

Ageing in Europe: Can we Afford it?

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Ageing - The Result of Economic, Social and Medical Progress

safer and healthier environment (including work places, roads)

+ medical progress

= **increased life expectancy**

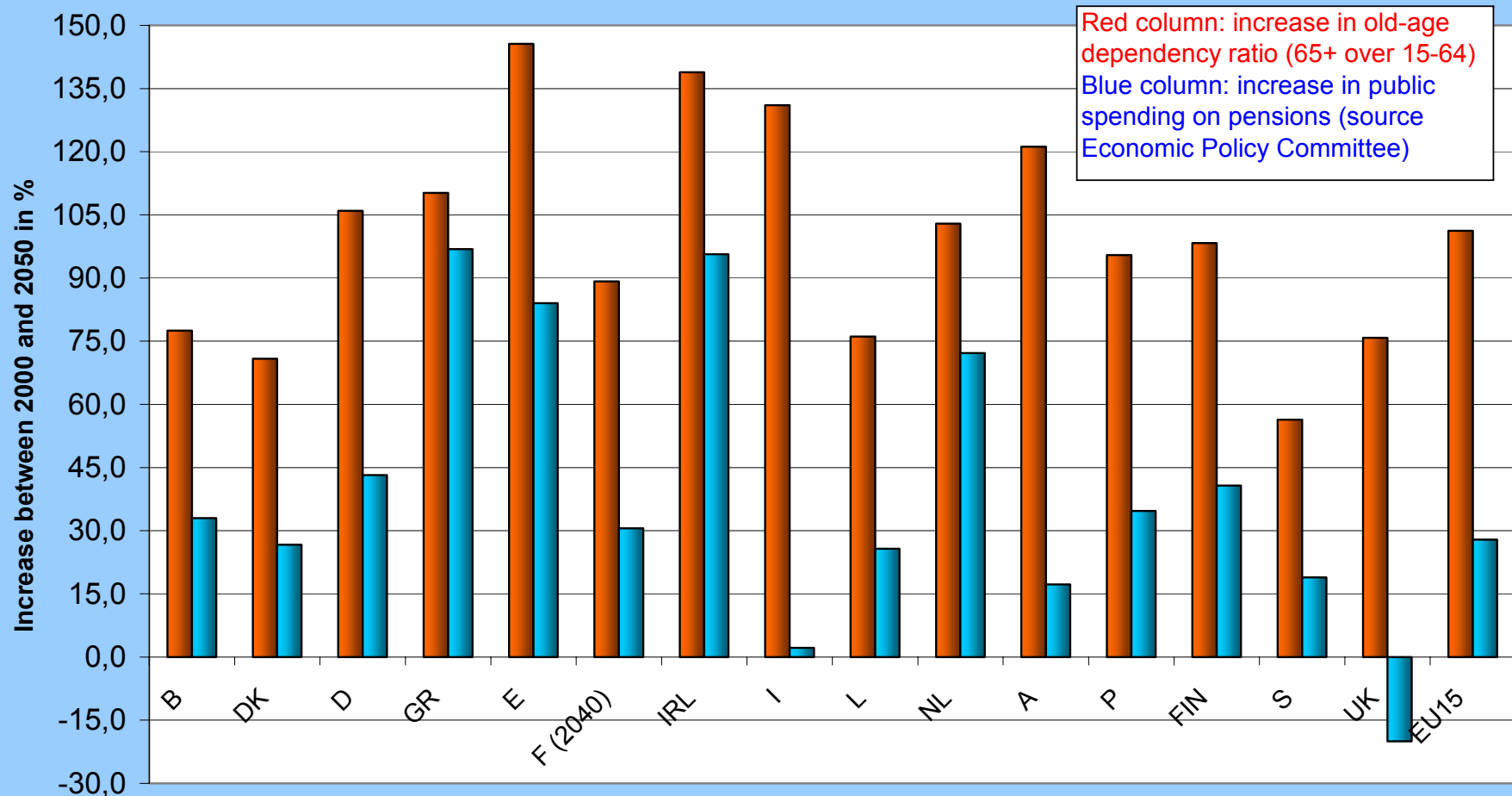
Social insurance and sound financial institutions

