



ANTICIPATING POPULATION AGEING – CHALLENGES AND RESPONSES

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Outline

- What is the OECD and what does it do?
- Anticipating the challenges of population change
- Possible responses
 - How does US compare with other countries?

What is the OECD?

- The OECD groups 30 member countries sharing a commitment to democratic government and the market economy. With active relationships with some 70 other countries, NGOs and civil society, it has a global reach.
- The OECD is a group of like-minded countries. Essentially membership is limited only by a country's commitment to a market economy and a pluralistic democracy. It is rich, in that its 30 members produce two thirds of the world's goods and services, but it is by no means exclusive.
- Its work covers economic and social issues from macroeconomics, to trade, labour market and social policy, education, development and science and innovation.

What is the OECD?

- The OECD grew out of the Organisation for European Economic Co-operation, formed to administer American and Canadian aid under the Marshall Plan for the reconstruction of Europe after World War II.
- The core of original European and North American members has expanded to include Japan, Australia, New Zealand, Finland, Mexico, Korea and four former communist states in Europe: the Czech Republic, Hungary, Poland and the Slovak Republic.
- Since 1961, the OECD's vocation has been to build strong economies in its members, improve efficiency and market systems, expand free trade and contribute to development in industrialized as well as developing countries.

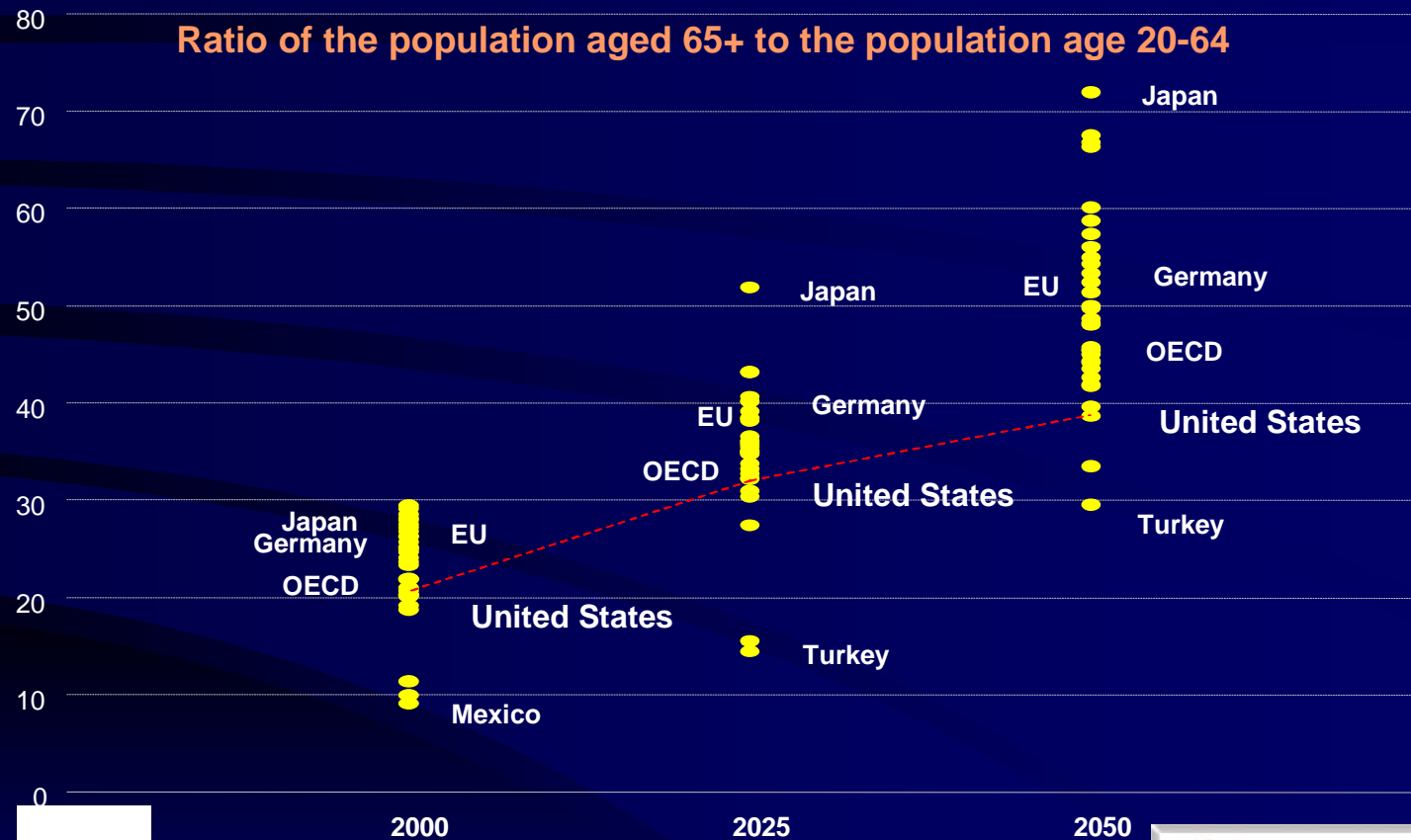
What does the OECD do?

- The OECD fosters good governance in the public service and in corporate activity. It helps governments ensure the responsiveness of key economic areas with sectoral monitoring. By anticipating emerging issues and identifying policies that work, it helps policy-makers adopt strategic orientations. It undertakes individual country surveys and reviews.
- The OECD produces internationally agreed instruments and recommendations to promote rules in areas where multilateral agreement is necessary to make progress in a globalised economy.
- The 2 300 staff of the OECD Secretariat in Paris work directly or indirectly to support the activities of committees. Some 700 economists, lawyers, scientists and other professional staff, mainly based in a dozen substantive directorates, provide research and analysis.

