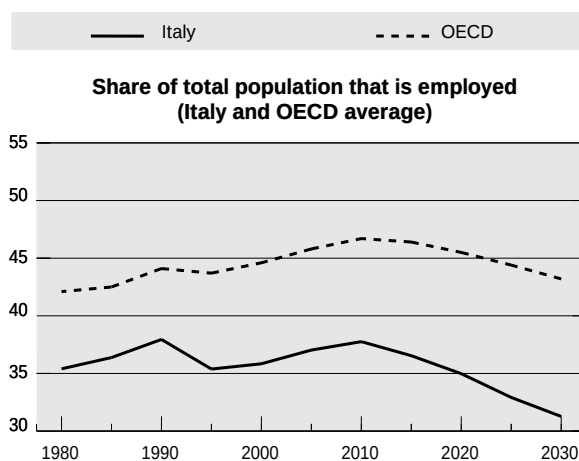
Demographers typically examine the pressures of ageing populations by examining the size of the “dependent” population in relation to the size of the working age population. This is a useful measure of the pressure that an older population creates for the economy as a whole – on the number of older people whose material living standards are “dependent” on the goods and service produced by those of working age. A dependency ratio can, in some cases, also be used to examine the pressures of ageing on public finance – an approximation of the number of contributors and tax-payers that support the number of people in receipt of benefits such as public pensions. However, fiscal comparisons need to be treated with caution since they are considerably influenced by the way these benefits are financed and by the fact that older people also pay taxes.

The bottom line on the left-hand chart below shows the old age dependency ratio – the number of people aged 65 and over, compared with people aged 16 to 64. This ratio has been growing steadily in Italy. A useful adjustment is to compare the number of older people with the number of people actually employed. Doing this takes account of the growing number of people under the age of 65 who are also not at work as a result of early retirement and other factors. This is the top line in the chart, which grows more quickly after 2010. There are about 2 employees for every older person today. By 2030, there will be only 1 employee for every older person, if existing trends were to continue.

More pressure than in most countries. These ratios are above the OECD average and will growing more sharply – if one assumes that existing trends will continue.



As discussed in Chapter 10, perhaps a more useful way of looking at the combined effects of demographic and labour market trends is to examine the changing percentage of the population that is employed – and producing the goods and services that are consumed by the population as a whole. About 36% of the Italian population as a whole are employed today. If existing trends were to continue, that number might continue to grow to a peak of 38% in 2010 and then fall to about 31% by 2030 – significantly below the OECD average, which would be 43% in 2030.

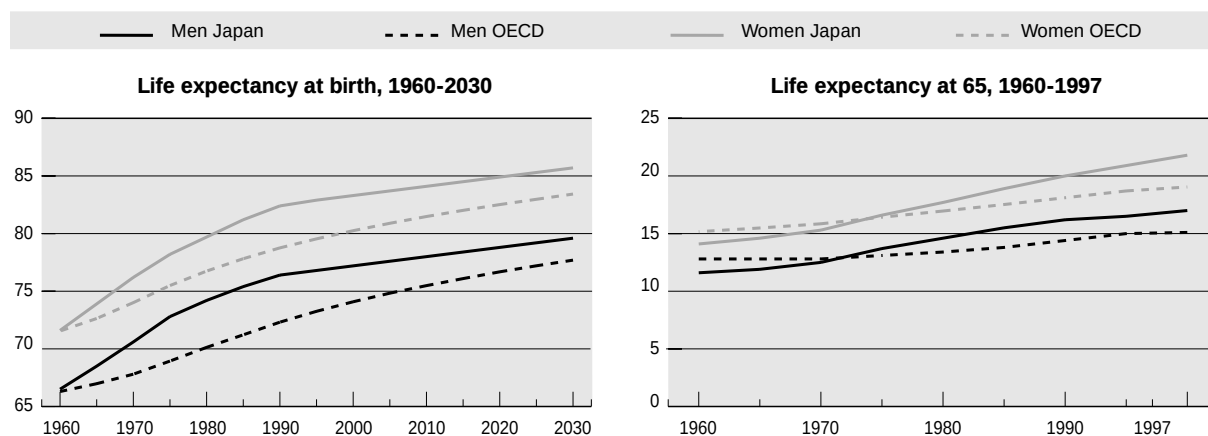


Of course, existing trends need not continue. Indeed, a goal of public policy in some countries is to reverse trends away from fewer lifetime years spent in employment. A wide range of scenarios for the future is possible, as discussed in Chapter 10, where Italy was one of the examples used.

JAPAN

Individual Japanese are living longer

Life expectancy in Japan is above the OECD average. As in most countries, life expectancy is growing for both men and women, with the largest gains arising from declines in mortality at young ages. In Japan, life expectancy at birth was 67 years for men and 72 years for women in 1960. By the end of the projection period in 2030 this will likely grow to 80 and 86 years respectively. At age 65, a Japanese woman today could expect to live another 22 years. A man could expect to live another 17 years.



Lifetime years spent in work

How do people spend those extended lives? A typical pattern for men in OECD countries has been a dramatic fall over recent decades in the number of expected years of life that are spent in employment. There has been a corresponding growth in the expected number of years spent in other activities such as school, unemployment in some cases and, especially retirement. Men have been retiring earlier and living longer once retired. In a typical OECD country today, a man might spend only half of his life in employment. Women, on the other hand, are spending more of their lives in employment. However, as noted in Chapter 8, they too are retiring earlier and living longer once retired.

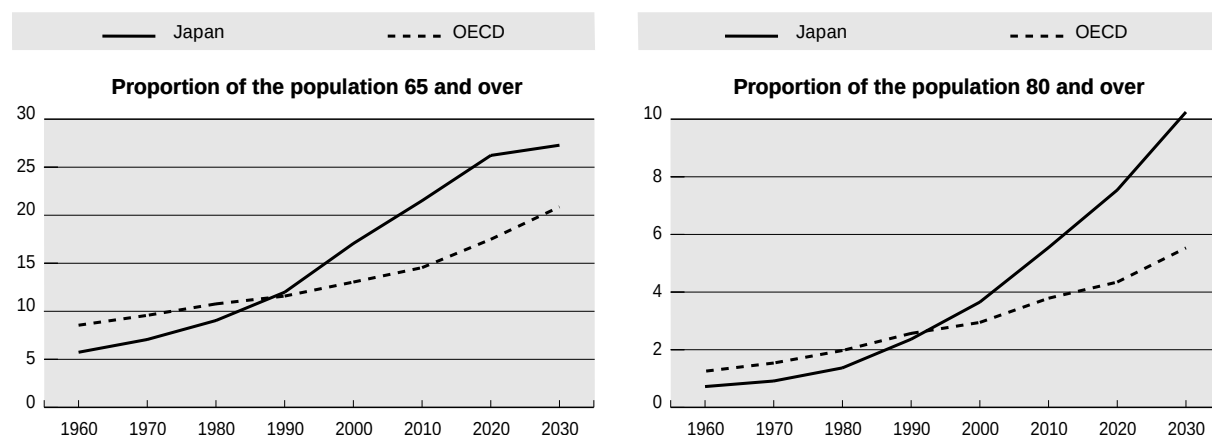
The situation in Japan is quite different from this average OECD pattern for men, but not for women. The level of expected lifetime years in employment for men has not fallen, and is likely to remain higher than years spent out of employment for many decades:

- Given the labour market situation of today, Japanese men could expect to be employed for well over half of their expected life – 46 years – and be out of work for the other 31. In a scenario where existing trends continue, by 2030 men could expect to be employed for about the same number of years (47 years), but with an increase in time spent outside of employment (33 years) as a result of longevity increases.

- Today, women in Japan could expect to be employed for 32 years and not be employed for 51 years. By 2030, the expected time in employment may grow to 38 years, with 48 years not in employment.

The Japanese population is ageing more quickly than the OECD average

Increasing life expectancy is the key demographic change at the level of individuals. However, at the level of society as a whole, it is falling fertility that has been responsible for population ageing – more people in older age groups. Turning from individuals to the society as a whole, the Australian population is growing older – at about the OECD average rate. The charts below show that the percentage of the population that is aged 65 and over has grown from about 6% in 1960 to about 17% today. By 2030 about 27% of the population will be aged 65 and over. The rate of increase for people aged 80 and over is much sharper, from about 1% in 1960 to 10% in 2030, a level that is significantly higher than the OECD average.

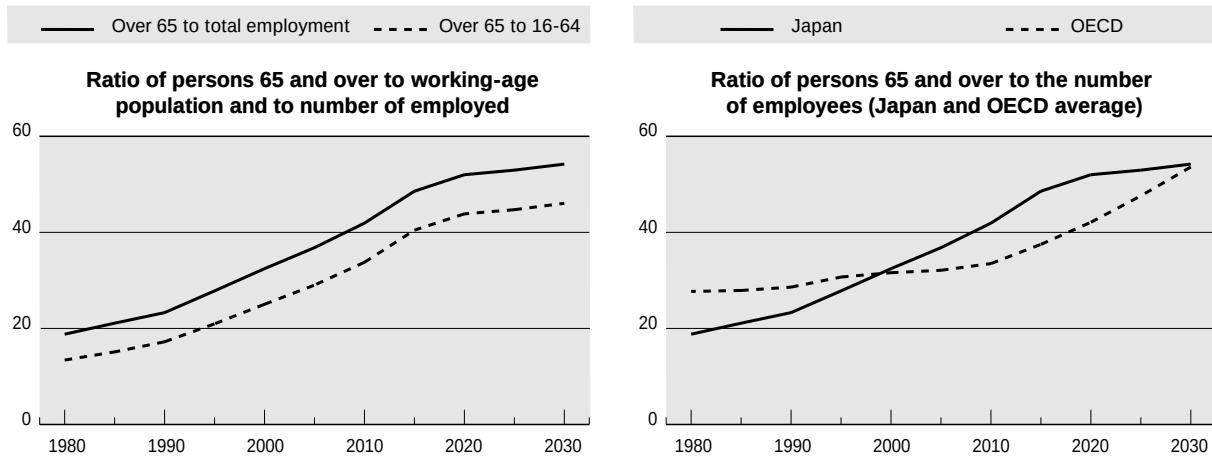


As a result, old age dependency ratios are growing

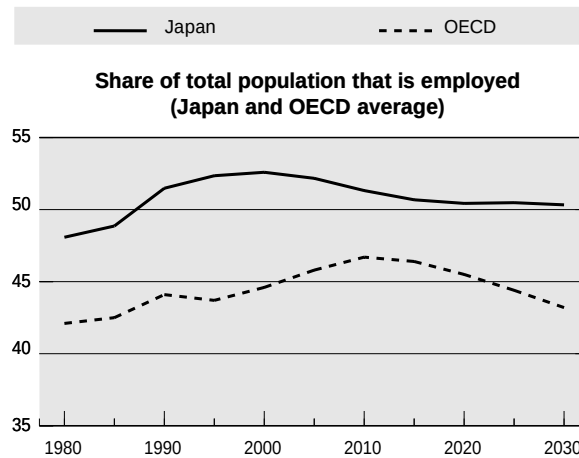
Demographers typically examine the pressures of ageing populations by examining the size of the “dependent” population in relation to the size of the working age population. This is a useful measure of the pressure that an older population creates for the economy as a whole – on the number of older people whose material living standards are “dependent” on the goods and service produced by those of working age. A dependency ratio can, in some cases, also be used to examine the pressures of ageing on public finance – an approximation of the number of contributors and tax-payers that support the number of people in receipt of benefits such as public pensions. However, fiscal comparisons need to be treated with caution since they are considerably influenced by the way these benefits are financed and by the fact that older people also pay taxes.

The bottom line on the left-hand chart below shows the old age dependency ratio – the number of people aged 65 and over, compared with people aged 16 to 64. This ratio grows quite sharply in Japan until about 2020 when the rate of increase slows. A useful adjustment is to compare the number of older people with the number of people actually employed. Doing this takes account of the growing number of people under the age of 65 who are also not at work as a result of early retirement and other factors. This is the top line in the chart. In the case of Japan, the two lines have about the same trend. There are about 3 employees for every older person today. By 2030, there will be only 2 employees for every older person, if existing trends were to continue.

Greater pressure than in most countries for two more decades. Basically, Japan is experiencing ageing faster than other OECD countries. The chart on the right below shows that the ratio for Japan levels off after 2030 while it is still growing rapidly in other countries. By 2030, they will have reached a similar point, should existing trends continue.



As discussed in Chapter 10, perhaps a more useful way of looking at the combined effects of demographic and labour market trends is to examine the changing percentage of the population that is employed – and producing the goods and services that are consumed by the population as a whole. About 53% of the Japanese population as a whole are employed today, already about at its peak. If existing trends continue, that number might fall to about 50% by 2030 – well above the OECD average, which would be about 43% in 2030.

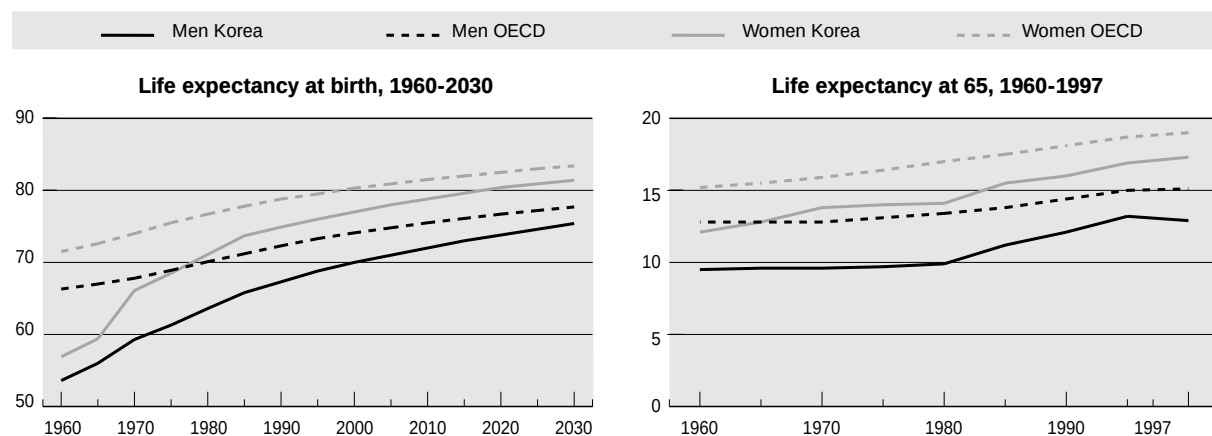


Of course, existing trends need not continue. Indeed, a goal of public policy in some countries is to reverse trends away from fewer lifetime years spent in employment. A wide range of scenarios for the future is possible, as discussed in Chapter 10 where Japan is one of examples that is used.

KOREA

Individual Koreans are living longer

Life expectancy has been below the OECD average, but is catching up. As in most countries, life expectancy is growing for both men and women, with the largest gains arising from declines in mortality at young ages. In Korea, life expectancy at birth was 54 years for men and 57 years for women in 1960. By the end of the projection period in 2030 this will likely grow to 75 and 81 years respectively. At age 65, a Korean woman today could expect to live another 17 years. A man could expect to live another 13 years.



Lifetime years spent in work

How do people spend those extended lives? A typical pattern for men in OECD countries has been a dramatic fall over recent decades in the number of expected years of life that are spent in employment. There has been a corresponding growth in the expected number of years spent in other activities such as school, unemployment in some cases and, especially retirement. Men have been retiring earlier and living longer once retired. In a typical OECD country today, a man might spend only half of his life in employment. Women, on the other hand, are spending more of their lives in employment. However, as noted in Chapter 8, they too are retiring earlier and living longer once retired.

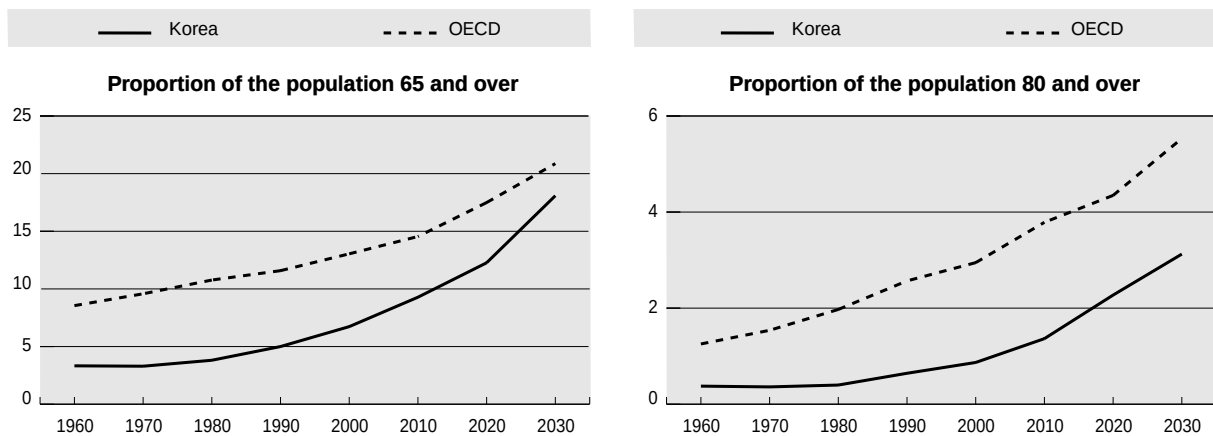
The situation in Korea is different from the OECD average for men, but similar for women. For men, Korea has a pattern that is between the OECD average and that in Japan, with a more gradual fall in expected years of life spent in work:

- Given the labour market situation of today, Korean men could expect to be employed for well over half of their expected life – 43 years – and be out of work for the other 27 years. In a scenario where existing trends continue, by 2030 men could expect to be employed somewhat less (42 years), but with a larger increase in time spent outside of employment (34 years) as a result of longevity increases.

- Today, women in Korea could expect to be employed for 29 years and not be employed for 48 years. By 2030, the expected time in employment may grow to 36 years, with 46 years not in employment.

The Korean population is ageing, but is still considerably younger than the OECD average

Increasing life expectancy is the key demographic change at the level of individuals. However, at the level of society as a whole, it is falling fertility that has been responsible for population ageing – more people in older age groups. Turning from individuals to the society as a whole, the Korean population is growing older quickly, starting from a younger population than the OECD average several decades ago, but narrowing the gap. The charts below show that the percentage of the population that is aged 65 and over has grown from under about 3% in 1960 to about 7% today. By 2030 some 18% of the population will be aged 65 and over. The rate of increase for people aged 80 and over is much sharper, but the numbers involved are still low in comparison with the OECD average.

