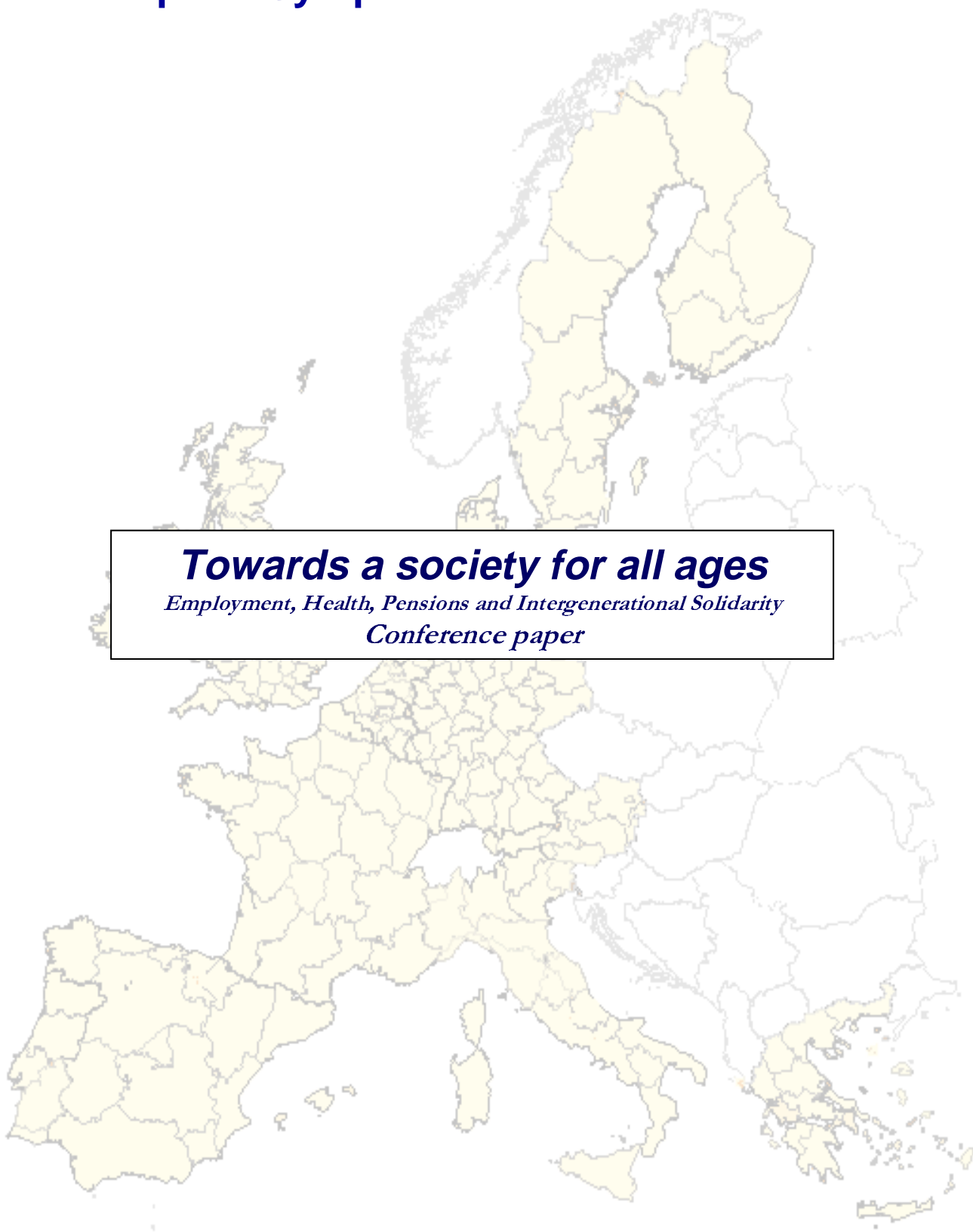


European Symposium



Towards a society for all ages

*Employment, Health, Pensions and Intergenerational Solidarity
Conference paper*

Employment & Social Affairs



European Commission

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Introduction

One of the major successes of the second half of the 20th century has been the increasing longevity reflecting the improved conditions of health and welfare standards of the population within the European Union. Increasing life expectancy is an indicator of social and economic development; the triumph of science and public policy over many of the causes of premature death which truncated lives in earlier times. Europe can be justly proud of the fact that, in the last 50 years, its model of development has allowed increasing numbers of citizens to reach advanced old age and to do so in relative economic security.

However, extended longevity coupled with an important decline in fertility over the last 30 years, has resulted in a fast transition towards a much older population that, according to demographic projections, will last for several decades. The trend towards population ageing is bringing about profound changes for all generations and most areas of economic and social activity. As Europe enters the 21st century, the demographic trend towards an ageing society is becoming a very important issue for: social protection; the labour market; politics; design and technology; education and culture; in other words for the whole economy and all of society.

In a considerable number of European regions the population will already have stopped growing before the end of the century. The phenomenon will extend to the majority of EU regions which will see their population stagnating or declining before 2015. The younger generation, the 0-24 age group, representing 31,1 per cent of the population in 1995, will be reduced to 27 per cent in 2015, a decline of 11 millions. The retired generation (65+) will increase, significantly and unevenly, throughout Europe. The growth of the very old (80+)

appears to be the strongest, in terms of intensity and speed, among the demographic trends.