The challenges of population change

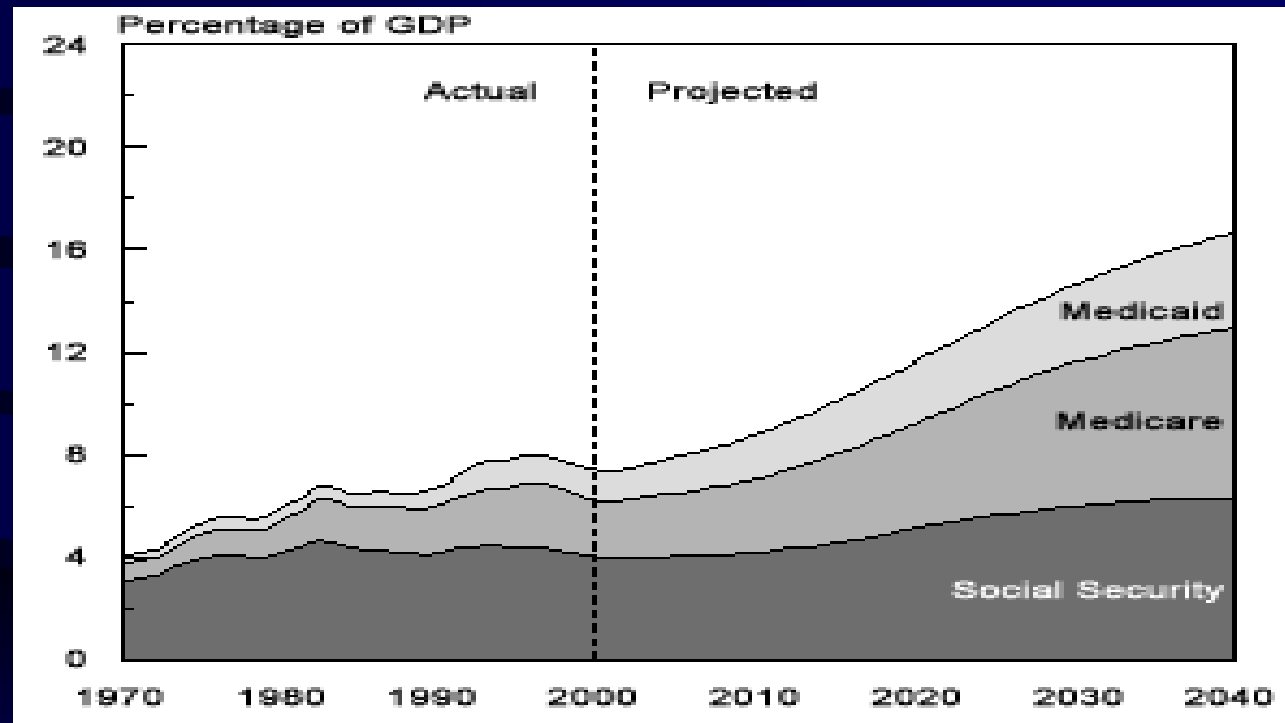
- People are living longer.
- Fertility has declined, particularly in Japan and Southern Europe.
- The large “baby boom” generation – born 1946 to 1964 - has started to enter pre-retirement and retirement years.
 - These developments have significant implications for social programmes and for the future labour force.

The US population is ageing less rapidly than in many other OECD countries



... But spending on Social Security, Medicare, and Medicaid is forecast to rise significantly

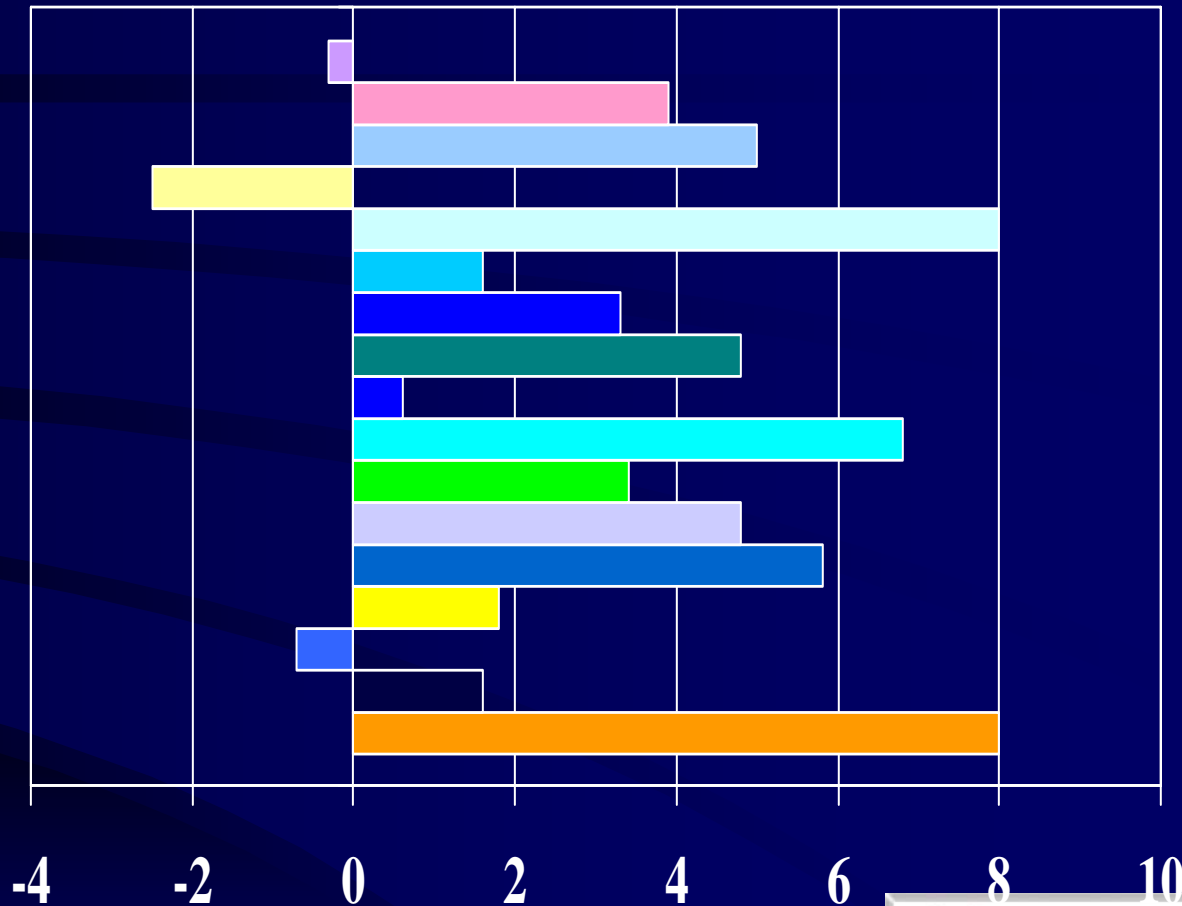
CBO Midrange Assumptions, 1970 to 2040



Change in public expenditure on pensions in the United States and other OECD member countries, 2000-2050