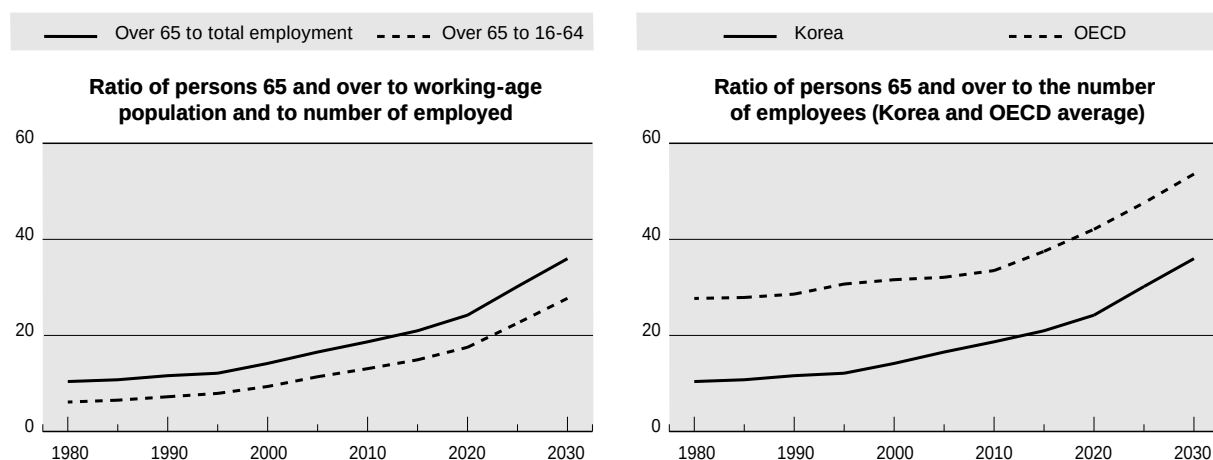


As a result, old age dependency ratios are growing

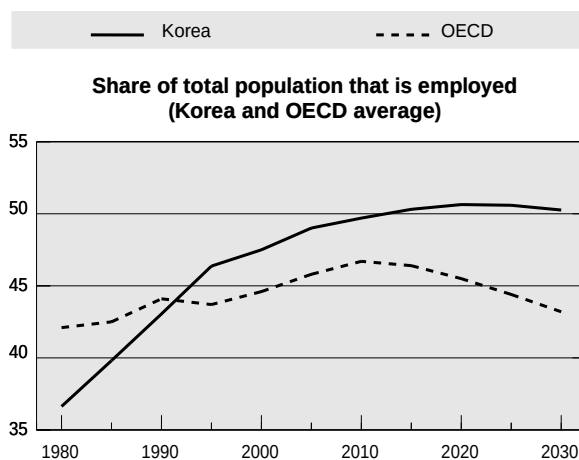
Demographers typically examine the pressures of ageing populations by examining the size of the “dependent” population in relation to the size of the working age population. This is a useful measure of the pressure that an older population creates for the economy as a whole – on the number of older people whose material living standards are “dependent” on the goods and service produced by those of working age. A dependency ratio can, in some cases, also be used to examine the pressures of ageing on public finance – an approximation of the number of contributors and tax-payers that support the number of people in receipt of benefits such as public pensions. However, fiscal comparisons need to be treated with caution since they are considerably influenced by the way these benefits are financed and by the fact that older people also pay taxes.

The bottom line on the left-hand chart below shows the old age dependency ratio – the number of people aged 65 and over, compared with people aged 16 to 64. This ratio grows steadily in Korea throughout the period, more quickly after 2010. A useful adjustment is to compare the number of older people with the number of people actually employed. Doing this takes account of the growing number of people under the age of 65 who are also not at work. This is the top line in the chart. In the case of Korea, the two lines have about the same trend. There are about 7 employees for every older person today. By 2030, there will be only about 3 employees for every older person, if existing trends were to continue.

Somewhat less pressure than in most countries. The chart on the right below shows that the ratio for Korea is lower than for the OECD average, but with about the same rate of increase.



As discussed in Chapter 10, perhaps a more useful way of looking at the combined effects of demographic and labour market trends is to examine the changing percentage of the population that is employed – and producing the goods and services that are consumed by the population as a whole. About 48% of the Korean population as a whole are employed today. If existing trends continue, that number will soon reach 50% and then level off. At 50% in 2030, it would be well above the OECD average, which would be about 43% in 2030.

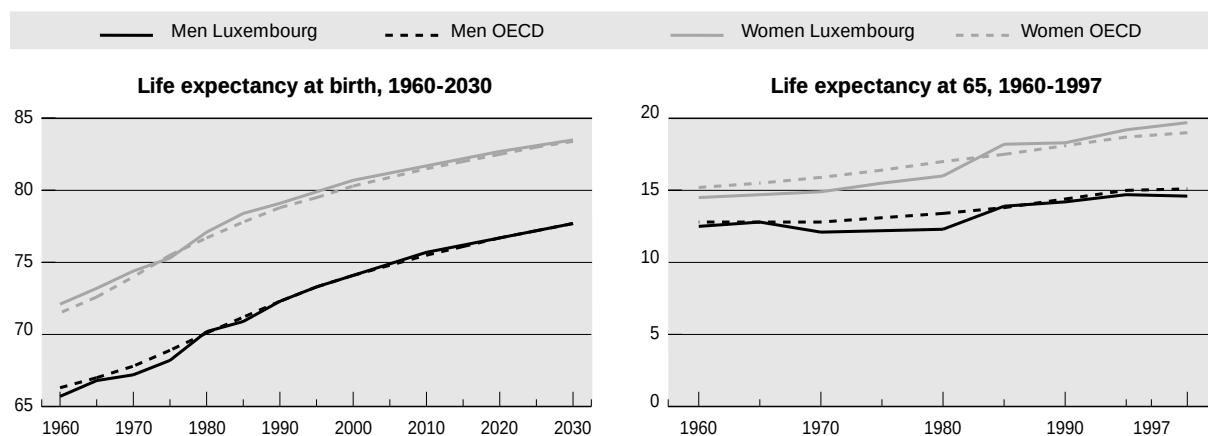


Of course, existing trends need not continue. Indeed, a goal of public policy in some countries is to reverse trends away from fewer lifetime years spent in employment. A wide range of scenarios for the future is possible, as discussed in Chapter 10. As noted in the introduction to this annex, the results should be interpreted as just one of the many ways in which the future could unfold. The purpose is not to forecast that future, but to help provide a rough understanding of the possible effects of ageing trends and changing labour market behaviour.

LUXEMBOURG

Individuals in Luxembourg are living longer

Life expectancy is close to the OECD average. As in most countries, life expectancy is growing for both men and women, with the largest gains arising from declines in mortality at young ages. In Luxembourg, life expectancy at birth was 66 years for men and 72 years for women in 1960. By the end of the projection period in 2030 this will likely grow to 78 and 83 years respectively. At age 65, a woman in Luxembourg today could expect to live another 18 years. A man could expect to live another 15 years.



Lifetime years spent in work

How do people spend those extended lives? A typical pattern for men in OECD countries has been a dramatic fall over recent decades in the number of expected years of life that are spent in employment. There has been a corresponding growth in the expected number of years spent in other activities such as school, unemployment in some cases and, especially retirement. Men have been retiring earlier and living longer once retired. In a typical OECD country today, a man might spend only half of his life in employment. Women, on the other hand, are spending more of their lives in employment. However, as noted in Chapter 8, they too are retiring earlier and living longer once retired.

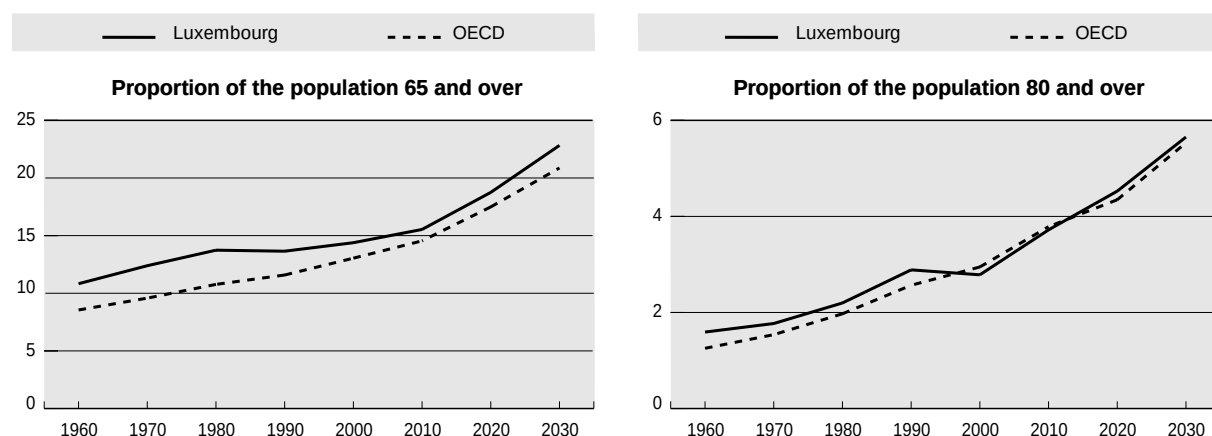
The situation in Luxembourg is similar to the OECD average, except that a little less of life is spent in employment and the cross-over point – where men spent the same number of years in and out of employment – was reached in the early 1990s:

- Given the labour market situation of today, men in Luxembourg could expect to be employed for less than half of their expected life – 34 years – and be out of work for the other 39 years. In a scenario where existing trends continue, by 2030 men could expect to be employed for only 30 years, with 47 years spent outside of employment.

- Today, women in Luxembourg could expect to be employed for 22 years and not be employed for 59 years. By 2030, the expected time in employment may grow to 33 years, with 50 years not in employment.

The Luxembourg population is ageing

Increasing life expectancy is the key demographic change at the level of individuals. However, at the level of society as a whole, it is falling fertility that has been responsible for population ageing – more people in older age groups. The population of Luxembourg is slightly older than the OECD average, and is growing at about the OECD average rate. The charts below show that the percentage of the population that is aged 65 and over has grown from under 11% in 1960 to about 14% today. By 2030 over 23% of the population will be aged 65 and over. The rate of increase for people aged 80 and over is much sharper, from under 1% in 1960 to over 5% in 2030.

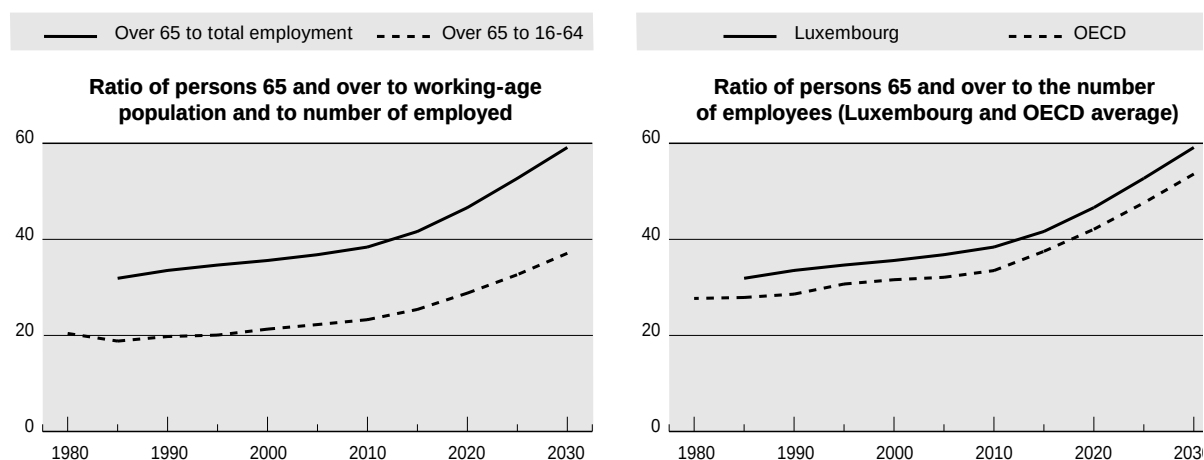


As a result, old age dependency ratios are growing

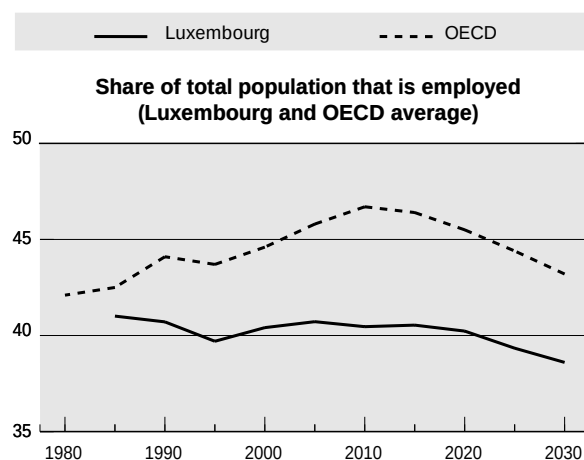
Demographers typically examine the pressures of ageing populations by examining the size of the “dependent” population in relation to the size of the working age population. This is a useful measure of the pressure that an older population creates for the economy as a whole – on the number of older people whose material living standards are “dependent” on the goods and service produced by those of working age. A dependency ratio can, in some cases, also be used to examine the pressures of ageing on public finance – an approximation of the number of contributors and tax-payers that support the number of people in receipt of benefits such as public pensions. However, fiscal comparisons need to be treated with caution since they are considerably influenced by the way these benefits are financed and by the fact that older people also pay taxes.

The bottom line on the left-hand chart below shows the old age dependency ratio – the number of people aged 65 and over, compared with people aged 16 to 64. This ratio grows throughout the period, especially after about 2010 in Luxembourg. A useful adjustment is to compare the number of older people with the number of people actually employed. Doing this takes account of the growing number of people under the age of 65 who are also not at work as a result of early retirement and other factors. This is the top line in the chart. In the case of Luxembourg, the two lines have about the same trend. There are a little over 2½ employees for every older person today. By 2030, there will be only a little over 1½ employees for every older person, if existing trends were to continue.

Slightly more pressure than in most countries. The chart on the right below shows that the ratio for Luxembourg is slightly higher than for the OECD average and follows about the same rate of change.



As discussed in Chapter 10, perhaps a more useful way of looking at the combined effects of demographic and labour market trends is to examine the changing percentage of the population that is employed – and producing the goods and services that are consumed by the population as a whole. About 40% of the Luxembourg population as a whole are employed today and that number is projected to remain quite steady for coming decades – if existing trends were to continue. About 39% would be employed by 2030, below the OECD average, which would be about 43% in 2030.

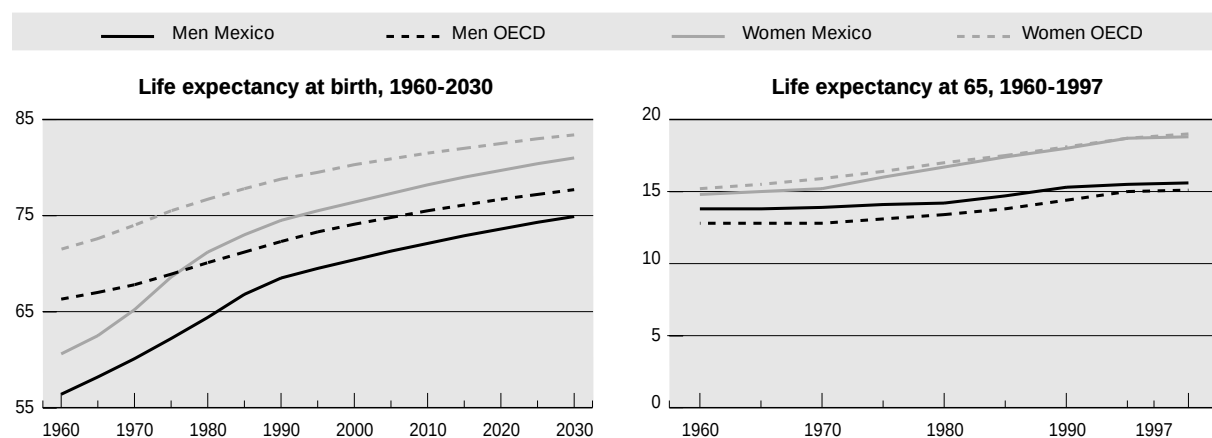


Of course, existing trends need not continue. Indeed, a goal of public policy in some countries is to reverse trends away from fewer lifetime years spent in employment. A wide range of scenarios for the future is possible, as discussed in Chapter 10. As noted in the introduction to this annex, the results should be interpreted as just one of the many ways in which the future could unfold. The purpose is not to forecast that future, but to help provide a rough understanding of the possible effects of ageing trends and changing labour market behaviour.

MEXICO

Individual Mexicans are living longer

Life expectancy has been below the OECD average, but the gap is narrowing. As in most countries, life expectancy is growing for both men and women, with the largest gains arising from declines in mortality at young ages. In Mexico life expectancy at birth was 56 years for men and 61 years for women in 1960. By the end of the projection period in 2030 this will likely grow to 75 and 81 years respectively. At age 65, a Mexican woman today could expect to live another 19 years. A man could expect to live another 16 years. These life expectancies figures at age 65 are close to the OECD average.



Lifetime years spent in work

How do people spend those extended lives? A typical pattern for men in OECD countries has been a dramatic fall over recent decades in the number of expected years of life that are spent in employment. There has been a corresponding growth in the expected number of years spent in other activities such as school, unemployment in some cases and, especially retirement. Men have been retiring earlier and living longer once retired. In a typical OECD country today, a man might spend only half of his life in employment. Women, on the other hand, are spending more of their lives in employment. However, as noted in Chapter 8, they too are retiring earlier and living longer once retired.

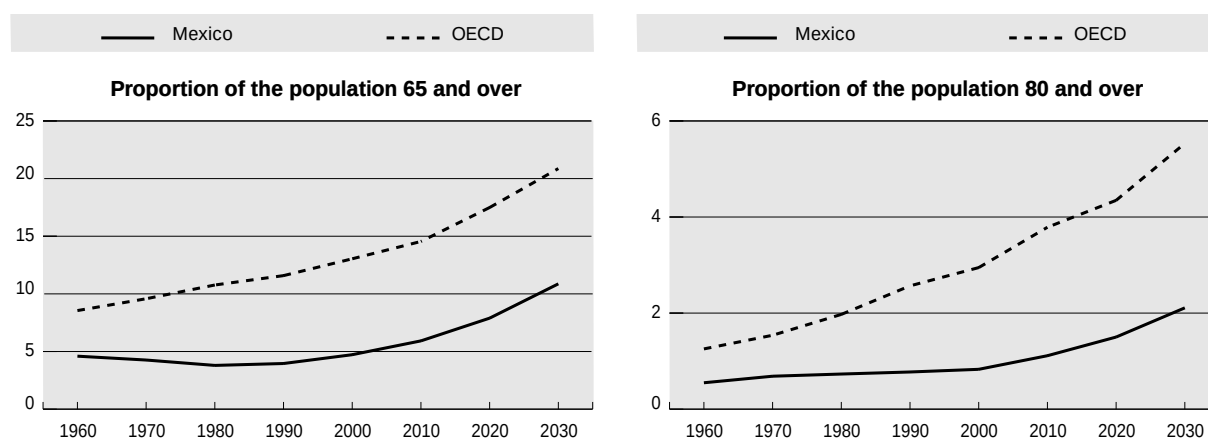
The situation in Mexico differs from the OECD average in that years in work for men has been higher and has been declining less. The cross-over point – where lifetime years in and out of employment are equal – would not be reached in the projection period. The years spent in employment by women has been less than the OECD average:

- Given the labour market situation of today, Mexican men could expect to be employed for 51 years and to be out of employment for the other 20 years. In a scenario where existing trends continue, by 2030 men could expect to be employed for 45 years and not in work for 30.

- Today, women in Mexico could expect to be employed for 23 years and not be employed for 54 years. By 2030, the expected time in employment may grow to 32 years, with 49 years not in employment.

The Mexican population is younger than the OECD average, but is also ageing

Increasing life expectancy is the key demographic change at the level of individuals. However, at the level of society as a whole, in most OECD countries, it is falling fertility that has been responsible for population ageing – more people in older age groups. Turning from individuals to the society as a whole, the Mexican population is growing older, but at a slower rate than the OECD average. The charts below show that the percentage of the population that is aged 65 and over was about 5% in 1960 and is still at about the level today. However, by 2030 over 11% of the population will be aged 65 and over, significantly below the OECD average. The rate of increase for people aged 80 and over is sharper, but the numbers involved are small.