+ more control over fertility

= **decreased birthrates**

Ageing and its Budgetary Consequences

Dependency ratios and public pension expenditure



Future Adequacy of Pensions

- Current adequacy varies among Member States
- Minimum pension guarantees to protect against poverty in old age
- Replacement ratios from 1st pillar schemes expected to fall in many Member States ...
- ... but income of older people's households also depends on
 - higher pensions for women due to higher female employment rates
 - supplementary pensions
 - career lengths (working longer leads to higher pensions)
 - wealth

Health and Long-Term Care

- Public expenditure more difficult to project
- ... but elderly people are the main consumers of health and long-term care
- technology and patients' expectations are important drivers of health care spending
- long-term care still mainly provided informally by relatives – but is this sustainable?
- Economic Policy Committee expects increase in public spending on health and long-term care from 6.6% of GDP today to 9% and more

Responsibilities of the EU and the Member States

- Member States remain responsible for the design, organisation, financing of their pension systems
- They decide on the mix between public and private social protection, pay-as-you-go and funded pension schemes
- EU's role: ensure the smooth functioning of the Internal Market (free movement of people and of capital, freedom to provide services)
- And, increasingly, coordination of national economic, employment and social policies

Policy Coordination in the Area of Pensions

The 'Open Method of Coordination'

- Adoption of common objectives (Laeken European Council, December 2001)
- National strategy reports (September 2002)
- Analysis of national strategies presented in a joint report by the Commission and the Council in March 2003

Adequate Incomes: The Purpose

- **Prevent poverty and social exclusion in old age:**

Poverty risks for older people in the EU only slightly higher than for the population as a whole, but improvements needed in some Member States.

- **Provide access to appropriate pension arrangements necessary to maintain one's living standard:**

Disposable income of people over 65 around 90% of that of people under 65.

- **Promote solidarity between and within generations:**

Smaller inequalities among pensioners than among people under 65.

Securing Financial Sustainability: More Employment, Longer Working Lives

- **Raise overall employment level to 70% by 2010 (female employment: 60%)**

Limited impact on growth of public pensions expenditure as a share of GDP due to increasing entitlements - but scope for less generous pensions formulae without lowering actual benefits.

- **Raise employment rate of older workers (55-64) to 50% and labour market exit age by 5 years**

Postponing retirement by one year on average yields between 0.6 and 1 percentage points of GDP - powerful instrument for securing financial sustainability without sacrificing adequacy.

Securing Financial Sustainability: Sound Public Finances, Burden Sharing, Sound Private Pensions

- **Ensure sound public finances**

Pensions expenditure should not be allowed to increase deficits; conversely reducing public debt now (or accumulating reserve funds) creates more room for manoeuvre for coping with the ageing baby boom cohorts.

- **Strike a fair balance between the active and the retired**

Adjustments in benefits and contributions remain necessary; avoid overburdening the active while maintaining adequate benefits.

- **Ensure that funded pension schemes are sound and affordable**

Funded provision expected to make a larger contribution to retirement incomes. Sound regulatory framework and management are required.

Modernising Pension Systems

- **Adapt pension systems to the requirement of modern labour markets**

Access to adequate pension provision (notably occupational) for part-timers, temporary workers, self-employed; portability of pension rights.

- **Adequate pensions for men and women**

Ensure equal treatment as well as adequate pension outcomes for women.

- **Make pension systems more transparent and adaptable**

Reliable information for an informed policy debate and to allow individual retirement planning. Rebuild confidence in pension systems.

Next Steps

- European Council of March 2003 welcomed the Joint Report and asked for this cooperation to be continued
- Special studies requested by European Council
 - incentives to work longer
 - current and prospective replacement ratios
 - later: private pension provision; gender impact of pension systems
- New expenditure projections for mid-2005
- National Strategy Reports by mid-2005
- New joint report for 2006
- Open method of coordination also on health and long-term care?

Further information

All information about the European Union:

<http://europa.eu.int>

Policy cooperation on social protection, including national reports:

http://europa.eu.int/comm/employment_social/soc-prot/social/index_en.htm

Reports by the Economic Policy Committee on the budgetary implications of ageing:

http://europa.eu.int/comm/economy_finance/epc/epc_ageing_en.htm