% of GDP

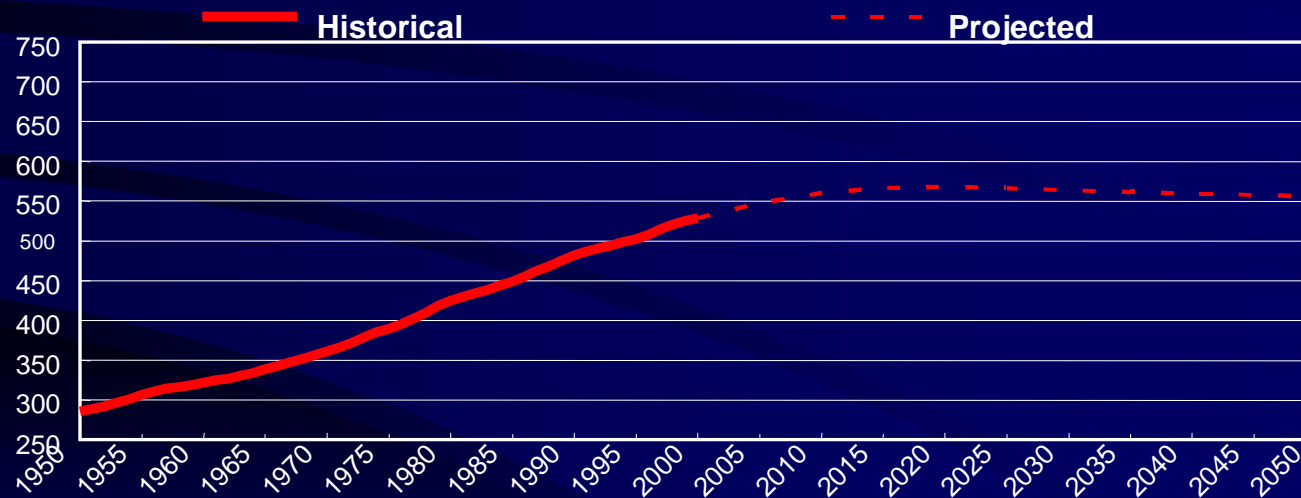
- Italy
- France
- Germany
- Poland
- Spain
- Sweden
- Belgium
- Finland
- Japan
- Czech Republic
- OECD Average
- Netherlands
- Canada
- United States
- United Kingdom
- Australia
- Korea



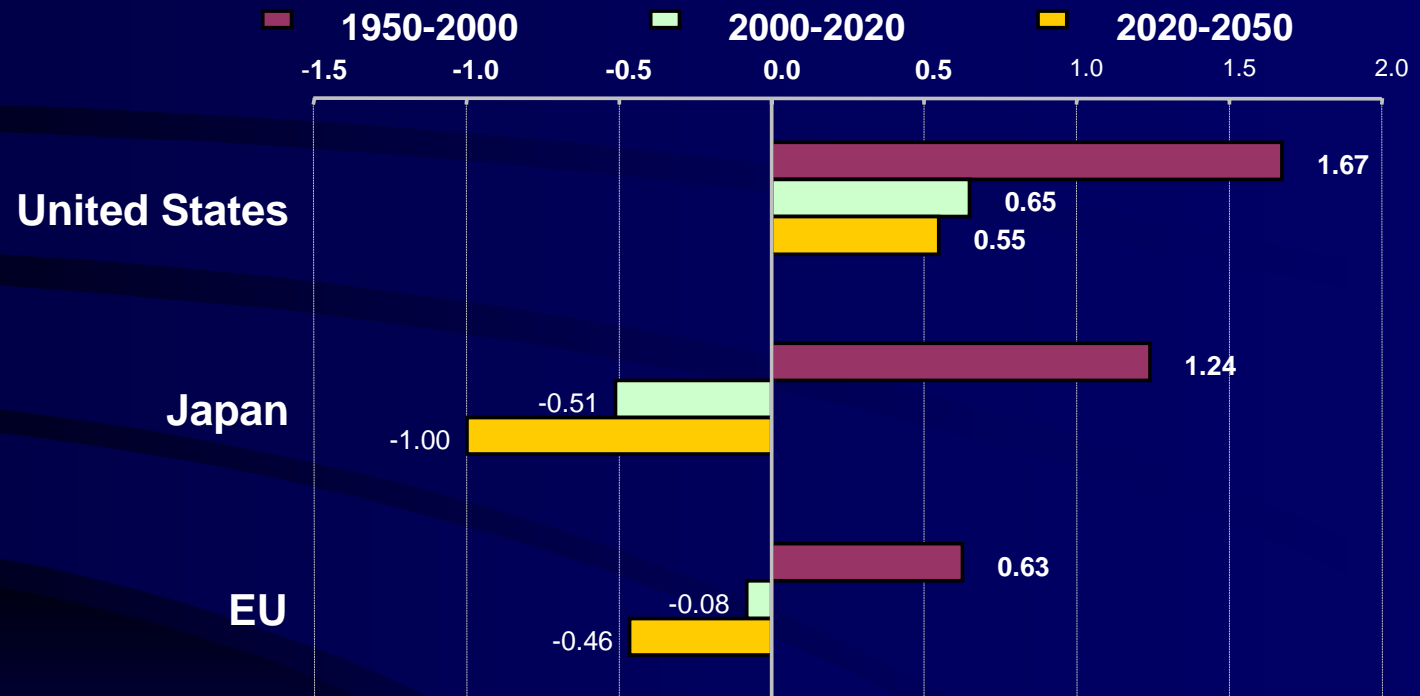
In addition to higher public expenditures, population ageing is likely to result in:

- a sharp slowdown in labour force growth
- labour shortages
- slower economic growth

OECD Labour force in millions, 1950-2050



Projected labour force growth, 1950 to 2050



The composition of the US workforce will change

- Currently, older workers (*i.e.* aged 50 and over) account for around 23% of the US labour force. Assuming participation rates by gender and age groups do not change, the share of older workers is expected to peak at 30% around 2030.
- If policies to increase workforce participation are effective, this share could increase further.