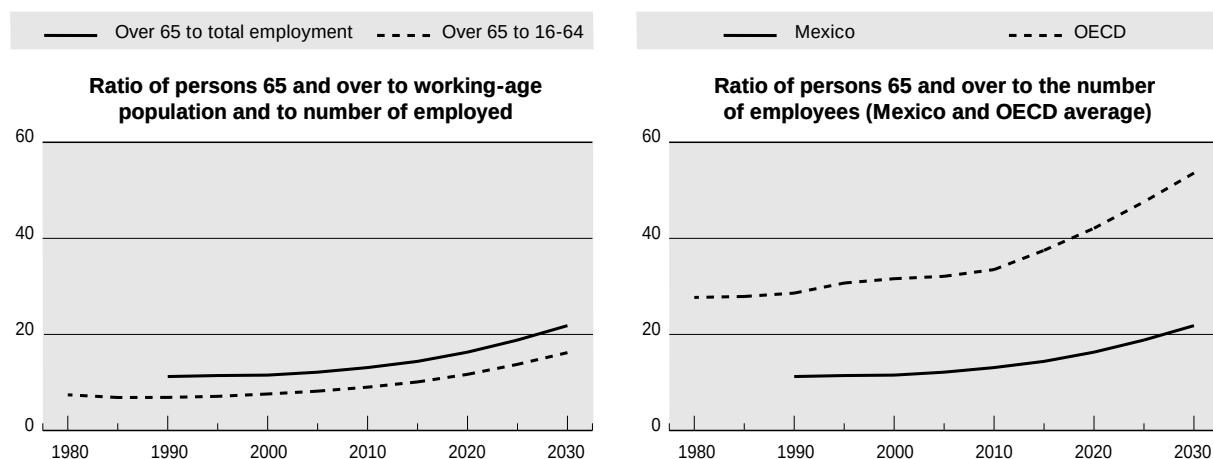


Dependency ratios are growing at a below average rate

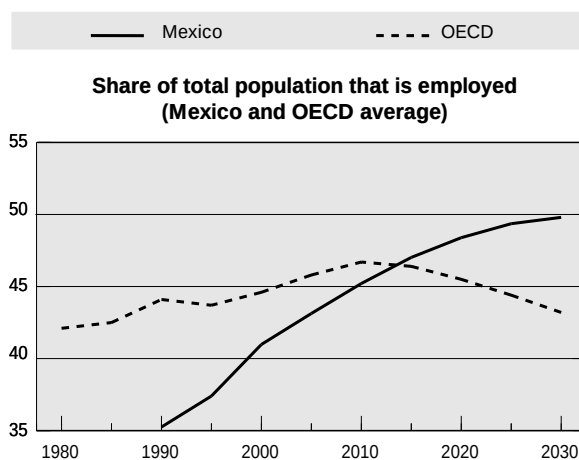
Demographers typically examine the pressures of ageing populations by examining the size of the “dependent” population in relation to the size of the working age population. This is a useful measure of the pressure that an older population creates for the economy as a whole – on the number of older people whose material living standards are “dependent” on the goods and service produced by those of working age. A dependency ratio can, in some cases, also be used to examine the pressures of ageing on public finance – an approximation of the number of contributors and tax-payers that support the number of people in receipt of benefits such as public pensions. However, fiscal comparisons need to be treated with caution since they are considerably influenced by the way these benefits are financed and by the fact that older people also pay taxes.

The bottom line on the left-hand chart below shows the old age dependency ratio – the number of people aged 65 and over, compared with people aged 16 to 64. This ratio starts to grow slowly in Mexico about 2010. In many OECD countries, a useful adjustment is to compare the number of older people with the number of people actually employed. Doing this takes account of the growing number of people under the age of 65 who are also not at work as a result of early retirement and other factors. This is the top line in the chart. In the case of Mexico, the two lines have about the same trend. There are over 8 employees for every older person today. By 2030, there will be only 4 employees for every older person, if existing trends were to continue.

Much less pressure than in most countries. The right hand chart indicates that there is much less pressure than in other OECD countries.



As discussed in Chapter 10, perhaps a more useful way of looking at the combined effects of demographic and labour market trends is to examine the changing percentage of the population that is employed – and producing the goods and services that are consumed by the population as a whole. About 41% of the Mexican population as a whole are employed today. That keeps growing throughout the projection period to reach 50% above the OECD average, which would be about 43% in 2030.

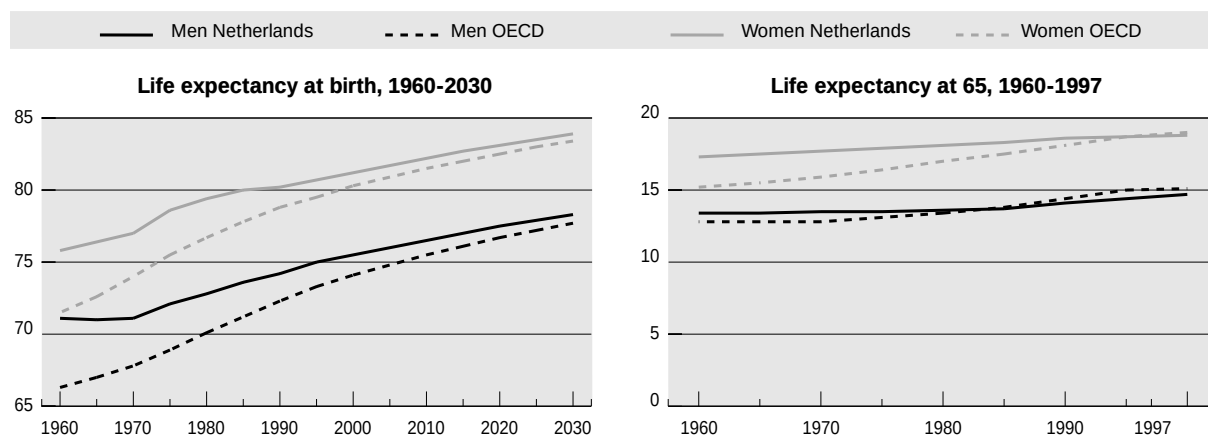


Of course, existing trends need not continue. Indeed, a goal of public policy in some countries is to reverse trends away from fewer lifetime years spent in employment. A wide range of scenarios for the future is possible, as discussed in Chapter 10. As noted in the introduction to this annex, the results should be interpreted as just one of the many ways in which the future could unfold. The purpose is not to forecast that future, but to help provide a rough understanding of the possible effects of ageing trends and changing labour market behaviour. Further, in the case of Mexico, there is only a limited time series of data on which to base projections, and the figures shown should be treated with great caution.

NETHERLANDS

Individuals in the Netherlands are living longer

Life expectancy is above the OECD average. As in most countries, life expectancy is growing for both men and women, with the largest gains arising from declines in mortality at young ages. In the Netherlands life expectancy at birth was 71 years for men and 76 years for women in 1960. By the end of the projection period in 2030 this will likely grow to 78 and 84 years respectively. At age 65, a Dutch woman today could expect to live another 19 years. A man could expect to live another 15 years.



Lifetime years spent in work

How do people spend those extended lives? A typical pattern for men in OECD countries has been a dramatic fall over recent decades in the number of expected years of life that are spent in employment. There has been a corresponding growth in the expected number of years spent in other activities such as school, unemployment in some cases and, especially retirement. Men have been retiring earlier and living longer once retired. In a typical OECD country today, a man might spend only half of his life in employment. Women, on the other hand, are spending more of their lives in employment. However, as noted in Chapter 8, they too are retiring earlier and living longer once retired.

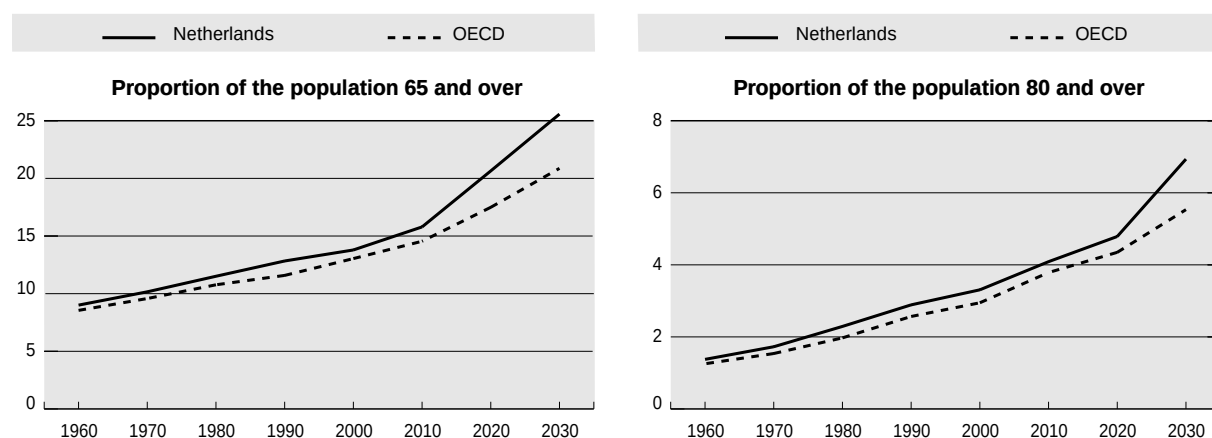
The situation in the Netherlands is different from the OECD average in that trends towards less employment among men may have reversed and the growth of employment by women is sharper than for the OECD average:

- Given the labour market situation of today, Dutch men could expect to be employed for more than half of their expected life – 40 years – and be out of work for the other 36. In a scenario where recent trends continue, by 2030 men could expect to be employed somewhat more (44 years), with a little less time than time outside of employment (34 years).

- Today, women in the Netherlands could expect to be employed for 28 years and not be employed for 53 years. By 2030, the expected time in employment may grow to 41 years, with 42 years not in employment. The Netherlands is one of the few countries where the cross-over point – when lifetime years in and out of employment are equal – may be attainable in this time period.

The Netherlands population is ageing

Increasing life expectancy is the key demographic change at the level of individuals. However, at the level of society as a whole, it is falling fertility that has been responsible for population ageing – more people in older age groups. Turning from individuals to the society as a whole, the Dutch population is growing older – at about the OECD average rate, although it will grow faster than average after 2010. The charts below show that the percentage of the population that is aged 65 and over has grown from about 9% in 1960 to about 14% today. By 2030 26% of the population will be aged 65 and over. The rate of increase for people aged 80 and over is much sharper, from a little over 1% in 1960 to almost 7% in 2030.

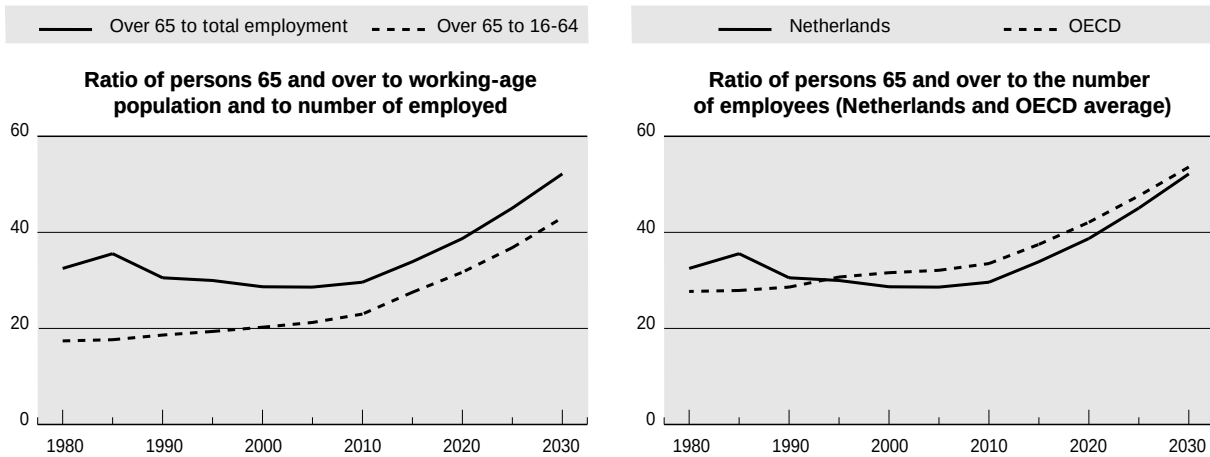


As a result, old age dependency ratios are growing

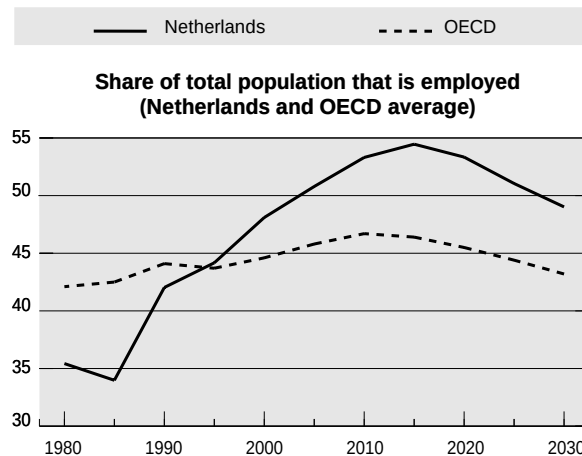
Demographers typically examine the pressures of ageing populations by examining the size of the “dependent” population in relation to the size of the working age population. This is a useful measure of the pressure that an older population creates for the economy as a whole – on the number of older people whose material living standards are “dependent” on the goods and service produced by those of working age. A dependency ratio can, in some cases, also be used to examine the pressures of ageing on public finance – an approximation of the number of contributors and tax-payers that support the number of people in receipt of benefits such as public pensions. However, fiscal comparisons need to be treated with caution since they are considerably influenced by the way these benefits are financed and by the fact that older people also pay taxes.

The bottom line on the left-hand chart below shows the old age dependency ratio – the number of people aged 65 and over, compared with people aged 16 to 64. This ratio starts to grow more sharply after about 2010 in the Netherlands. A useful adjustment is to compare the number of older people with the number of people actually employed. Doing this takes account of the growing number of people under the age of 65 who are also not at work as a result of early retirement and other factors. This is the top line in the chart. In the case of Netherlands, the two lines have about the same trend after 2010. There are about 3 employees for every older person today. By 2030, there will be about 2 employees for every older person, if existing trends were to continue.

Slightly less pressure than in most countries. While the growth in the dependency ratio is pronounced, the chart on the right below shows that the ratio for the Netherlands is, nevertheless, a little less than the OECD average.



As discussed in Chapter 10, perhaps a more useful way of looking at the combined effects of demographic and labour market trends is to examine the changing percentage of the population that is employed – and producing the goods and services that are consumed by the population as a whole. About 48% of the Dutch population as a whole are employed today. If existing trends continue, that number could reach a peak of 54% in 2015 and then might fall to about 49% by 2030 – well above the OECD average, which would be about 43% in 2030.

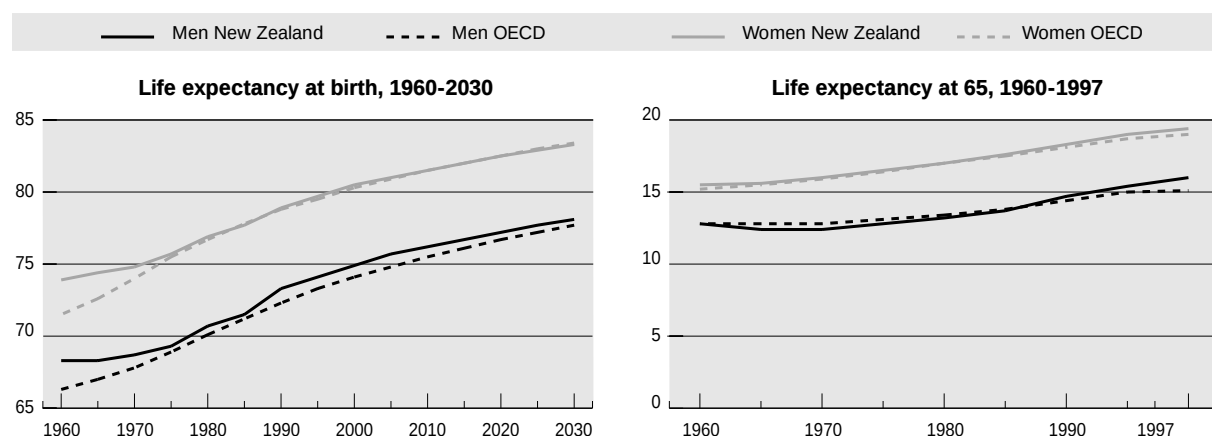


Of course, existing trends need not continue. Indeed, a goal of public policy in some countries is to reverse trends away from fewer lifetime years spent in employment. A wide range of scenarios for the future is possible, as discussed in Chapter 10 where the Netherlands is used as an example. The projections above are influenced by the strong labour market in the Netherlands in recent years.

NEW ZEALAND

Individual people in New Zealand are living longer

Life expectancy is close to the OECD average. As in most countries, life expectancy is growing for both men and women, with the largest gains arising from declines in mortality at young ages. In New Zealand life expectancy at birth was 68 years for men and 74 years for women in 1960. By the end of the projection period in 2030 this will likely grow to 78 and 83 years respectively. At age 65, a woman in New Zealand today could expect to live another 19 years. A man could expect to live another 16 years.



Lifetime years spent in work

How do people spend those extended lives? A typical pattern for men in OECD countries has been a dramatic fall over recent decades in the number of expected years of life that are spent in employment. There has been a corresponding growth in the expected number of years spent in other activities such as school, unemployment in some cases and, especially retirement. Men have been retiring earlier and living longer once retired. In a typical OECD country today, a man might spend only half of his life in employment. Women, on the other hand, are spending more of their lives in employment. However, as noted in Chapter 8, they too are retiring earlier and living longer once retired.

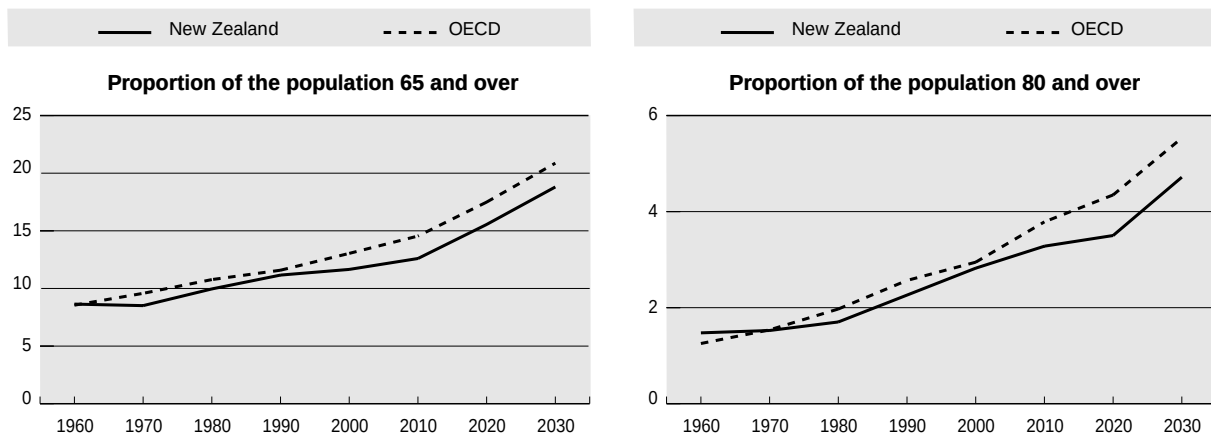
The situation in New Zealand is near the OECD average for men, while for women the growth in years spent in employment has been sharper:

- Given the labour market situation of today, New Zealand men could expect to be employed for a little more than half of their expected life – 39 years – and to be not in work for the other 36. In a scenario where existing trends continue, by 2030 men could expect to be employed less (35 years), and to have more of their life outside of employment (43 years).