Labour shortages today and in the future

- Labour shortage problems vary across OECD (short/long term, sectors/skills, determinants).
- High demand for skilled workers in ICT but also medical, biomedical and agro-food sectors
- Also in skills such as customer relations, communications
- Low-skill shortages in construction, service personnel.

Ageing and the labour market – possible responses

- Is immigration a solution to the problem of labour force shortages?
- Increasing the labour force participation of women.
- (Re)Integrating persons with disabilities in the labour market.
- Promoting the employment of older workers.

Can immigration make-up for labour shortages?

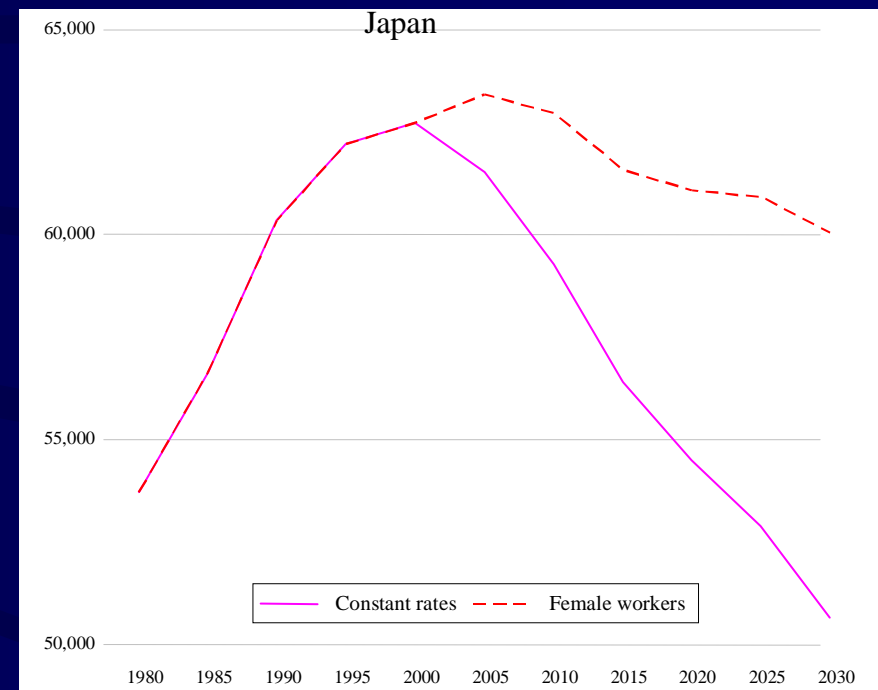
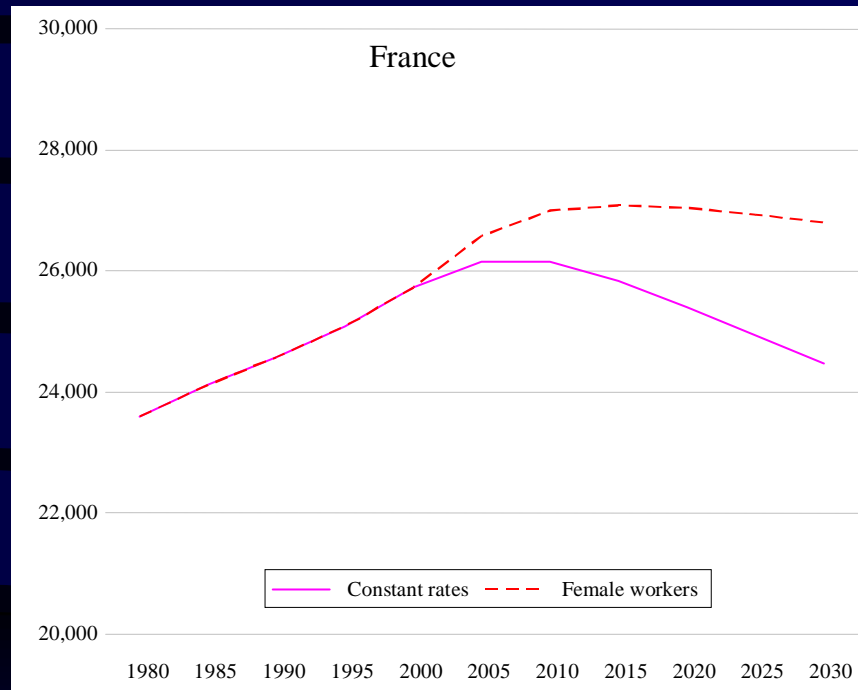
- Most European nations will actually shrink between 2000 and 2050 (EU -10%, Japan -14%).
- To maintain current worker/retiree ratios Italy would have to admit 2.2 million immigrants p.a., Germany 0.5 million (France in 2000: 100,000 immigrants). Impossible to fully control migration gains and age distribution of entry and exit flows.
- Adaptation of immigrant fertility patterns to host country.
- Ageing of foreign populations.

Mobilising the female labour force

- Labour supply objectives
- Economic independence and social inclusion
- Gender equity
- Children's perspective

Increases in female employment can prevent drastic shrinking of the labour force

Total labour force from 1980 to 2000 and projections to 2030, thousands

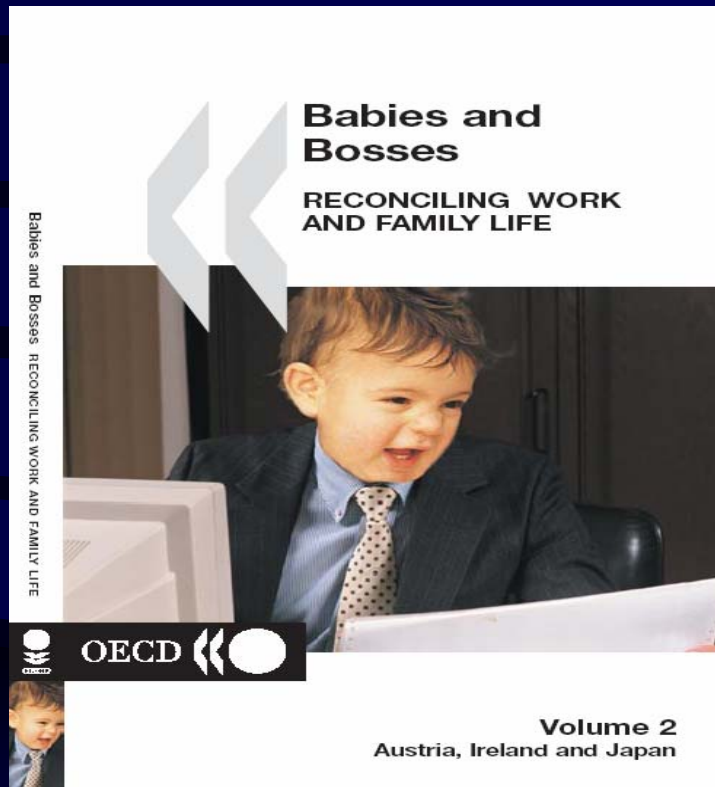


Notes on projections:

"Constant rates": assumes constant labour force participation rates for men and women from 2000 to 2030.

"Female workers": assumes that female participation rates reach current male participation rates in each country in 2030.

OECD analysis of work-family balance



- Promoting parental employment options, and balancing work and care commitments are key policy challenges
 - Parental labour market outcomes
 - Family outcomes
- *Babies and Bosses* addresses the wide range of factors that affect the parental work and care choice.
- Reviews will cover 13 OECD countries in all (Australia, Denmark, Netherlands Canada, Finland, New Zealand, Portugal, Sweden, Switzerland and United Kingdom).
- www.oecd.org/els/social/familyfriendly

Types of family friendly policies

- Part-time work
- Flexible working hours
- Teleworking / working at home
- Leave arrangements
- Caring for sick children
- Childcare

The business case

- Reduce staff turnover
- Become employer of choice.
- Improve the motivation and productivity of the workforce.
- Desire for flexibility in hours among employers.
- Perceived social obligations.

Why are workplaces not more family friendly?

- Is the business case overstated?
- Ranking of FFPs among worker preferences
- Leadership
- Public encouragement
- Employer costs

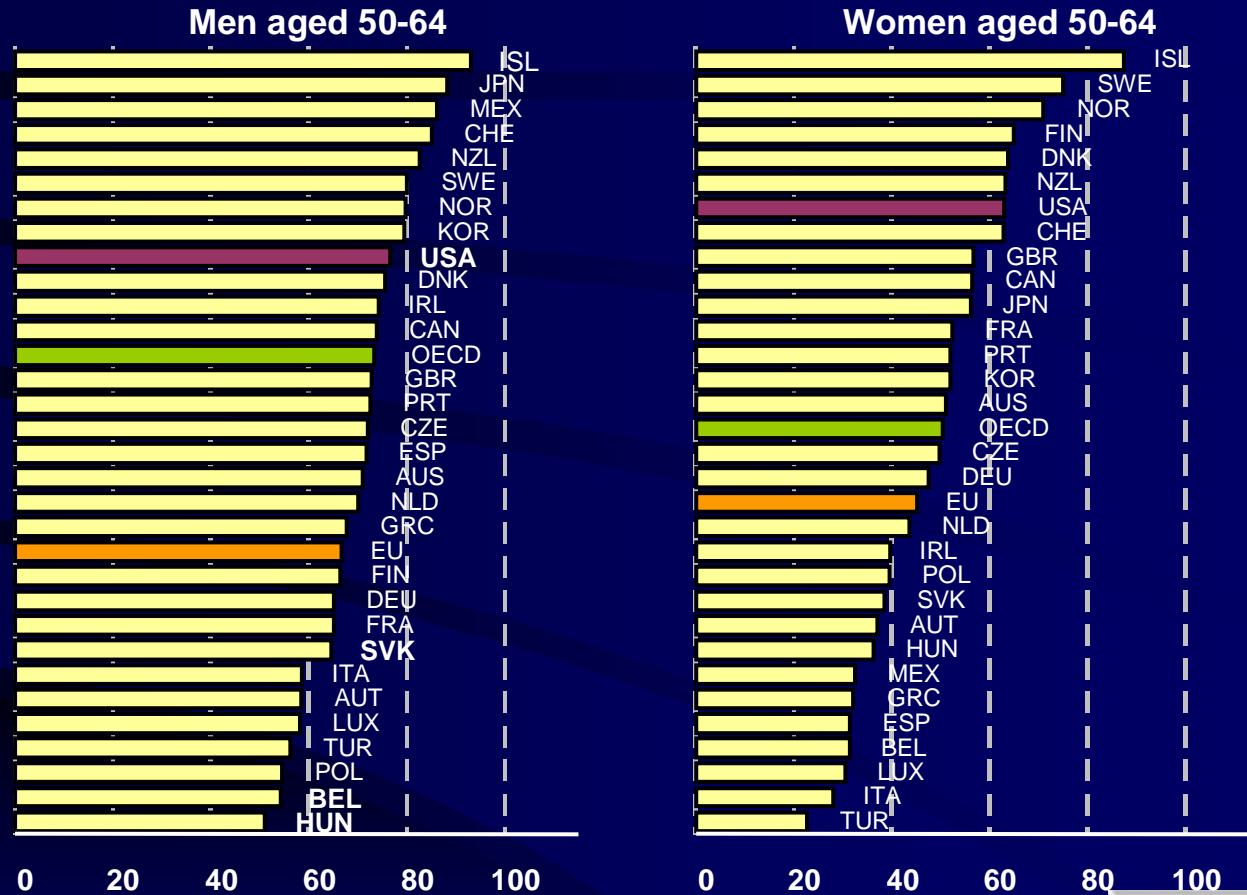
(Re)Integrating people with disabilities

- Disability benefit recipiency rates are high and rising steadily in many countries, while outflows from disability benefits are very low.
 - Around 1% of DI beneficiaries in the US leave benefits in a year
 - Nearly $\frac{3}{4}$ of disabled beneficiaries in the US are over 45
- General focus on activation programmes is low.