- Today, women in New Zealand could expect to be employed for 31 years and not be employed for 49 years. By 2030, the expected time in employment may grow to 43 years, with 40 years not in employment. New Zealand is one of the few countries where the cross-over point for women – when lifetime years in and out of employment are equal – could be reached in this time period.

The New Zealand population is ageing

Increasing life expectancy is the key demographic change at the level of individuals. However, at the level of society as a whole, it is falling fertility that has been responsible for population ageing – more people in older age groups. Turning from individuals to the society as a whole, the population of New Zealand will grow older – a little less rapidly than the OECD average. The charts below show that the percentage of the population that is aged 65 and over has grown from about 9% in 1960 to about 11% today. By 2030 about 19% of the population will be aged 65 and over. The rate of increase for people aged 80 and over is sharper, from about 1½% in 1960 to nearly 5% in 2030.

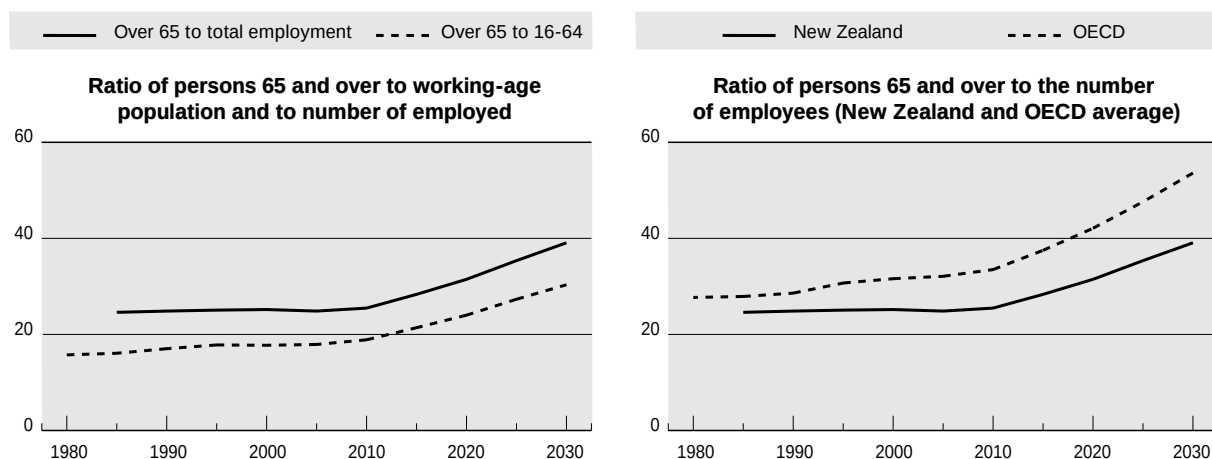


As a result, old age dependency ratios are growing

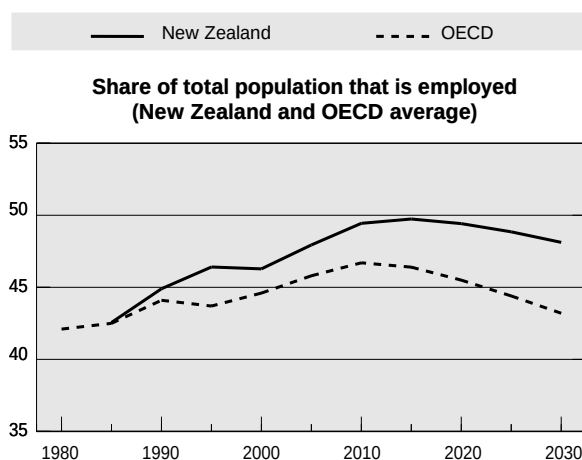
Demographers typically examine the pressures of ageing populations by examining the size of the “dependent” population in relation to the size of the working age population. This is a useful measure of the pressure that an older population creates for the economy as a whole – on the number of older people whose material living standards are “dependent” on the goods and service produced by those of working age. A dependency ratio can, in some cases, also be used to examine the pressures of ageing on public finance – an approximation of the number of contributors and tax-payers that support the number of people in receipt of benefits such as public pensions. However, fiscal comparisons need to be treated with caution since they are considerably influenced by the way these benefits are financed and by the fact that older people also pay taxes.

The bottom line on the left-hand chart below shows the old age dependency ratio – the number of people aged 65 and over, compared with people aged 16 to 64. This ratio has been quite flat in recent years, but it begins to grow more sharply after about 2010 in New Zealand. A useful adjustment is to compare the number of older people with the number of people actually employed. Doing this takes account of the growing number of people under the age of 65 who are also not at work as a result of early retirement and other factors. This is the top line in the chart. In the case of New Zealand, the two lines have about the same trend after 2010. There are about 4 employees for every older person today. By 2030, there will be only 2½ employees for every older person, if existing trends were to continue.

Somewhat less pressure than in most countries. While the growth in the dependency ratio is pronounced, the chart on the right below shows that the ratio for New Zealand is, nevertheless, lower than for the OECD average and the rate of increase after 2010 is also a little less.



As discussed in Chapter 10, perhaps a more useful way of looking at the combined effects of demographic and labour market trends is to examine the changing percentage of the population that is employed – and producing the goods and services that are consumed by the population as a whole. About 46% of the New Zealand population as a whole are employed today. If existing trends continue, that number could reach a peak of 50% in 2010 and then might fall to about 48% by 2030 – above the OECD average, which would be about 43% in 2030.

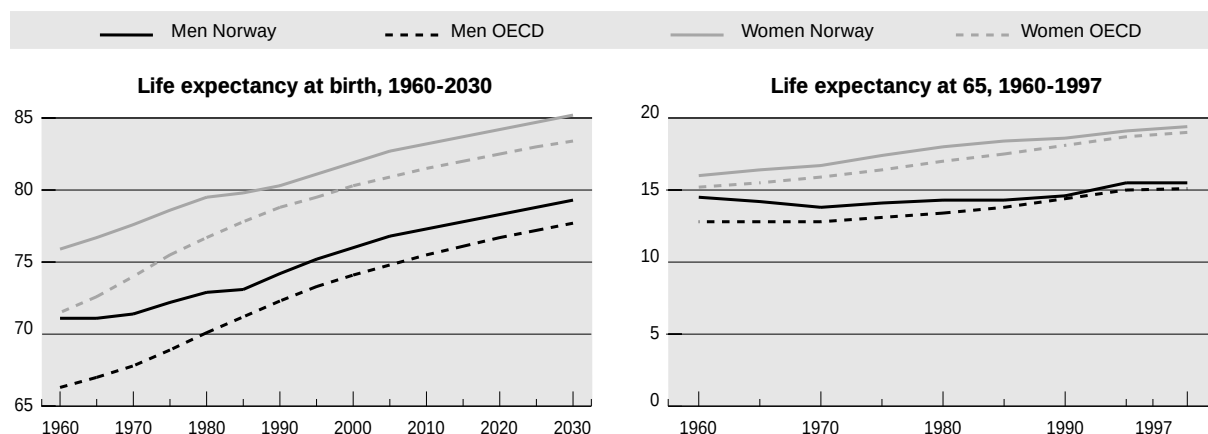


Of course, existing trends need not continue. Indeed, a goal of public policy in some countries is to reverse trends away from fewer lifetime years spent in employment. A wide range of scenarios for the future is possible, as discussed in Chapter 10. As noted in the introduction to this annex, the results should be interpreted as just one of the many ways in which the future could unfold. The purpose is not to forecast that future, but to help provide a rough understanding of the possible effects of ageing trends and changing labour market behaviour.

NORWAY

Individual Norwegians are living longer

Life expectancy is above the OECD average. As in most countries, life expectancy is growing for both men and women, with the largest gains arising from declines in mortality at young ages. In Norway, life expectancy at birth was 71 years for men and 76 years for women in 1960. By the end of the projection period in 2030 this will likely grow to 79 and 85 years respectively. At age 65, a Norwegian woman today could expect to live another 19 years. A man could expect to live another 16 years.



Lifetime years spent in work

How do people spend those extended lives? A typical pattern for men in OECD countries has been a dramatic fall over recent decades in the number of expected years of life that are spent in employment. There has been a corresponding growth in the expected number of years spent in other activities such as school, unemployment in some cases and, especially retirement. Men have been retiring earlier and living longer once retired. In a typical OECD country today, a man might spend only half of his life in employment. Women, on the other hand, are spending more of their lives in employment. However, as noted in Chapter 8, they too are retiring earlier and living longer once retired.

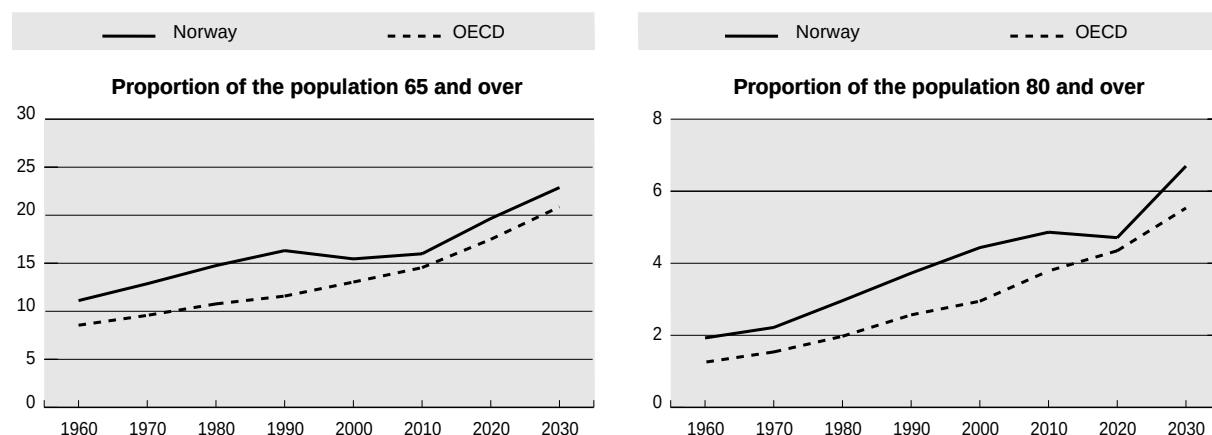
The situation in Norway is similar to the OECD average except for faster growth in employment by women and employment levels for men that are above average:

- Given the labour market situation of today, Norwegian men could expect to be employed for 44 years and be not in work for the other 31. In a scenario where existing trends continue, by 2030 men could expect to be employed somewhat less (41 years), but with a larger increase in time (38 years) spent outside of employment as a result of longevity increases.

- Today, women in Norway could expect to be employed for 39 years and not be employed for 42 years. By 2030, the expected time in employment may grow to 46 years, with 39 years not in employment.

The Norwegian population is ageing

Increasing life expectancy is the key demographic change at the level of individuals. However, at the level of society as a whole, it is falling fertility that has been responsible for population ageing – more people in older age groups. The charts below show that the percentage of the population that is aged 65 and over has grown from under 11% in 1960 to about 15% today. By 2030 over 23% of the population will be aged 65 and over. The rate of increase for people aged 80 and over is much sharper, from nearly 2% in 1960 to 6½ % in 2030.

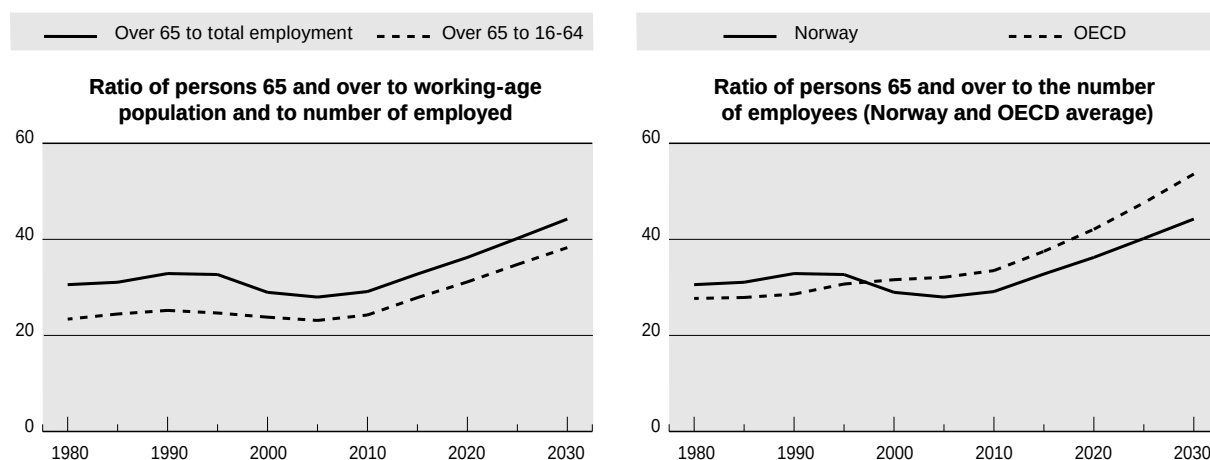


As a result, old age dependency ratios are growing

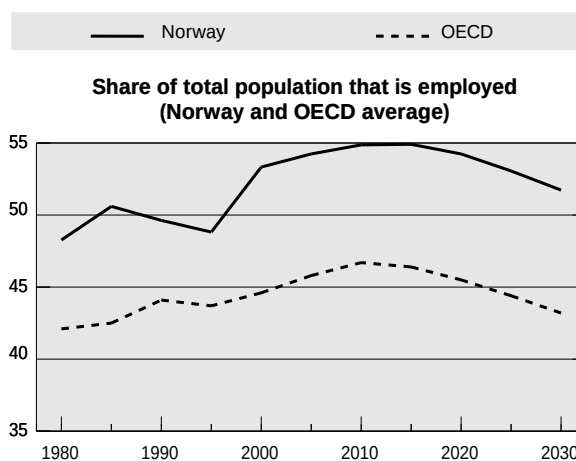
Demographers typically examine the pressures of ageing populations by examining the size of the “dependent” population in relation to the size of the working age population. This is a useful measure of the pressure that an older population creates for the economy as a whole – on the number of older people whose material living standards are “dependent” on the goods and service produced by those of working age. A dependency ratio can, in some cases, also be used to examine the pressures of ageing on public finance – an approximation of the number of contributors and tax-payers that support the number of people in receipt of benefits such as public pensions. However, fiscal comparisons need to be treated with caution since they are considerably influenced by the way these benefits are financed and by the fact that older people also pay taxes.

The bottom line on the left-hand chart below shows the old age dependency ratio – the number of people aged 65 and over, compared with people aged 16 to 64. This ratio starts to rise particularly after about 2005 in Norway. A useful adjustment is to compare the number of older people with the number of people actually employed. Doing this takes account of the growing number of people under the age of 65 who are also not at work as a result of early retirement and other factors. This is the top line in the chart. In the case of Norway, the two lines have about the same trend. There are about 3½ employees for every older person today. By 2030, there will be fewer than 2½ employees for every older person, if existing trends were to continue.

Somewhat less pressure than in most countries. While the growth in the dependency ratio is pronounced, the chart on the right below shows that the ratio for Norway is, nevertheless, lower than for the OECD average and the rate of increase after 2010 is also a little less.



As discussed in Chapter 10, perhaps a more useful way of looking at the combined effects of demographic and labour market trends is to examine the changing percentage of the population that is employed – and producing the goods and services that are consumed by the population as a whole. About 53% of the Norwegian population as a whole are employed today. If existing trends continue, that number could reach a peak of 55% in 2010 and then might fall back to today's levels by 2030 – well above the OECD average, which would be about 43% in 2030.

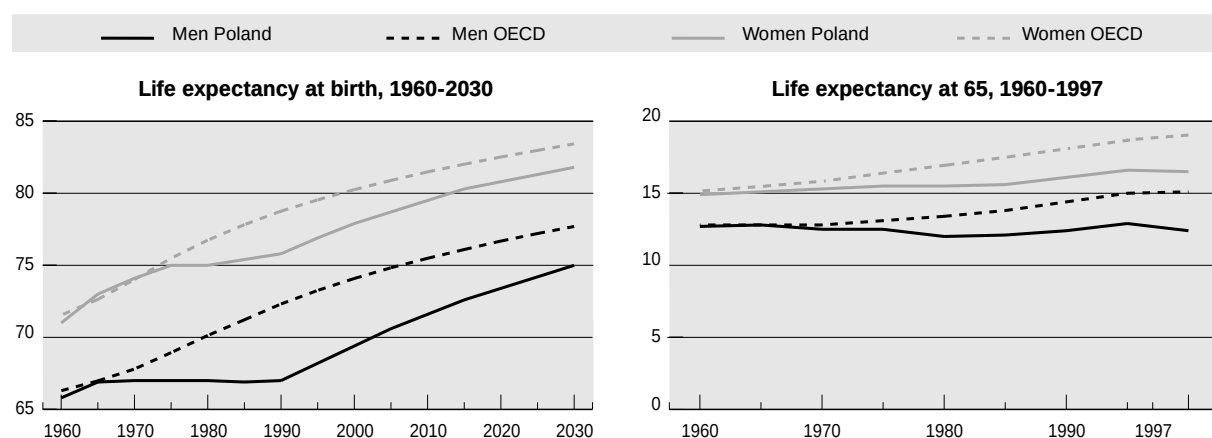


Of course, existing trends need not continue. Indeed, a goal of public policy in some countries is to reverse trends away from fewer lifetime years spent in employment. A wide range of scenarios for the future is possible, as discussed in Chapter 10. As noted in the introduction to this annex, the results should be interpreted as just one of the many ways in which the future could unfold. The purpose is not to forecast that future, but to help provide a rough understanding of the possible effects of ageing trends and changing labour market behaviour.

POLAND

Individuals in Poland are living longer

Life expectancy is somewhat below the OECD average. As in most countries, life expectancy is growing for both men and women, with the largest gains arising from declines in mortality at young ages. In Poland, life expectancy at birth was 66 years for men and 71 years for women in 1960. By the end of the projection period in 2030 this will likely grow to 75 and 82 years respectively. At age 65, a Polish woman today could expect to live another 15 years. A man could expect to live another 12 years.



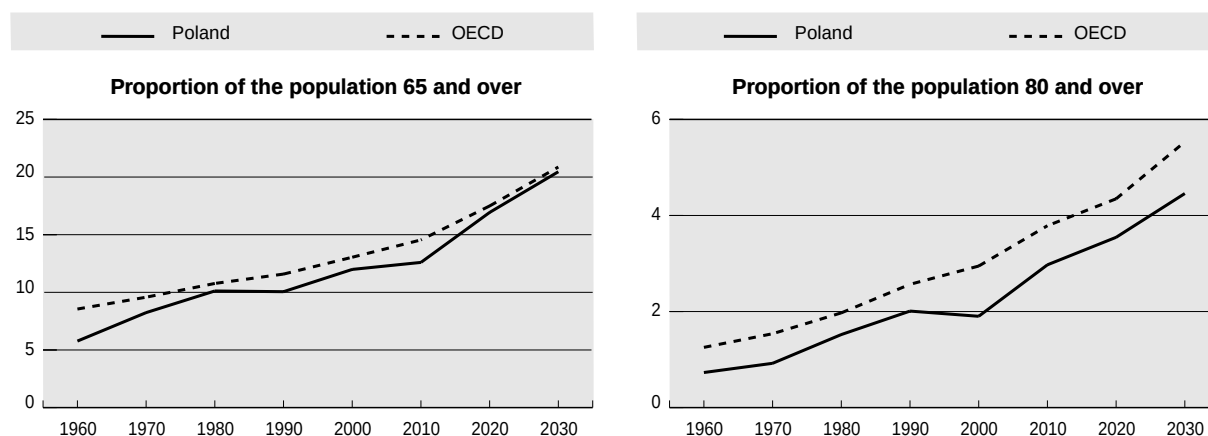
Lifetime years spent in work

How do people spend those extended lives? A typical pattern for men in OECD countries has been a dramatic fall over recent decades in the number of expected years of life that are spent in employment. There has been a corresponding growth in the expected number of years spent in other activities such as school, unemployment in some cases and, especially retirement. Men have been retiring earlier and living longer once retired. In a typical OECD country today, a man might spend only half of his life in employment. Women, on the other hand, are spending more of their lives in employment. However, as noted in Chapter 8, they too are retiring earlier and living longer once retired.

The situation in Poland differs from the OECD average in that a smaller percentage of men are employed and the trend among women, close to the OECD average today, is flatter. Unfortunately, the techniques used in this publication would give unrealistic projections of lifetime years in employment given the limited consistent historical data that is available for Poland.

The Polish population is ageing

Increasing life expectancy is the key demographic change at the level of individuals. However, at the level of society as a whole, it is falling fertility that has been responsible for population ageing – more people in older age groups. Turning from individuals to the society as a whole, the Polish population is growing older – at about the OECD average rate. The charts below show that the percentage of the population that is aged 65 and over has grown from about 6% in 1960 to about 12% today. By 2030, over 20% of the population will be aged 65 and over. The rate of increase for people aged 80 and over is much sharper, from under 1% in 1960 to 4½ % in 2030.

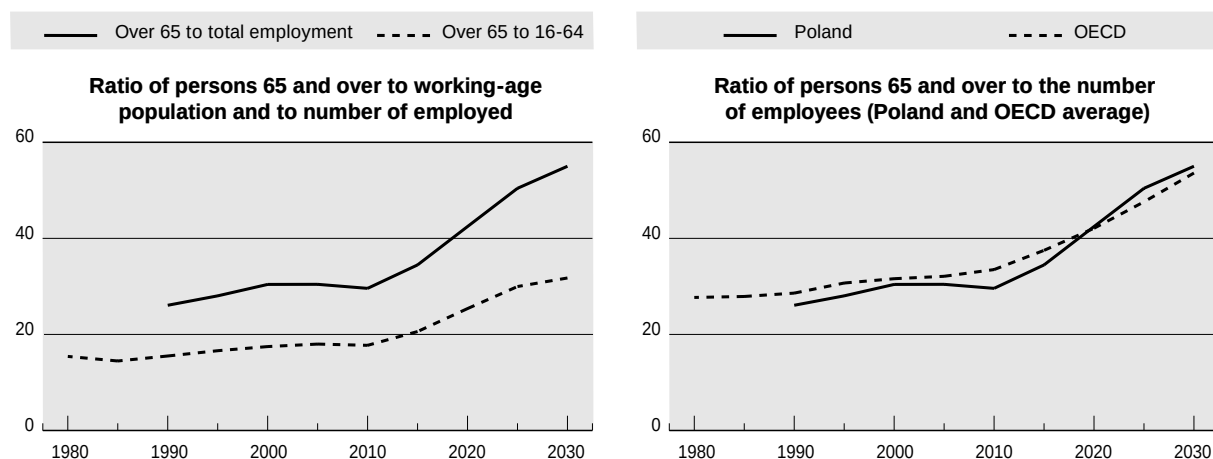


As a result, old age dependency ratios are growing

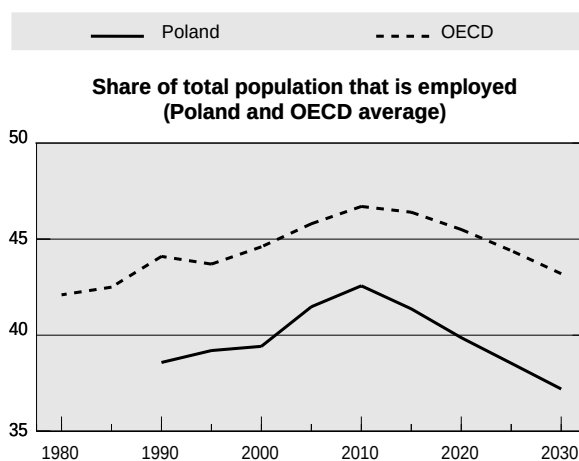
Demographers typically examine the pressures of ageing populations by examining the size of the “dependent” population in relation to the size of the working age population. This is a useful measure of the pressure that an older population creates for the economy as a whole – on the number of older people whose material living standards are “dependent” on the goods and service produced by those of working age. A dependency ratio can, in some cases, also be used to examine the pressures of ageing on public finance – an approximation of the number of contributors and tax-payers that support the number of people in receipt of benefits such as public pensions. However, fiscal comparisons need to be treated with caution since they are considerably influenced by the way these benefits are financed and by the fact that older people also pay taxes.

The bottom line on the left-hand chart below shows the old age dependency ratio – the number of people aged 65 and over, compared with people aged 16 to 64. This ratio starts to grow quite sharply after about 2010 in Poland. A useful adjustment is to compare the number of older people with the number of people actually employed. Doing this takes account of the growing number of people under the age of 65 who are also not at work as a result of early retirement and other factors. This is the top line in the chart, which shows a sharper rate of increase. There are almost 3½ employees for every older person today. By 2030, there will be less than 2 employees for every older person, if existing trends were to continue. Note however that, because of limited historical data, projection techniques are weak for Poland.

Similar pressure as in most countries. The chart on the right below shows that the ratio for Poland is close to the OECD average.



As discussed in Chapter 10, perhaps a more useful way of looking at the combined effects of demographic and labour market trends is to examine the changing percentage of the population that is employed – and producing the goods and services that are consumed by the population as a whole. About 39% of the Polish population as a whole are employed today. If existing trends continue, that number could reach a peak of 43% in 2010 and then might fall to about 37% by 2030 – well below the OECD average, which would be about 43% in 2030.

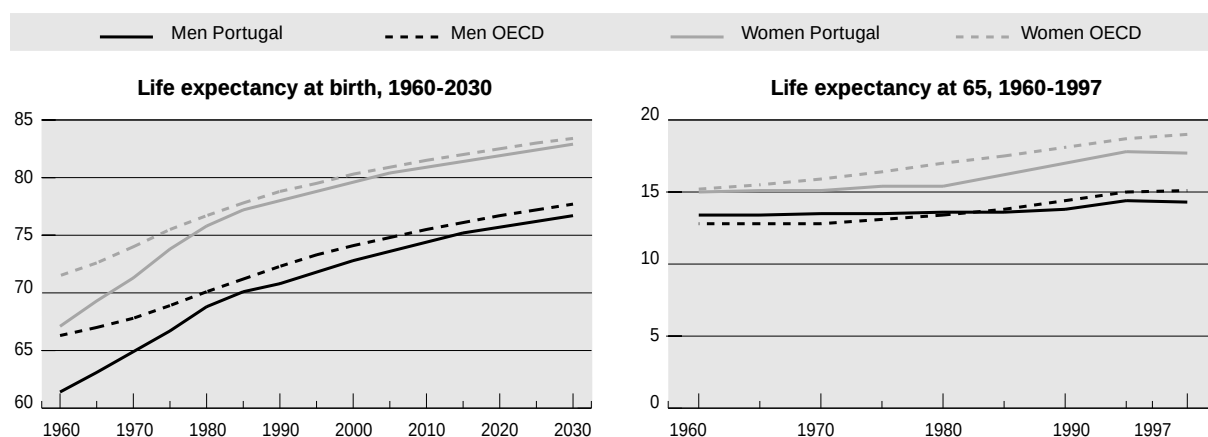


Of course, existing trends need not continue. Indeed, a goal of public policy in some countries is to reverse trends away from fewer lifetime years spent in employment. A wide range of scenarios for the future is possible, as discussed in Chapter 10. As noted in the introduction to this annex, the results should be interpreted as just one of the many ways in which the future could unfold. The purpose is not to forecast that future, but to help provide a rough understanding of the possible effects of ageing trends and changing labour market behaviour. Particular caution is needed in the case in Poland, where the period on which projections are based is relatively short.

PORTUGAL

Individuals in Portugal are living longer

Life expectancy is now close to the OECD average after a period of catch-up. As in most countries, life expectancy is growing for both men and women, with the largest gains arising from declines in mortality at young ages. In Portugal life expectancy at birth was 61 years for men and 67 years for women in 1960. By the end of the projection period in 2030 this will likely grow to 77 and 83 years respectively. At age 65, a Portuguese woman today could expect to live another 18 years. A man could expect to live another 14 years.



Lifetime years spent in work

How do people spend those extended lives? A typical pattern for men in OECD countries has been a dramatic fall over recent decades in the number of expected years of life that are spent in employment. There has been a corresponding growth in the expected number of years spent in other activities such as school, unemployment in some cases and, especially retirement. Men have been retiring earlier and living longer once retired. In a typical OECD country today, a man might spend only half of his life in employment. Women, on the other hand, are spending more of their lives in employment. However, as noted in Chapter 8, they too are retiring earlier and living longer once retired.

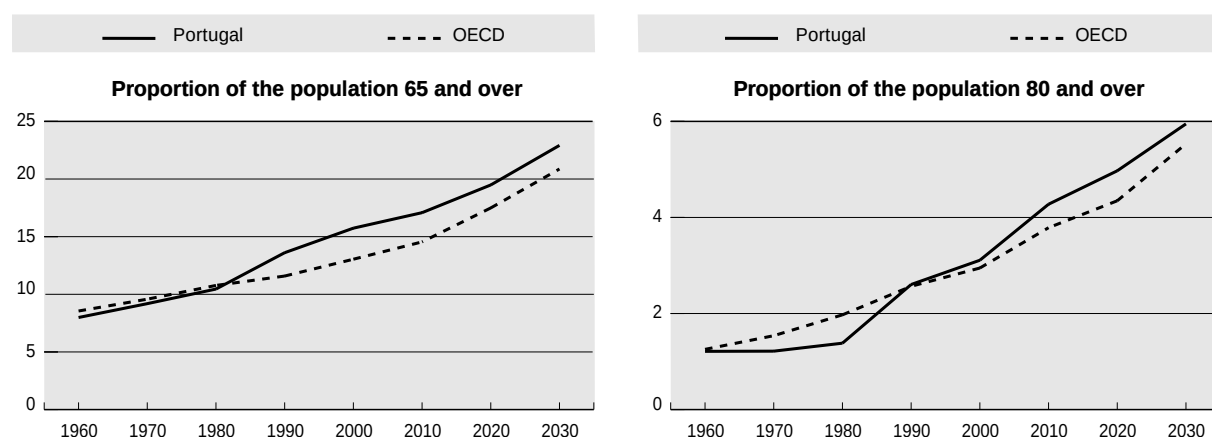
The situation in Portugal is near the OECD average:

- Given the labour market situation of today, Portuguese men could expect to be employed for somewhat over half of their expected life – 39 years – and be out of work for the other 34. In a scenario where existing trends continue, by 2030 men could expect to be employed for only 33 years, with a much larger share of life (44 years) spent outside of employment.

- Today, women in Portugal could expect to be employed for 30 years and not be employed for 49 years. By 2030, the expected time in employment may grow to 39 years, with 44 years not in employment.

The population of Portugal is ageing

Increasing life expectancy is the key demographic change at the level of individuals. However, at the level of society as a whole, it is falling fertility that has been responsible for population ageing – more people in older age groups. Turning from individuals to the society as a whole, the Portuguese population is growing older – a little faster than the OECD average rate. The charts below show that the percentage of the population that is aged 65 and over has grown from about 8% in 1960 to about 16% today. By 2030 over 23% of the population will be aged 65 and over. The rate of increase for people aged 80 and over is much sharper, from about 1% in 1960 to 6% in 2030.

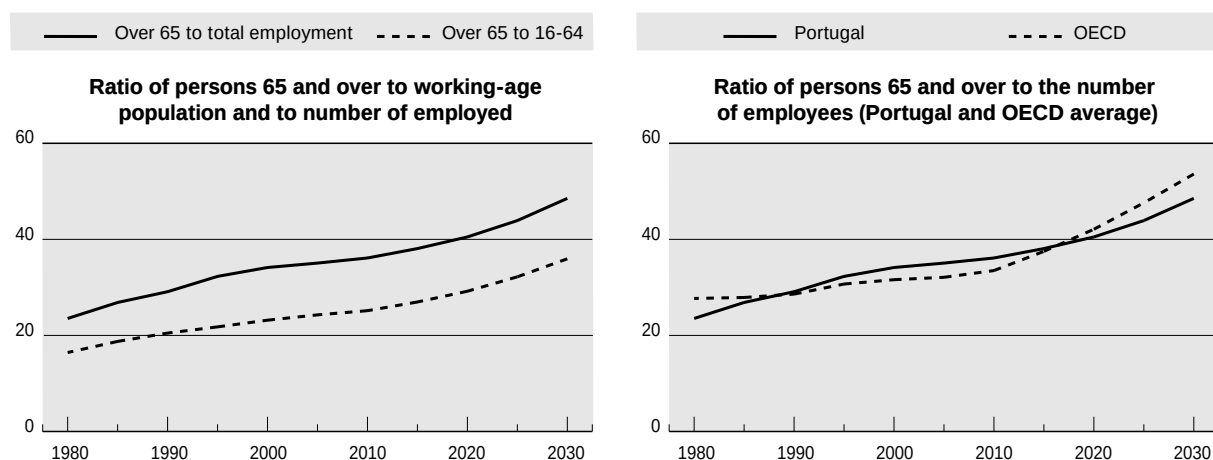


As a result, old age dependency ratios are growing

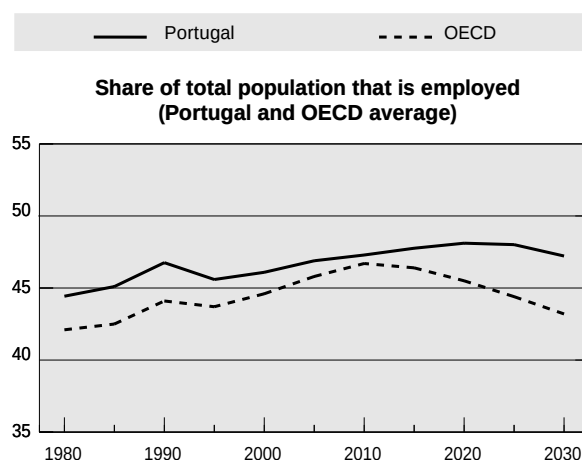
Demographers typically examine the pressures of ageing populations by examining the size of the “dependent” population in relation to the size of the working age population. This is a useful measure of the pressure that an older population creates for the economy as a whole – on the number of older people whose material living standards are “dependent” on the goods and service produced by those of working age. A dependency ratio can, in some cases, also be used to examine the pressures of ageing on public finance – an approximation of the number of contributors and tax-payers that support the number of people in receipt of benefits such as public pensions. However, fiscal comparisons need to be treated with caution since they are considerably influenced by the way these benefits are financed and by the fact that older people also pay taxes.

The bottom line on the left-hand chart below shows the old age dependency ratio – the number of people aged 65 and over, compared with people aged 16 to 64. This ratio grows steadily throughout the period to 2030. A useful adjustment is to compare the number of older people with the number of people actually employed. Doing this takes account of the growing number of people under the age of 65 who are also not at work as a result of early retirement and other factors. This is the top line in the chart, which increases at a slightly faster rate. There are almost 3 employees for every older person today. By 2030, there will be only 2 employees for every older person, if existing trends were to continue.

Similar pressure to that in other countries. The chart on the right below shows that the ratio for Portugal is near to the OECD average.



As discussed in Chapter 10, perhaps a more useful way of looking at the combined effects of demographic and labour market trends is to examine the changing percentage of the population that is employed – and producing the goods and services that are consumed by the population as a whole. About 46% of the Portuguese population as a whole are employed today. If existing trends continue, that number could reach a peak of 48% in 2020 and then might fall to about 47% by 2030 – above the OECD average, which would be about 43% in 2030.

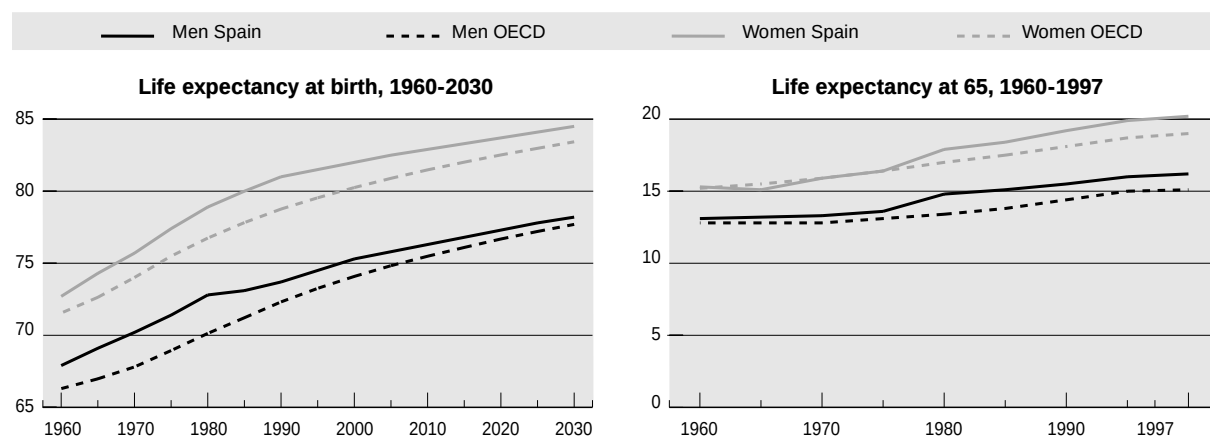


Of course, existing trends need not continue. Indeed, a goal of public policy in some countries is to reverse trends away from fewer lifetime years spent in employment. A wide range of scenarios for the future is possible, as discussed in Chapter 10. As noted in the introduction to this annex, the results should be interpreted as just one of the many ways in which the future could unfold. The purpose is not to forecast that future, but to help provide a rough understanding of the possible effects of ageing trends and changing labour market behaviour.

SPAIN

Individuals in Spain are living longer

Life expectancy is a little above the OECD average. As in most countries, life expectancy is growing for both men and women, with the largest gains arising from declines in mortality at young ages. In Spain, life expectancy at birth was 68 years for men and 73 years for women in 1960. By the end of the projection period in 2030 this will likely grow to 78 and 85 years respectively. At age 65, a Spanish woman today could expect to live another 20 years. A man could expect to live another 16 years.



Lifetime years spent in work

How do people spend those extended lives? A typical pattern for men in OECD countries has been a dramatic fall over recent decades in the number of expected years of life that are spent in employment. There has been a corresponding growth in the expected number of years spent in other activities such as school, unemployment in some cases and, especially retirement. Men have been retiring earlier and living longer once retired. In a typical OECD country today, a man might spend only half of his life in employment. Women, on the other hand, are spending more of their lives in employment. However, as noted in Chapter 8, they too are retiring earlier and living longer once retired.