Disability policy approaches

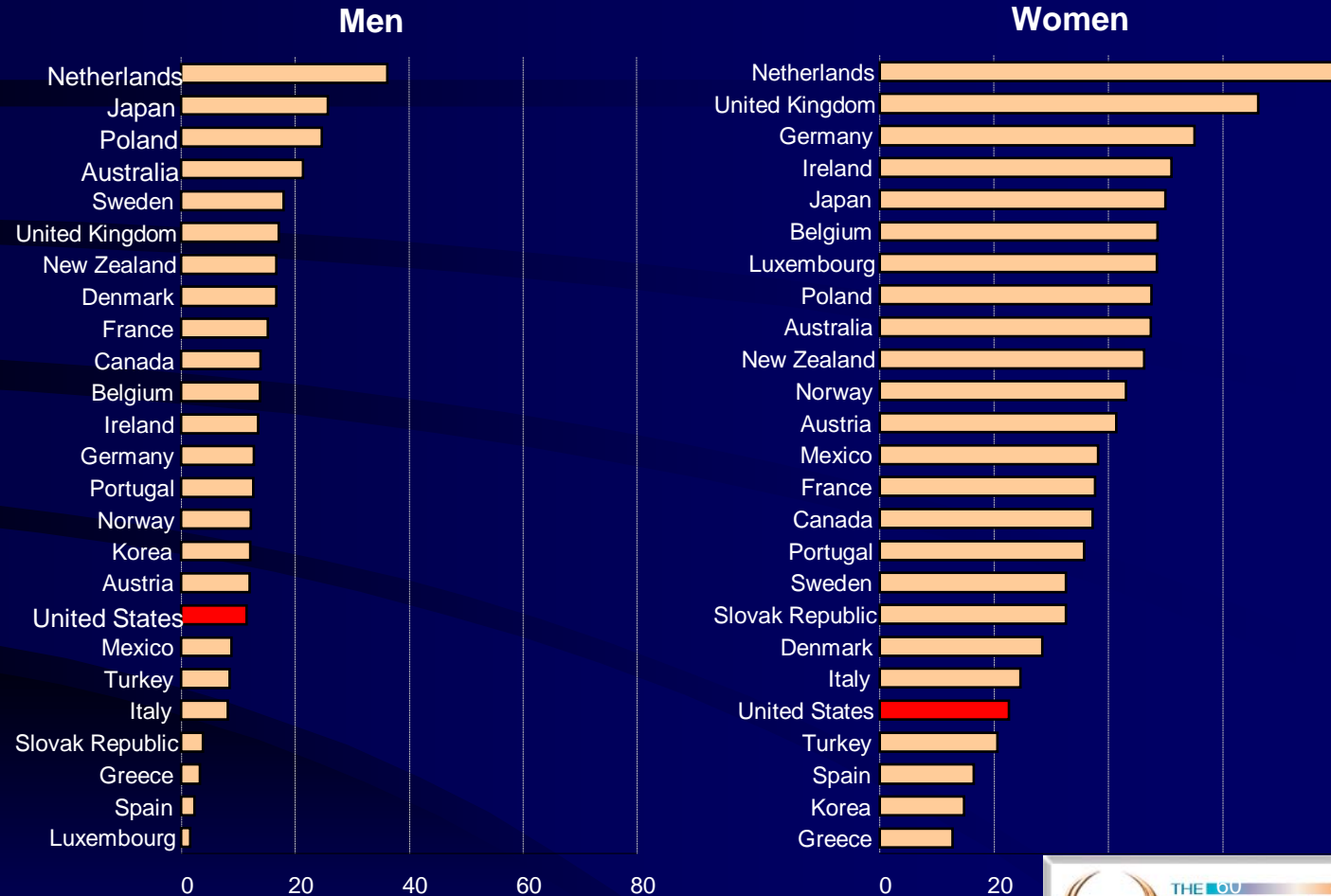
- Recognise the status of disability independent of the work and benefit situation and make cash benefits a flexible policy element
- Enforce an approach of mutual obligations and design individual work-benefit packages.
- Promote early timing of active intervention.
- Involve the employer.
- Design the disability programme as a labour market programme.

Participation rates of older Americans are relatively high

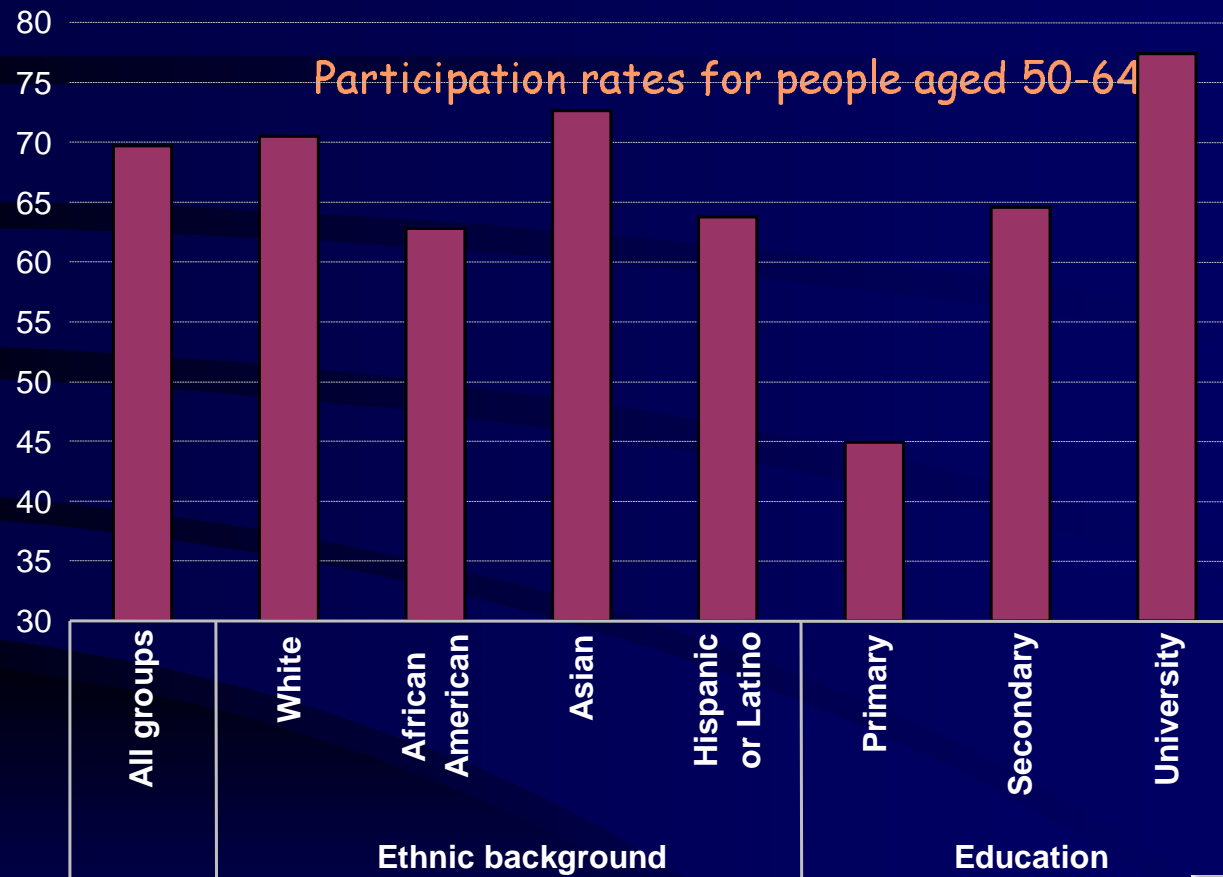


Few older workers in the US work part-time

Incidence of part-time work among workers aged 60-64

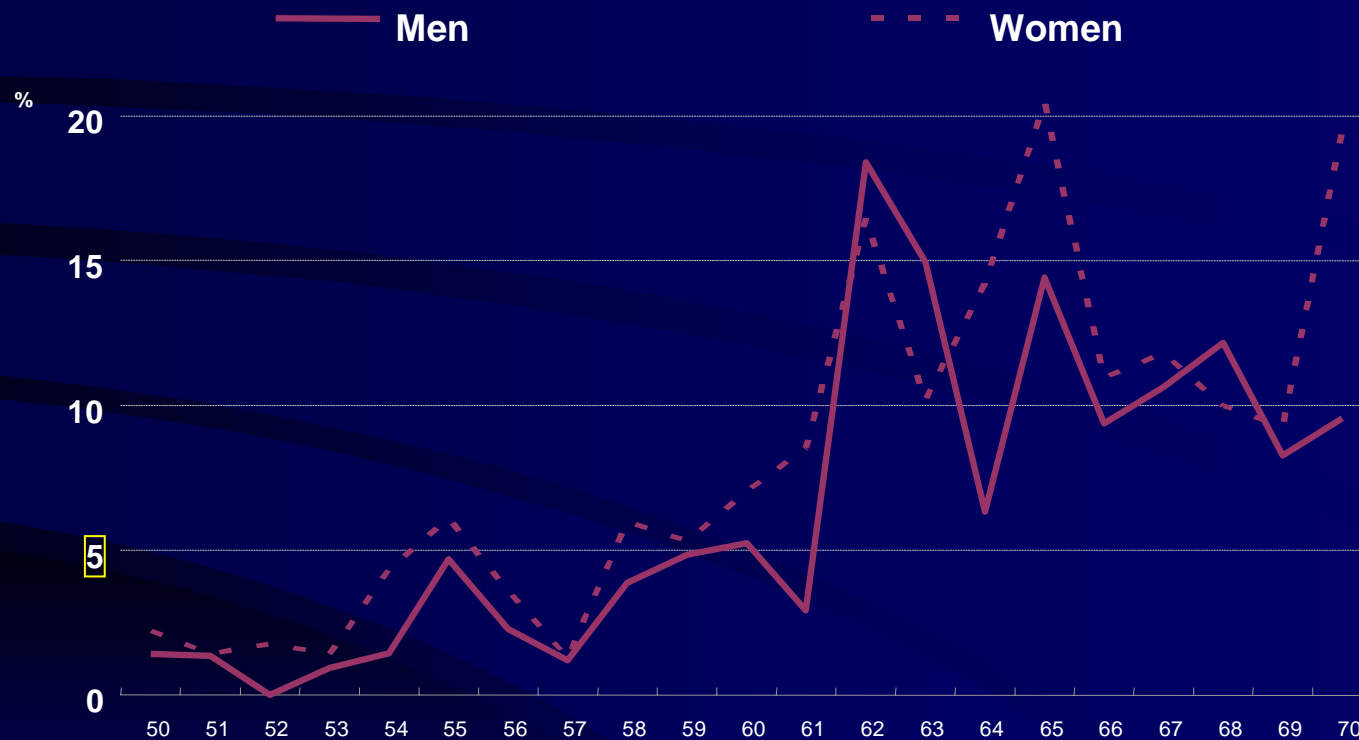


... but there are significant disparities between groups of older people



... and early retirement before the age of 65 is relatively commonplace

Retirement rate by single year of age, 2001/2002



Barriers to employment of older people

Incentives to retire

Tax on working longer
Subsidised early retirement
Limited retirement choices

Low employability

Obsolete skills
Negative attitudes
Limited job search help
Poor health
Poor work conditions

Older workers

Demand-side barriers

Discrimination
Seniority wages
Strict EPL
Changing work patterns

Barriers on the supply side

- Early retirement age for Social Security remains at 62.
- Defined-benefit pensions schemes still prevalent, especially in the public sector.
- Disability benefits may have become a pathway for some low-skilled to retire early.