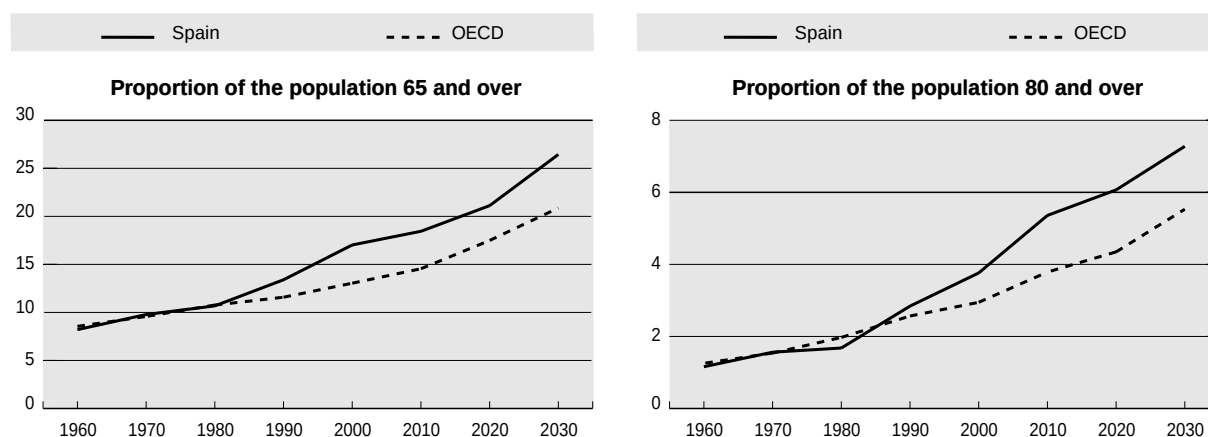
The situation in Spain is near the OECD average for men except that the cross-over point – when time spent in and out of employment is equal – was reached a decade ago. Women were employed less in the past but could catch up to the OECD average by the end of the projection period:

- Given the labour market situation of today, Spanish men could expect to be employed for less than half of their expected life – 33 years – and be out of work for the other 42. In a scenario where existing trends continue, by 2030 men could expect to be employed for about 32 years and with a larger increase in time (47 years) spent outside of employment as a result of longevity increases.

- Today, women in Spain could expect to be employed for 18 years and not be employed for 64 years. By 2030, the expected time in employment may grow to 34 years, with 51 years not in employment.

The Spanish population is ageing

Increasing life expectancy is the key demographic change at the level of individuals. However, at the level of society as a whole, it is falling fertility that has been responsible for population ageing – more people in older age groups. Turning from individuals to the society as a whole, the population of Spain is growing older – somewhat faster than the OECD average rate. The charts below show that the percentage of the population that is aged 65 and over has grown from about 8% in 1960 to about 17% today. By 2030 some 26% of the population will be aged 65 and over. The rate of increase for people aged 80 and over is much sharper, from about 1% in 1960 to 7% in 2030.

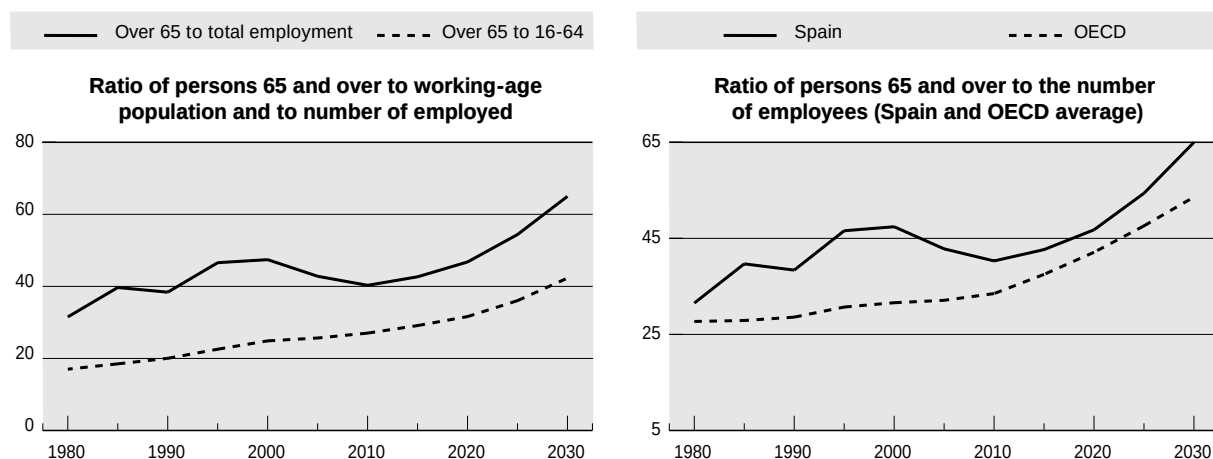


As a result, old age dependency ratios are growing

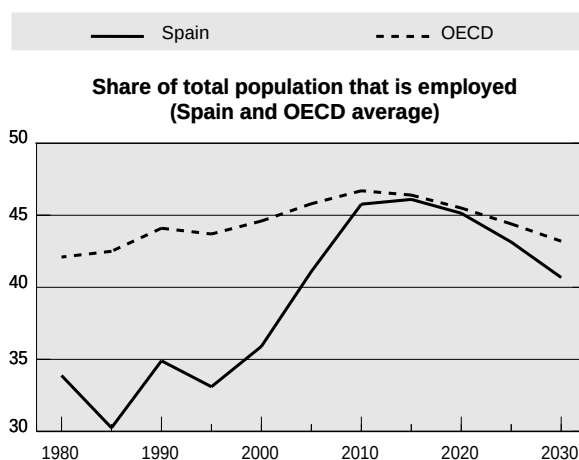
Demographers typically examine the pressures of ageing populations by examining the size of the “dependent” population in relation to the size of the working age population. This is a useful measure of the pressure that an older population creates for the economy as a whole – on the number of older people whose material living standards are “dependent” on the goods and service produced by those of working age. A dependency ratio can, in some cases, also be used to examine the pressures of ageing on public finance – an approximation of the number of contributors and tax-payers that support the number of people in receipt of benefits such as public pensions. However, fiscal comparisons need to be treated with caution since they are considerably influenced by the way these benefits are financed and by the fact that older people also pay taxes.

The bottom line on the left-hand chart below shows the old age dependency ratio – the number of people aged 65 and over, compared with people aged 16 to 64. This ratio grows quite steadily throughout the period in Spain. A useful adjustment is to compare the number of older people with the number of people actually employed. Doing this takes account of the growing number of people under the age of 65 who are also not at work as a result of early retirement and other factors. This is the top line in the chart. In the case of Spain, it shows more pressure in recent years, but the two ratios are similar later in the period. There are about 2 employees for every older person today. By 2030, there will be 1½ employees for every older person, if existing trends were to continue.

More pressure now than in most countries. The chart to the right shows more demographic pressure today than is the case for the OECD average. However that pressure may ease under the assumptions in this scenario for the future (which assumes that unemployment will fall in the coming decade) and then grow again after 2010 at about the rate found in many other OECD countries.



As discussed in Chapter 10, perhaps a more useful way of looking at the combined effects of demographic and labour market trends is to examine the changing percentage of the population that is employed – and producing the goods and services that are consumed by the population as a whole. About 36% of the Spanish population as a whole are employed today. If existing trends continue (and if the assumption about falling unemployment that is built into the scenario holds true) that number could reach a peak of 46% in 2015. It would then fall to about 41% by 2030 – a little less than the OECD average, which would be about 43% in 2030.

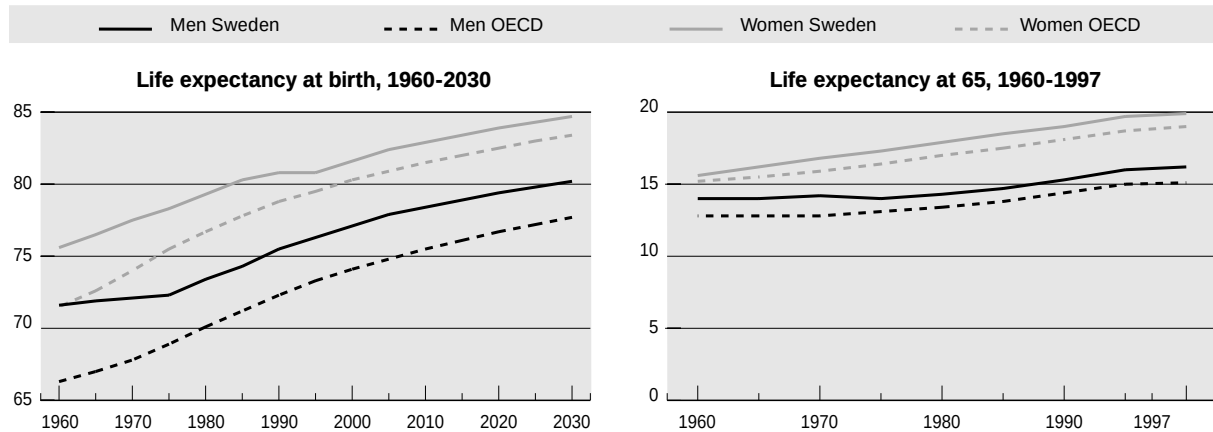


Of course, existing trends need not continue. Indeed, a goal of public policy in some countries is to reverse trends away from fewer lifetime years spent in employment. A wide range of scenarios for the future is possible, as discussed in Chapter 10. As noted in the introduction to this annex, the results should be interpreted as just one of the many ways in which the future could unfold. The purpose is not to forecast that future, but to help provide a rough understanding of the possible effects of ageing trends and changing labour market behaviour.

SWEDEN

Individuals in Sweden are living longer

Life expectancy is above the OECD average. As in most countries, life expectancy is growing for both men and women. In Sweden, life expectancy at birth was 72 years for men and 76 years for women in 1960. By the end of the projection period in 2030 this will likely grow to 80 and 85 years respectively. At age 65, a Swedish woman today could expect to live another 20 years. A man could expect to live another 16 years.



Lifetime years spent in work

How do people spend those extended lives? A typical pattern for men in OECD countries has been a dramatic fall over recent decades in the number of expected years of life that are spent in employment. There has been a corresponding growth in the expected number of years spent in other activities such as school, unemployment in some cases and, especially retirement. Men have been retiring earlier and living longer once retired. In a typical OECD country today, a man might spend only half of his life in employment. Women, on the other hand, are spending more of their lives in employment. However, as noted in Chapter 8, they too are retiring earlier and living longer once retired.

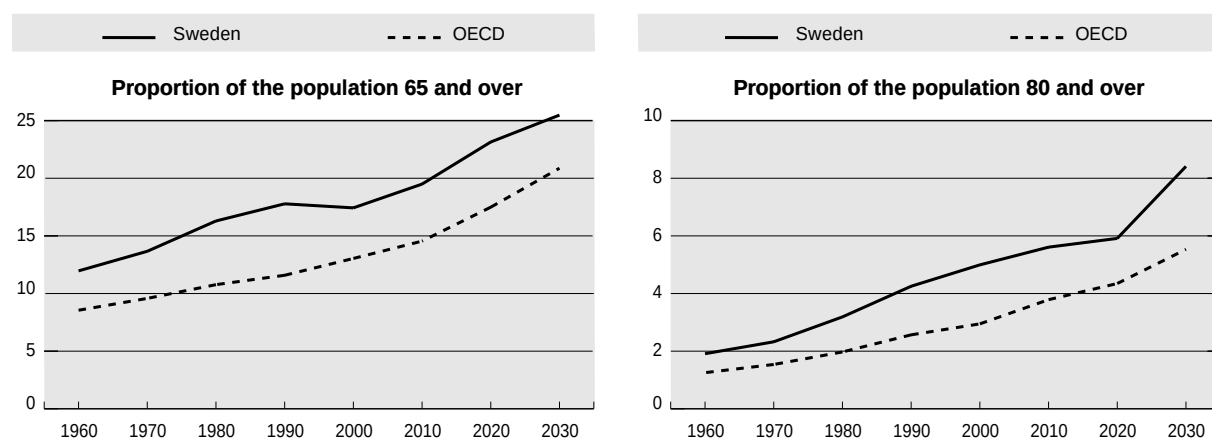
The situation in Sweden is near the OECD average for men. For women, there was an historic pattern of more years spent in employment than the average. However, the gap narrowed in the 1990s:

- Given the labour market situation of today, Swedish men could expect to be employed for less than half of their expected life – 37 years – and be out of work for the other 40 years. In a scenario where existing trends continue, by 2030 men could expect to be employed somewhat less (33 years), but with a larger increase in time (47 years) spent outside of employment.

- Today, women in Sweden could expect to be employed for 34 years and not be employed for 48 years. By 2030, the expected time in employment may grow slightly to 36 years, with 49 years not in employment.

The Swedish population is ageing

Increasing life expectancy is the key demographic change at the level of individuals. However, at the level of society as a whole, it is falling fertility that has been responsible for population ageing – more people in older age groups. Turning from individuals to the society as a whole, the Swedish population is growing older. It was older at the beginning of the period and is becoming older a little faster. The charts below show that the percentage of the population that is aged 65 and over has grown from under 12% in 1960 to about 17% today. By 2030 over 25% of the population will be aged 65 and over. The rate of increase for people aged 80 and over is much sharper, from about 2% in 1960 to 8½% in 2030.

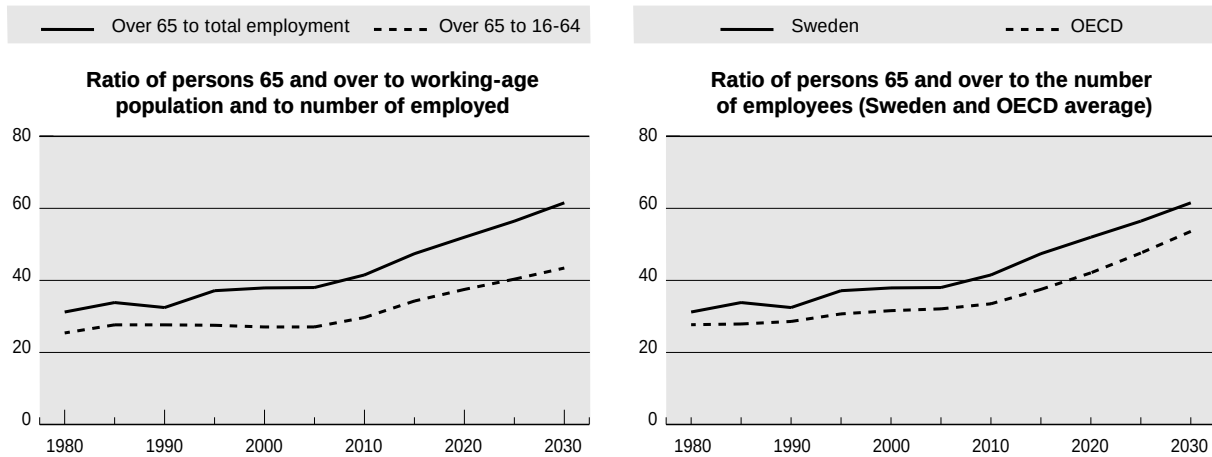


As a result, old age dependency ratios are growing

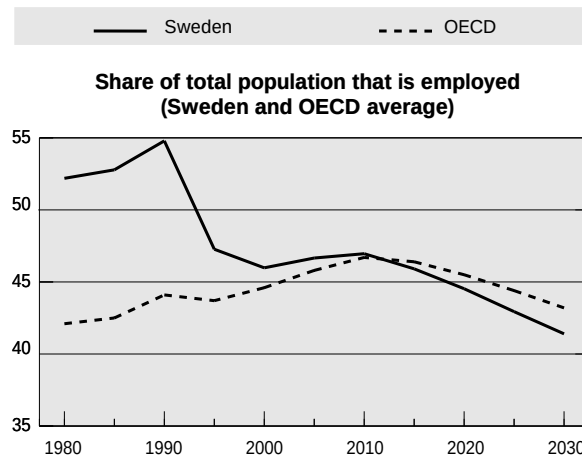
Demographers typically examine the pressures of ageing populations by examining the size of the “dependent” population in relation to the size of the working age population. This is a useful measure of the pressure that an older population creates for the economy as a whole – on the number of older people whose material living standards are “dependent” on the goods and service produced by those of working age. A dependency ratio can, in some cases, also be used to examine the pressures of ageing on public finance – an approximation of the number of contributors and tax-payers that support the number of people in receipt of benefits such as public pensions. However, fiscal comparisons need to be treated with caution since they are considerably influenced by the way these benefits are financed and by the fact that older people also pay taxes.

The bottom line on the left-hand chart below shows the old age dependency ratio – the number of people aged 65 and over, compared with people aged 16 to 64. This ratio grows steadily throughout this period in Sweden. A useful adjustment is to compare the number of older people with the number of people actually employed. Doing this takes account of the growing number of people under the age of 65 who are also not at work as a result of early retirement and other factors. This is the top line in the chart, which shows a faster increase. There are about 2½ employees for every older person today. By 2030, there will be only 1½ employees for every older person, if existing trends were to continue.

Somewhat more pressure than in most countries. The chart on the right below shows that the ratio for Sweden is higher than the OECD average and growing a little faster.



As discussed in Chapter 10, perhaps a more useful way of looking at the combined effects of demographic and labour market trends is to examine the changing percentage of the population that is employed – and producing the goods and services that are consumed by the population as a whole. About 46% of the Swedish population as a whole are employed today. If existing trends continue, that might fall to about 41% by 2030 – slightly below the OECD average, which would be about 43% in 2030. However, that assumptions built into these projections may well not be very realistic in the case of Sweden. The projections are considerably influenced by the unemployment situation in Sweden in the middle 90s, which may well be abnormal. On the other hand the picture that emerges is not far from the OECD average.

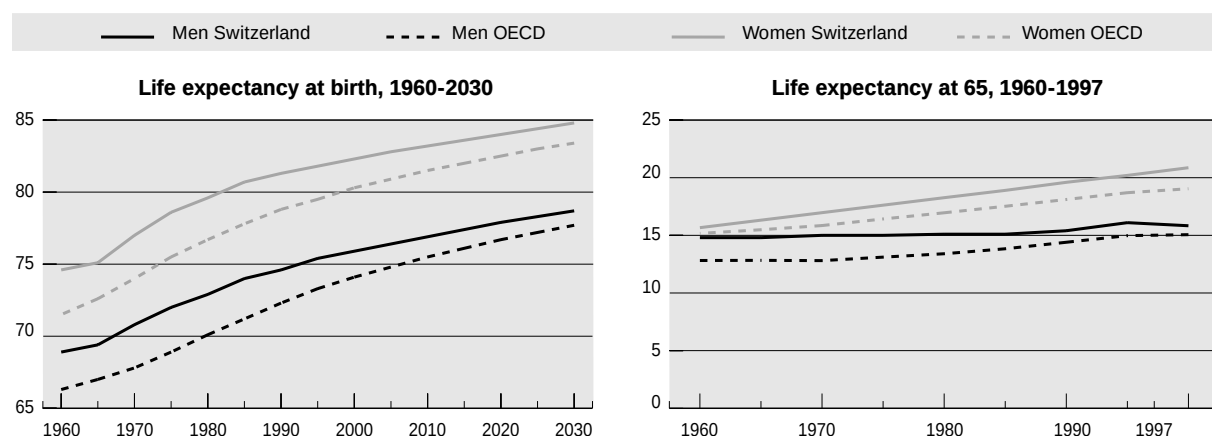


Of course, existing trends need not continue in any country. Indeed, a goal of public policy in some countries is to reverse trends away from fewer lifetime years spent in employment. A wide range of scenarios for the future is possible, as discussed in Chapter 10 where Sweden is used as an example. As noted in the introduction to this annex, the results should be interpreted as just one of the many ways in which the future could unfold.