Barriers on the side of employers

- Negative or stereotypical attitudes by employers towards older workers
- Leading to age discrimination
- But reluctance of employers to retain or hire older workers may reflect rising labour costs with age that are not matched by higher productivity

Barriers to employability

- Education and training of older workers is relatively high on average but the low-skilled are very disadvantaged.
- Older jobseekers are under-represented in public employment programmes in general and in training programmes in particular.
- Long hours of work and poor working conditions may push some older workers into early retirement.
- Lack of opportunities for phased retirement may also discourage older workers from remaining longer in work.

What should be done to improve job prospects for older persons?

- Remove financial disincentives to work
- Encourage employers to retain and hire older workers
- Improve employability of older workers

www.oecd.org/els/employment/olderworkers

Reducing work disincentives

Suggested policy actions:

- Speed up the transition from 65 to 67 for the full retirement age
- Raise or abolish the minimum age for social security
- Ensure disability benefits do not become an alternative route to early retirement
- Limit tax advantages in private pension schemes for taking early retirement

Changing employer practices

Suggested policy actions:

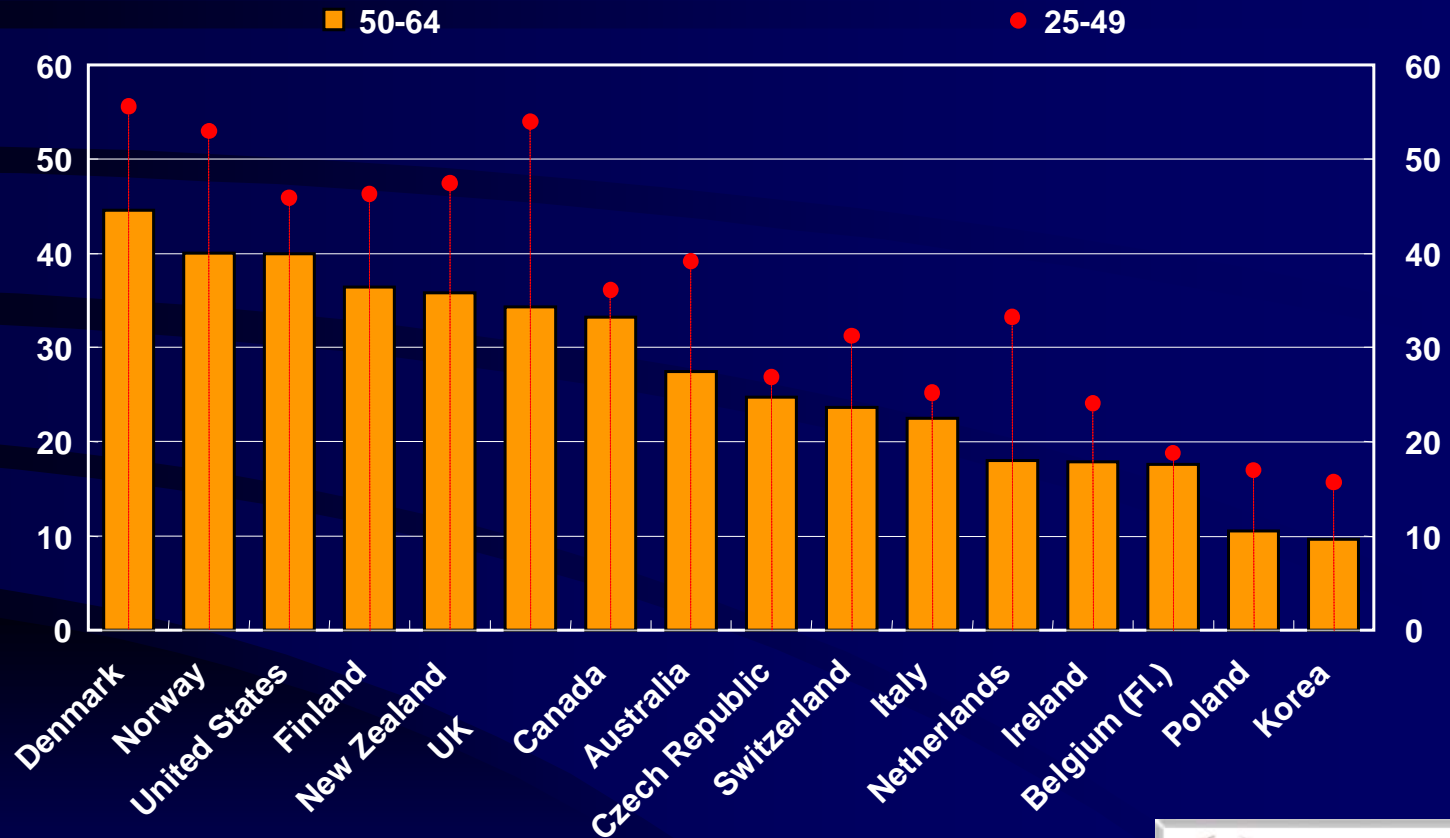
- Strengthen measures to combat age discrimination
- Develop guidelines and promote good practice with respect to age diversity
- Provide more information on current and prospective skill shortages

Improving employability

- Strengthen and expand training opportunities for low-skilled workers.
- Evaluate the effectiveness of the current arrangements for providing employment services to older jobseekers.
- Tackle barriers to phased retirement arising from regulation of defined-benefit pension plans.
- Encourage employers to adapt working conditions to the needs of older workers.
- Improve the knowledge base on health, well-being and safety at work.

Training opportunities need to be enhanced

Percentage of employees in age group who received job-related training over the previous year



Thus, a comprehensive strategy is required

- This should involve the public authorities and business and workers
 - Reform pension and tax/social benefits
 - Modify pay and employment practices in the workplace
 - Improve opportunities to upgrade skills and remain active longer
 - Change attitudes of employers and workers

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THE BOTTOM LINE

CARRY ON WORKING!

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