SWITZERLAND

Individuals in Switzerland are living longer

Life expectancy is above the OECD average. As in most countries, life expectancy is growing for both men and women, with the largest gains arising from declines in mortality at young ages. In Switzerland, life expectancy at birth was 69 years for men and 75 years for women in 1960. By the end of the projection period in 2030 this will likely grow to 79 and 85 years respectively. At age 65, a Swiss woman today could expect to live another 21 years. A man could expect to live another 16 years.



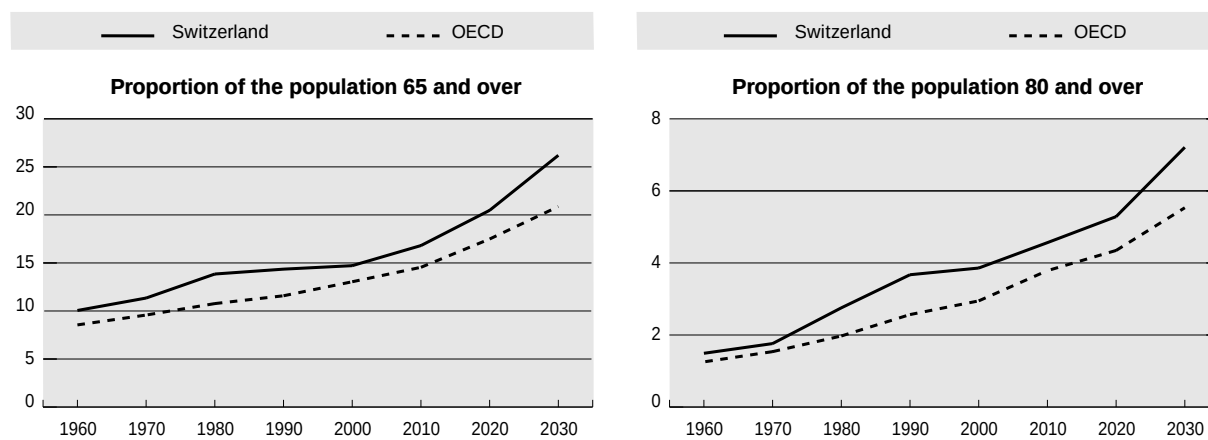
Lifetime years spent in work

How do people spend those extended lives? A typical pattern for men in OECD countries has been a dramatic fall over recent decades in the number of expected years of life that are spent in employment. There has been a corresponding growth in the expected number of years spent in other activities such as school, unemployment in some cases and, especially retirement. Men have been retiring earlier and living longer once retired. In a typical OECD country today, a man might spend only half of his life in employment. Women, on the other hand, are spending more of their lives in employment. However, as noted in Chapter 8, they too are retiring earlier and living longer once retired.

Unfortunately the historic data series in Switzerland is not long enough to make sensible projections. However, we can note that given the recent labour market situation, both men and women could expect to spend more of their lives in employment than is the case with the OECD average.

The Swiss population is ageing

Increasing life expectancy is the key demographic change at the level of individuals. However, at the level of society as a whole, it is falling fertility that has been responsible for population ageing – more people in older age groups. Turning from individuals to the society as a whole, the population of Switzerland is growing older. It is somewhat older than the OECD average. The charts below show that the percentage of the population that is aged 65 and over has grown from under 10% in 1960 to about 15% today. By 2030, over 25% of the population will be aged 65 and over. The rate of increase for people aged 80 and over is much sharper, from about 1½% in 1960 to over 7% in 2030.

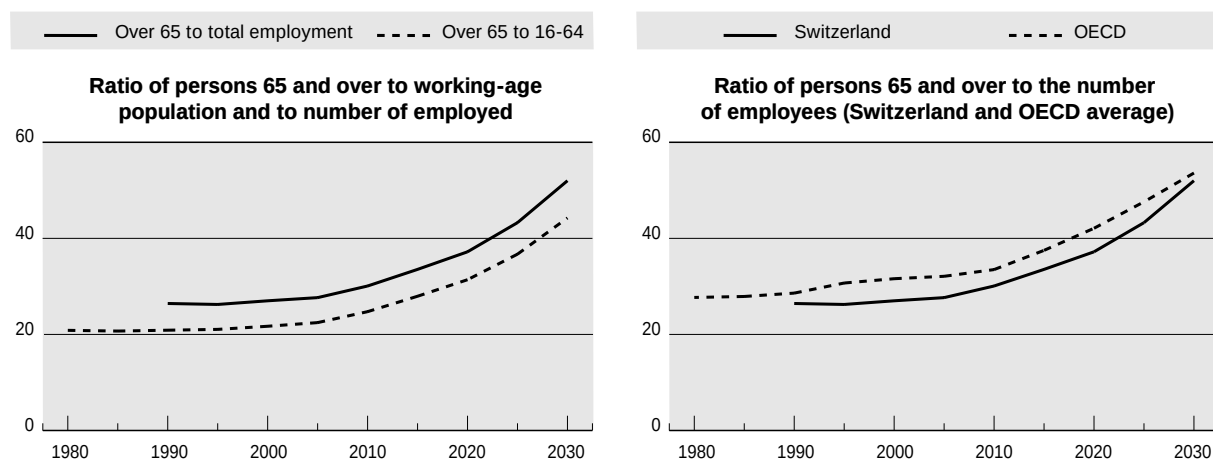


As a result, old age dependency ratios are growing

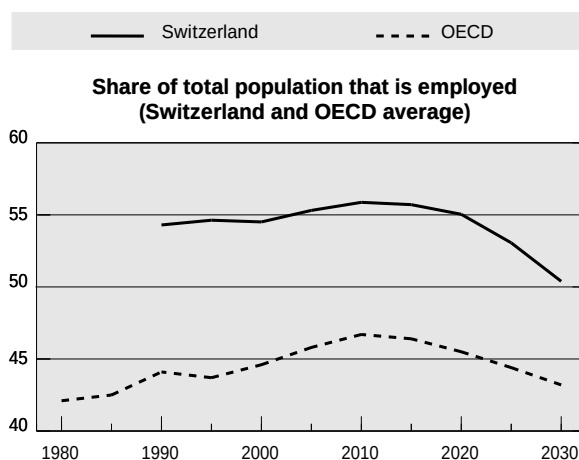
Demographers typically examine the pressures of ageing populations by examining the size of the “dependent” population in relation to the size of the working age population. This is a useful measure of the pressure that an older population creates for the economy as a whole – on the number of older people whose material living standards are “dependent” on the goods and service produced by those of working age. A dependency ratio can, in some cases, also be used to examine the pressures of ageing on public finance – an approximation of the number of contributors and tax-payers that support the number of people in receipt of benefits such as public pensions. However, fiscal comparisons need to be treated with caution since they are considerably influenced by the way these benefits are financed and by the fact that older people also pay taxes.

The bottom line on the left-hand chart below shows the old age dependency ratio – the number of people aged 65 and over, compared with people aged 16 to 64. This ratio grows throughout the period and more rapidly after 2010 in Switzerland. A useful adjustment is to compare the number of older people with the number of people actually employed. Doing this takes account of the growing number of people under the age of 65 who are also not at work as a result of early retirement and other factors. This is the top line in the chart. In the case of Switzerland, the two lines have about the same trend in the period for which data was available. There are almost 4 employees for every older person today. By 2030, there will be less than 2 employees for every older person, if existing trends were to continue.

Similar pressure to that in most countries. While the growth in the dependency ratio is pronounced, the chart on the right below shows that the ratio for Switzerland is slightly lower than for the OECD average, but with a similar rate of increase.



As discussed in Chapter 10, perhaps a more useful way of looking at the combined effects of demographic and labour market trends is to examine the changing percentage of the population that is employed – and producing the goods and services that are consumed by the population as a whole. About 55% of the Swiss population as a whole are employed today. If existing trends continue, that might fall to about 50% by 2030 – well above the OECD average, which would be about 43% in 2030.

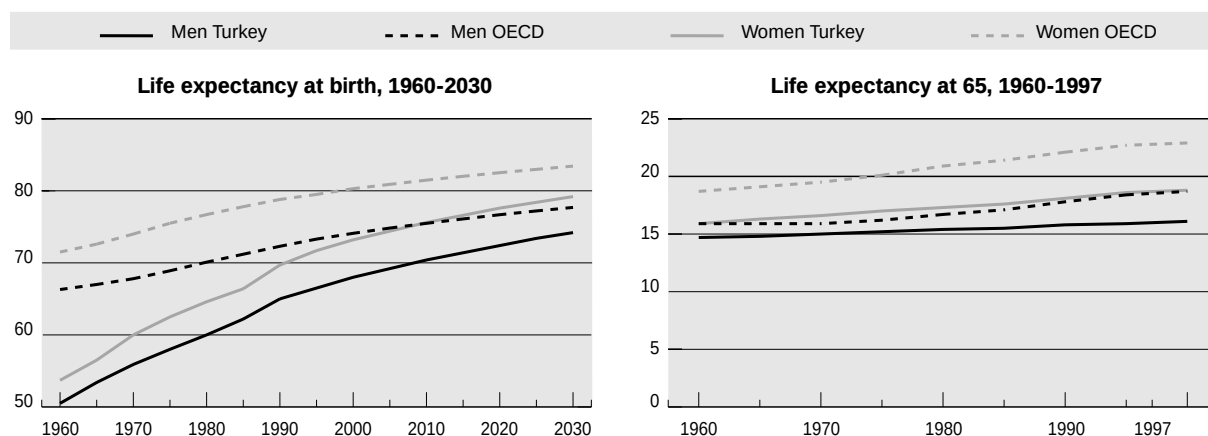


Of course, existing trends need not continue. Indeed, a goal of public policy in some countries is to reverse trends away from fewer lifetime years spent in employment. A wide range of scenarios for the future is possible, as discussed in Chapter 10. As noted in the introduction to this annex, the results should be interpreted as just one of the many ways in which the future could unfold. The purpose is not to forecast that future, but to help provide a rough understanding of the possible effects of ageing trends and changing labour market behaviour.

TURKEY

Individuals in Turkey are living longer

Life expectancy is below the OECD average, but the gap is narrowing. As in most countries, life expectancy is growing for both men and women, with the largest gains arising from declines in mortality at young ages. In Turkey life expectancy at birth was 51 years for men and 54 years for women in 1960. By the end of the projection period in 2030 this will likely grow to 74 and 79 years respectively. At age 65, a Turkish woman today could expect to live another 19 years. A man could expect to live another 16 years.



Lifetime years spent in work

How do people spend those extended lives? A typical pattern for men in OECD countries has been a dramatic fall over recent decades in the number of expected years of life that are spent in employment. There has been a corresponding growth in the expected number of years spent in other activities such as school, unemployment in some cases and, especially retirement. Men have been retiring earlier and living longer once retired. In a typical OECD country today, a man might spend only half of his life in employment. Women, on the other hand, are spending more of their lives in employment. However, as noted in Chapter 8, they too are retiring earlier and living longer once retired.

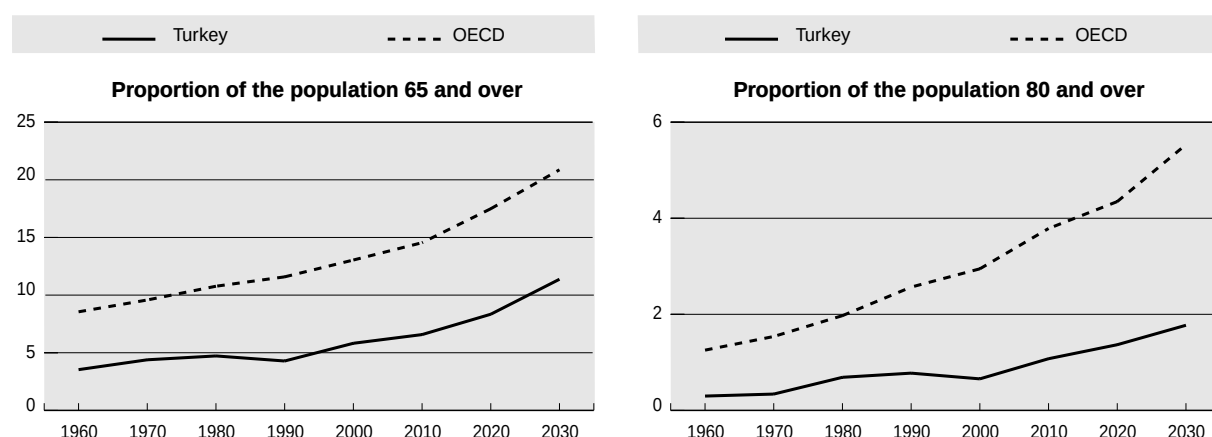
The situation in Turkey differs from the OECD average in that there is less time out of employment among men because of the lower longevity figures. As well there is considerably less employment among women:

- Given the labour market situation of today, Turkish men could expect to be employed for well over half of their expected life – 41 years – and be out of work for the other 28. In a scenario where existing trends continue, by 2030 men could expect to be employed for 33 years, with 41 years spent outside of employment.

- Today, women in Turkey could expect to be employed for only 15 years and not be employed for 58 years. By 2030, the expected time in employment would not change greatly based on current trends while 63 years would be spent not in employment.

The Turkish population is ageing

Increasing life expectancy is the key demographic change at the level of individuals. However, at the level of society as a whole, it is falling fertility that has been responsible for population ageing – more people in older age groups. Turning from individuals to the society as a whole, the Turkish population is growing older, but it will remain much younger than the OECD average rate. The charts below show that the percentage of the population that is aged 65 and over has grown from under 4% in 1960 to about 6% today. By 2030 over 11% of the population will be aged 65 and over. The percentage of population over the age of 80 is very small.

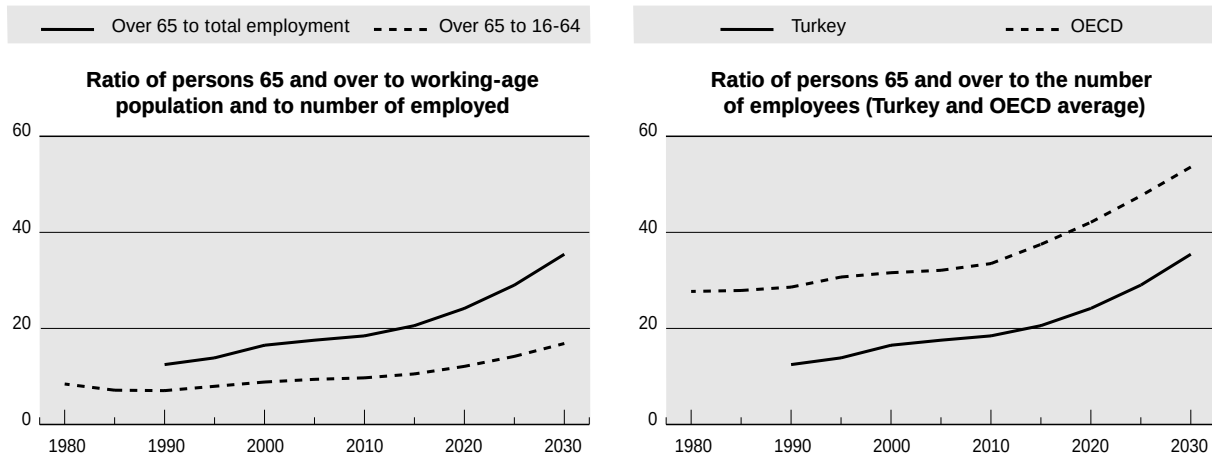


As a result, old age dependency ratios are growing somewhat

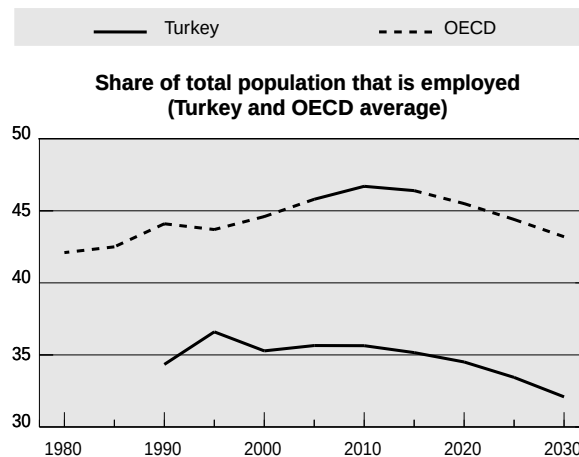
Demographers typically examine the pressures of ageing populations by examining the size of the “dependent” population in relation to the size of the working age population. This is a useful measure of the pressure that an older population creates for the economy as a whole – on the number of older people whose material living standards are “dependent” on the goods and service produced by those of working age. A dependency ratio can, in some cases, also be used to examine the pressures of ageing on public finance – an approximation of the number of contributors and tax-payers that support the number of people in receipt of benefits such as public pensions. However, fiscal comparisons need to be treated with caution since they are considerably influenced by the way these benefits are financed and by the fact that older people also pay taxes.

The bottom line on the left-hand chart below shows the old age dependency ratio – the number of people aged 65 and over, compared with people aged 16 to 64. This ratio grows gradually during this period in Turkey. A useful adjustment is to compare the number of older people with the number of people actually employed. Doing this takes account of the growing number of people under the age of 65 who are also not at work as a result of early retirement and other factors. This is the top line in the chart, which grows a little faster after 2010. There are almost 4 employees for every older person today. By 2030, there will be only 2½ employees for every older person, if existing trends were to continue.

Somewhat less pressure than in most countries. While the growth in the dependency ratio is pronounced, the chart on the right below shows that the ratio for Turkey is, nevertheless, lower than for the OECD average.



As discussed in Chapter 10, perhaps a more useful way of looking at the combined effects of demographic and labour market trends is to examine the changing percentage of the population that is employed – and producing the goods and services that are consumed by the population as a whole. About 35% of the Turkish population as a whole are employed today. If existing trends continue, that number would stay stable for several decades and then fall a little to 32%, significantly below the OECD average, which would be about 43% in 2030.

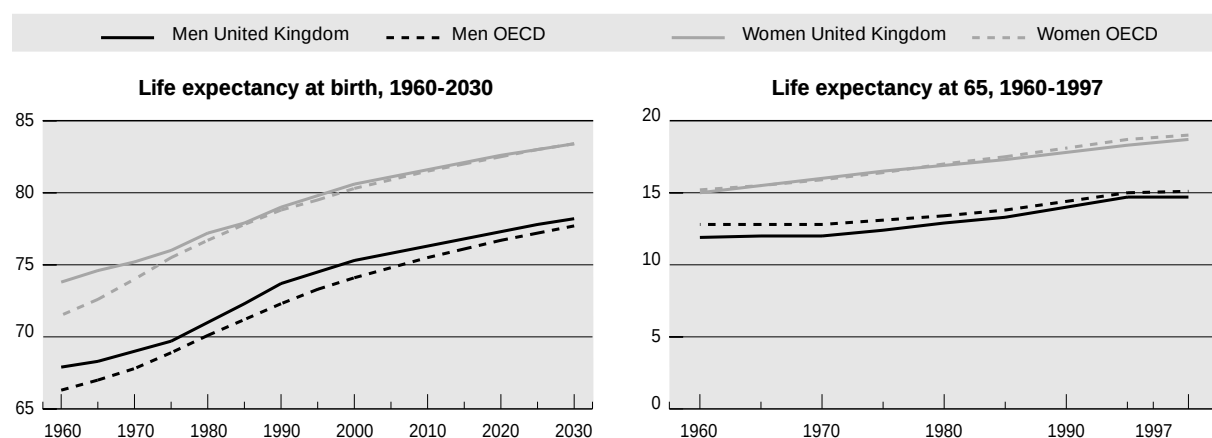


Of course, existing trends need not continue. Indeed, a goal of public policy in some countries is to reverse trends away from fewer lifetime years spent in employment. A wide range of scenarios for the future is possible, as discussed in Chapter 10. As noted in the introduction to this annex, the results should be interpreted as just one of the many ways in which the future could unfold. The purpose is not to forecast that future, but to help provide a rough understanding of the possible effects of ageing trends and changing labour market behaviour.

UNITED KINGDOM

Individuals in the United Kingdom are living longer

As in most countries, life expectancy is growing for both men and women, with the largest gains arising from declines in mortality at young ages. In the UK, life expectancy at birth was 68 years for men and 74 years for women in 1960. By the end of the projection period in 2030, this will likely grow to 78 and 83 years respectively. At age 65, a woman in the UK today could expect to live another 19 years. A man could expect to live another 15 years. These figures are close to the OECD average.



Lifetime years spent in work

How do people spend those extended lives? A typical pattern for men in OECD countries has been a dramatic fall over recent decades in the number of expected years of life that are spent in employment. There has been a corresponding growth in the expected number of years spent in other activities such as school, unemployment in some cases and, especially retirement. Men have been retiring earlier and living longer once retired. In a typical OECD country today, a man might spend only half of his life in employment. Women, on the other hand, are spending more of their lives in employment. However, as noted in Chapter 8, they too are retiring earlier and living longer once retired.

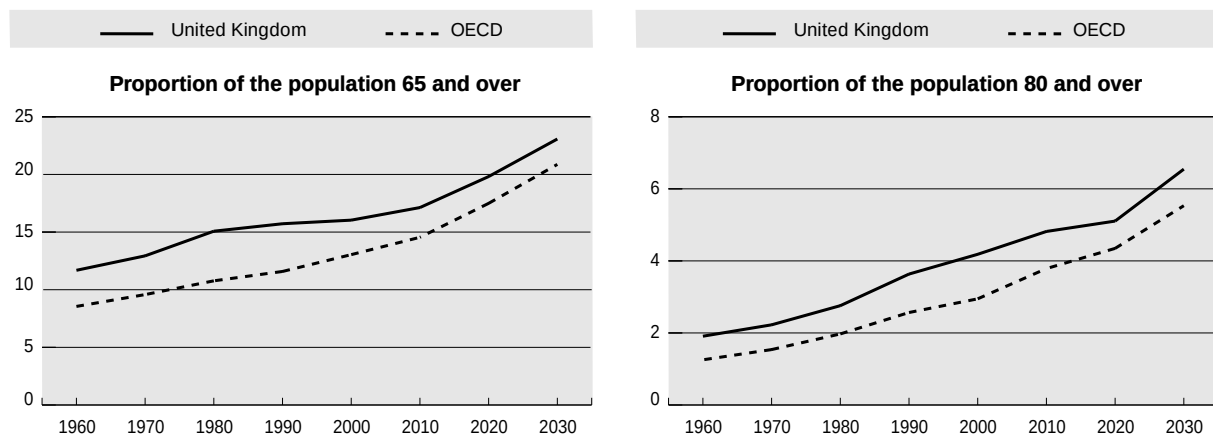
The situation in the United Kingdom is near the OECD average:

- Given the labour market situation of today, men in the UK could expect to be employed for a little more than half of their expected life – 38 years – and be out of work for the other 37 years. In a scenario where existing trends continue, by 2030 men could expect to be employed for 34 years, but with a larger increase in time (44 years) spent outside of employment.

- Today, women in the UK could expect to be employed for 32 years and not be employed for 49 years. By 2030, the expected time in employment may grow to 38 years, with 45 years not in employment.

The population of the UK is growing older

The United Kingdom's population is older than the OECD average. Increasing life expectancy is the key demographic change at the level of individuals. However, at the level of society as a whole, it is falling fertility that has been responsible for population ageing – more people in older age groups. The charts below show that the percentage of the population that is aged 65 and over has grown from 12% in 1960 to about 16% today. By 2030 some 23% of the population will be aged 65 and over. The rate of increase for people aged 80 and over is much sharper, from about 2% in 1960 to 6½ % in 2030.

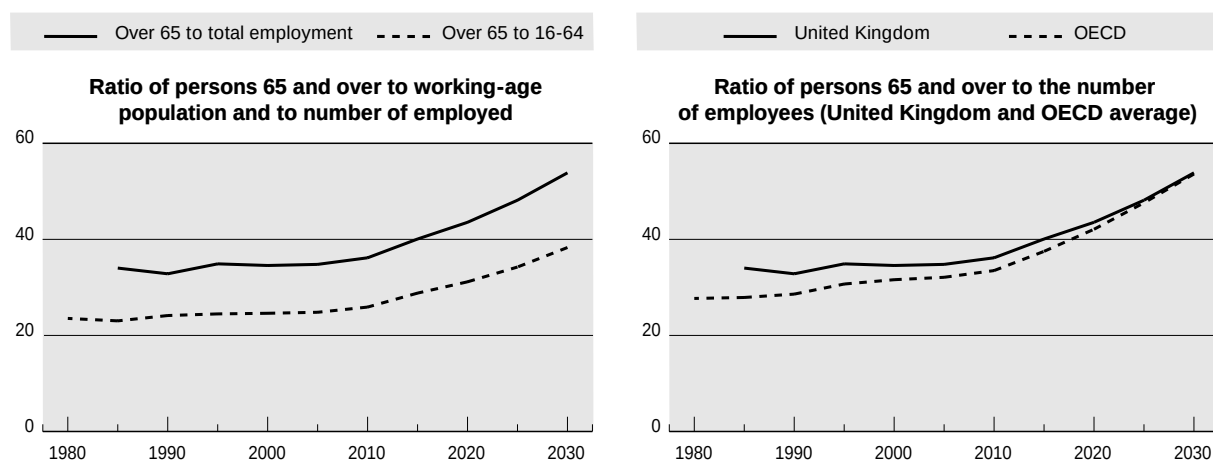


Old age dependency ratios are increasing

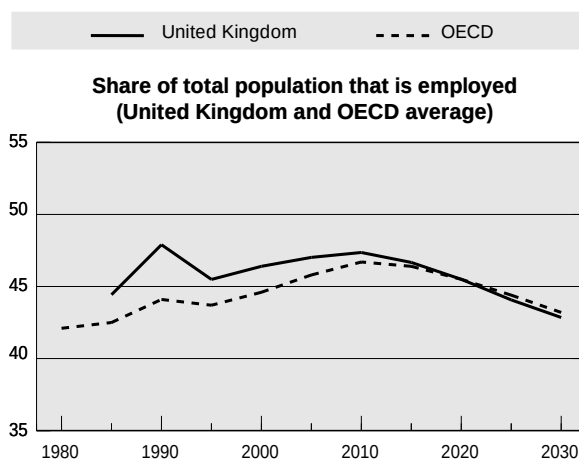
Demographers typically examine the pressures of ageing populations by examining the size of the “dependent” population in relation to the size of the working age population. This is a useful measure of the pressure that an older population creates for the economy as a whole – on the number of older people whose material living standards are “dependent” on the goods and service produced by those of working age. A dependency ratio can, in some cases, also be used to examine the pressures of ageing on public finance – an approximation of the number of contributors and tax-payers that support the number of people in receipt of benefits such as public pensions. However, fiscal comparisons need to be treated with caution since they are considerably influenced by the way these benefits are financed and by the fact that older people also pay taxes.

The bottom line on the left-hand chart below shows the old age dependency ratio – the number of people aged 65 and over, compared with people aged 16 to 64. This ratio starts to grow more sharply after about 2010 in the United Kingdom. In many countries a useful adjustment is to compare the number of older people with the number of people actually employed. Doing this takes account of the growing number of people under the age of 65 who are also not at work as a result of early retirement and other factors. This is the top line in the chart, which grows a little more quickly. There were almost 3 employees for every older person today. By 2030, there will be only about 2 employees for every older person, if existing trends continue.

About average pressure. The chart on the right below shows that the ratio for the United Kingdom is higher than the OECD average, but that gap could disappear by the end of the projection period.



As discussed in Chapter 10, perhaps a more useful way of looking at the combined effects of demographic and labour market trends is to examine the changing percentage of the population that is employed – and producing the goods and services that are consumed by the population as a whole. About 46% of the UK population as a whole are employed today. If existing trends were to continue, that number might rise a little to a peak in 2010 and then fall to about 43% by 2030, which is also the OECD average in 2030.

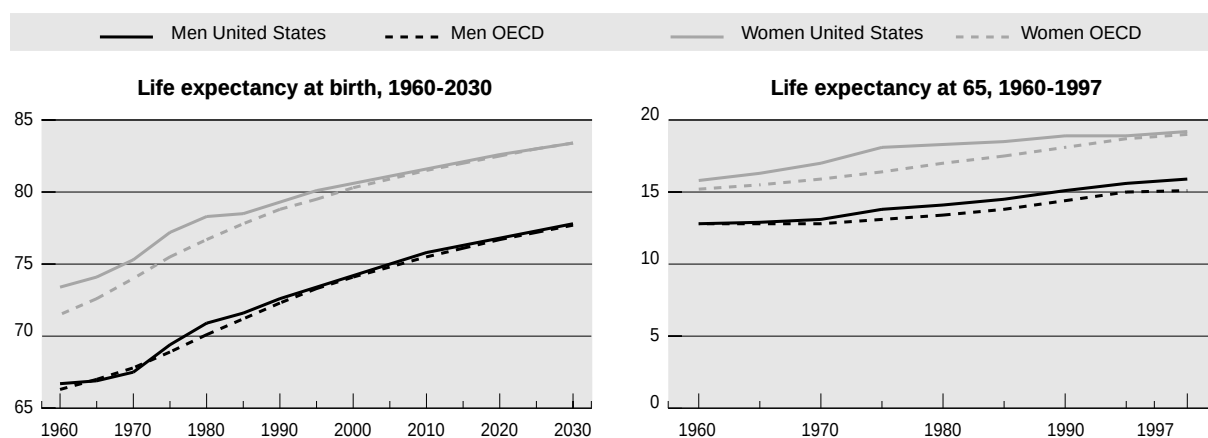


Of course, existing trends need not continue. Indeed, a goal of public policy in some countries is to reverse trends away from fewer lifetime years spent in employment. A wide range of scenarios for the future is possible, as discussed in Chapter 10, where the United Kingdom was one of the examples used. As noted in the introduction to this annex, the results should be interpreted as just one of the many ways in which the future could unfold. The purpose is not to forecast that future, but to help provide a rough understanding of the possible effects of ageing trends and changing labour market behaviour.

UNITED STATES

Individual Americans are living longer

As in most countries, life expectancy is growing for both men and women, with the largest gains arising from declines in mortality at young ages. In the United States, life expectancy at birth was 67 years for men and 73 years for women in 1960. By the end of the projection period in 2030, this will likely grow to 78 and 83 years respectively. At age 65, an American woman today could expect to live another 19 years. A man could expect to live another 16 years. These figures are close to the OECD average.



Lifetime years spent in work

How do people spend those extended lives? A typical pattern for men in OECD countries has been a dramatic fall over recent decades in the number of expected years of life that are spent in employment. There has been a corresponding growth in the expected number of years spent in other activities such as school, unemployment in some cases and, especially retirement. Men have been retiring earlier and living longer once retired. In a typical OECD country today, a man might spend only half of his life in employment. Women, on the other hand, are spending more of their lives in employment. However, as noted in Chapter 8, they too are retiring earlier and living longer once retired.

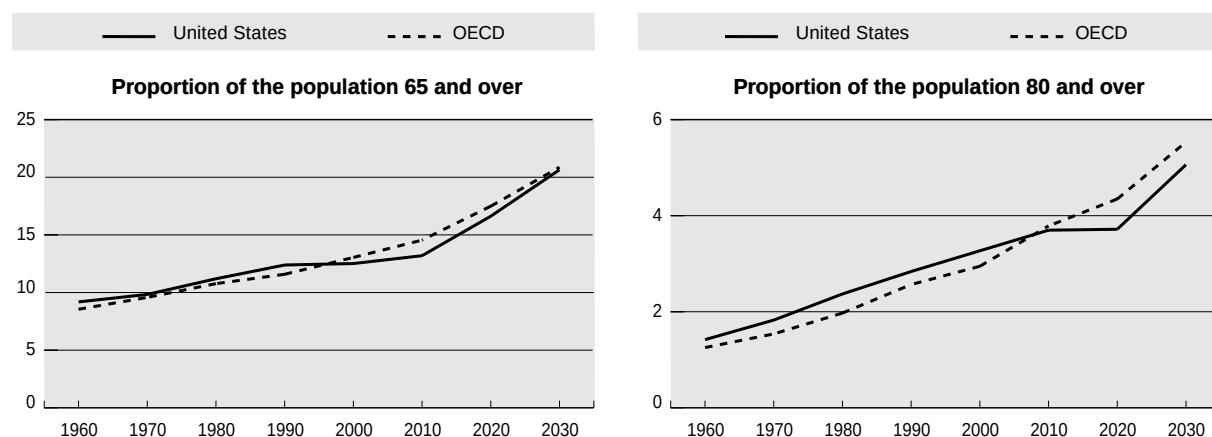
The situation in United States differs from the OECD average in that the decline in work by men has not been as sharp, while the increase in time spent in work by women has been stronger:

- Given the labour market situation of today, American men could expect to be employed for about 42 years of their life and not to be in employment for 32 years. In a scenario where existing trends were to continue, by 2030 men would have not changed their years in employment by much (41 years), but years out of employment would have grown to 37 years as a result of longer longevity.

- Today, women in the United States could expect to be employed for 36 years and not be employed for 45 years. By 2030, the expected years in employment might grow to about 43 years and the number of years not in employment has fallen to 40 years.

The population of the United States is also growing older – at about the OECD average rate

Increasing life expectancy is the key demographic change at the level of individuals. However, at the level of society as a whole, it is falling fertility that has been responsible for population ageing – more people in older age groups. The charts below show that the percentage of the population that is aged 65 and over has grown from under 9% in 1960 to about 12% today. By 2030 over 20% of the population will be aged 65 and over. The rate of increase for people aged 80 and over is much sharper, from about 1½ % in 1960 to 5% in 2030.

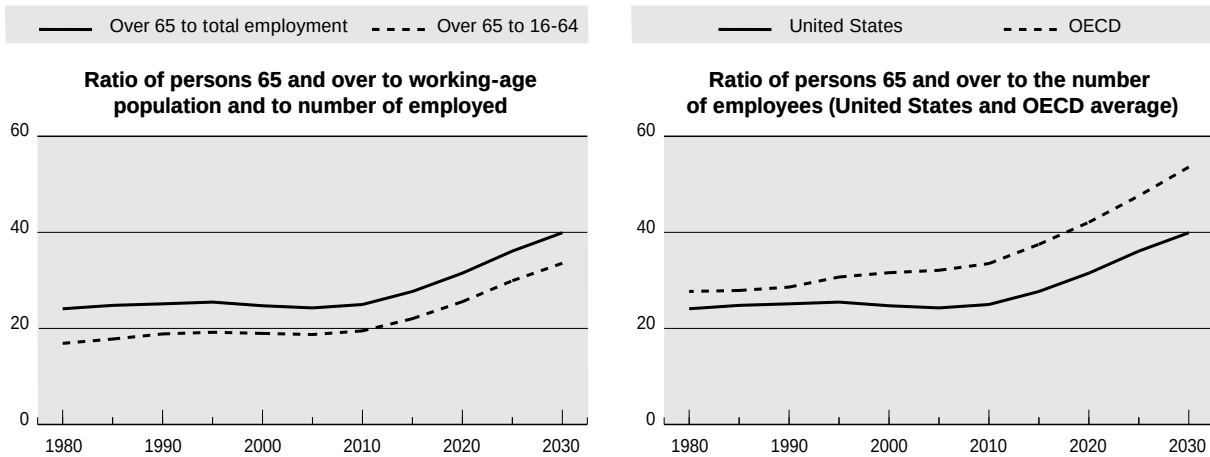


Old age dependency ratios are increasing

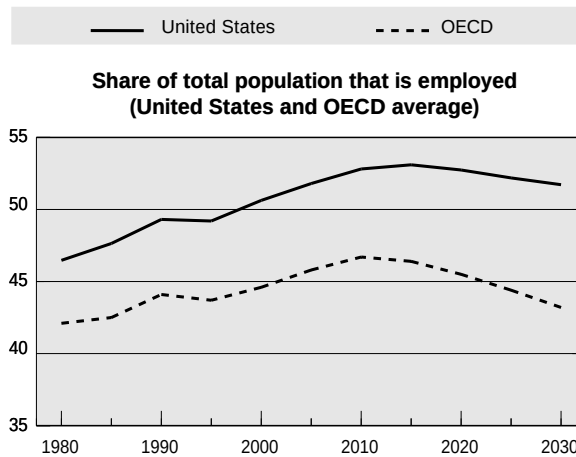
Demographers typically examine the pressures of ageing populations by examining the size of the “dependent” population in relation to the size of the working age population. This is a useful measure of the pressure that an older population creates for the economy as a whole – on the number of older people whose material living standards are “dependent” on the goods and service produced by those of working age. A dependency ratio can, in some cases, also be used to examine the pressures of ageing on public finance – an approximation of the number of contributors and tax-payers that support the number of people in receipt of benefits such as public pensions. However, fiscal comparisons need to be treated with caution since they are considerably influenced by the way these benefits are financed and by the fact that older people also pay taxes.

The bottom line on the left-hand chart below shows the old age dependency ratio – the number of people aged 65 and over, compared with people aged 16 to 64. This ratio is flat until 2010 when it starts to grow more sharply in the United States. In many countries a useful adjustment is to compare the number of older people with the number of people actually employed. Doing this takes account of the growing number of people under the age of 65 who are also not at work as a result of early retirement and other factors. This is the top line in the chart. In the case of the United States, the two lines have about the same trend. There are about 4 employees for every older person today. By 2030, there will be only about 2½ employees for every older person, if existing trends continue.

Slightly less pressure than in most countries. While the growth in the dependency ratio is pronounced, the chart on the right below shows that the ratio for the United States is, nevertheless, lower than for the OECD average and rises less steeply.



As discussed in Chapter 10, perhaps a more useful way of looking at the combined effects of demographic and labour market trends is to examine the changing percentage of the population that is employed – and producing the goods and services that are consumed by the population as a whole. About 50% of the American population as a whole are employed today. If existing trends were to continue, that number might continue to grow a little until 2010, and then level off to 52% by 2030 – well above the OECD average which would be 43% in 2030.



Of course, existing trends need not continue. Indeed, a goal of public policy in some countries is to reverse trends away from fewer lifetime years spent in employment. A wide range of scenarios for the future is possible, as discussed in Chapter 10, where the United States was one of the examples used. As noted in the introduction to this annex, the results should be interpreted as just one of the many ways in which the future could unfold.

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