This demographic change raises important challenges for those institutions and policies which were established in an era when the demographic perspective was very different. Its implications are also far-reaching with regard to the institutional and social relations that shape the everyday lives of citizens – labour force participation, marital status, living arrangements and intergenerational relations. When looking at the implications of population ageing and the need for institutions to adjust to the new demographic reality, it is important to recognise all the aspects of this trend, taking account of both the challenges and the opportunities it raises economically, socially and culturally.

All Member States are faced with a number of questions as a result of these demographic developments: Ageing increases the cost of pension provision. The changing age structure also has implications for a wide range of policies concerning education and training, housing, transport, leisure and many other policy fields. The increase in the size of the very old generation implies greater need for medical treatment and health care, special housing services, mobility facilities and other public infrastructure. At the level of public policy, the debate on the structural reforms needed to take account of the implications of ageing, revolves around the challenge of fiscal and structural adjustment. There is no doubt that, in the absence of reforms, ageing populations, coupled with relatively low growth rates, will result in significant increases of government spending, on social protection, in most Member States. Structural reforms are needed in a number of different policy areas to improve flexibility and competitiveness, necessary for achieving higher growth rates, higher employment rates

particularly for the younger and older workers and lower dependency ratios. The sustainability of the economic and social institutions will increase if policy making at different levels, public or private, European, national or regional, opts for a more prospective approach taking account of future trends and changes, such as population ageing.

As far as the Commission is concerned, the publication of the *1995 and 1997 Demographic Reports* and the *Communication on the modernisation of social protection* have been the most concrete attempts to assess the policy implications of demographic change in the European Union. These documents have received very encouraging responses both at the level of European Institutions and in the international press. Furthermore, several new initiatives have been launched in 1998 with the objective of deepening the analysis and the debate in this field.

Within this framework, the Austrian Presidency and the European Commission have taken the joint initiative of organising this European Symposium with the objective of further exploring the economic, social and political issues raised by the demographic trends in Europe. During the two days of the Symposium, prominent experts from different disciplines and decision makers from all over Europe will exchange views on policy issues related to demographic changes in the key areas of employment and growth, health and social services, pensions reform and intergenerational solidarity.

The main objectives of the Conference are threefold. Firstly, to raise awareness about both the nature of the challenges facing Member States as a result of population ageing and the policies and related measures that are appropriate to manage this change. Secondly, to exchange views and experiences so that Member States can share knowledge about the implications of population ageing and also their own specific experiences of implementing particular policies on ageing which might assist others facing similar challenges. There may well be examples of national 'good practice' in the various spheres that the Member States would want to share. The third objective of the Conference is to facilitate the process of mainstreaming the

issue of societal ageing in policy making at all levels. Thus the Conference is intended to make a major contribution to the process of successful European adjustment to the ageing of its population.

The purpose of this paper is to provide a brief introduction to the main characteristics of the demographic trends and explore the links between these trends and the related policy challenges. It also includes an overview of key issues in each policy area being covered by the Conference.

Section 1 provides information on the *characteristics of demographic trends* and compares the EU with other areas of the world. Emphasis is also given in presenting the developing trends in each Member-state with respect to four specific age groups of the population that is the people aged 15-24, 50-64, 65 and over and the 80 and over. Trends in each of these groups indicate needs for policy action in specific areas. The presentation reveals important differences among the Member-States in terms of these trends. Furthermore, the regional dimension of demographic change is also of particular importance. Recent work by the Commission shows that the regions of the EU are unevenly affected by demographic trends.

Section 2 considers *employment and growth*. Population ageing will have a major impact on the labour market with the arrival of the first baby-boomers at the age of retirement. After a strong growth in the working age population over the last two decades, the 1990s mark a turning point leading towards a period of demographic contraction. However, the effect on the labour supply and the economy of a decline in the working age population would be offset if we could bring the unemployed back to work, increase participation rates among those of working age, including older workers, and by promoting occupational and geographical mobility. Over the next 20 years, women will be the basic source of labour supply growth and policies for the reconciliation of family life and working life will be of growing importance. The same applies to policies that maintain the employability of the workforce during the whole working life. The need to maintain older workers in working life calls for a new approach to age management in the

labour market and creates new opportunities for employers to utilise the skills and experience of this group. The need towards extending active life and employment should also take into account the potential offered by younger generations since, in most Member-States, young people are faced with significantly higher levels of unemployment.

Section 3 covers health and social services. It is the growth in the very elderly population that poses the greatest challenge to health and social services because it is in advanced old age that the greatest needs for care and treatment arise. The policy challenges in this field include the development of preventive strategies, improving the quality of life for the older people but also for the family carers, improving the allocation of available resources, avoiding excessive medicalisation and encouraging the integration of employment and care policies. Increasing

demand for health and care services also implies more opportunities for employment expansion in the field.

Section 4 looks at the key issues with regard to pensions and intergenerational solidarity. Population ageing presents a major challenge to public pension systems, which, originated in a very different demographic context.

The risks for social protection systems may sometimes be over-emphasised, because they are based on rather modest assumptions about future labour force participation. Nevertheless, there is no doubt that policy adjustments are required to take account of population ageing. Here a balance must be struck between the maintenance of economic security, intergenerational solidarity and equity.

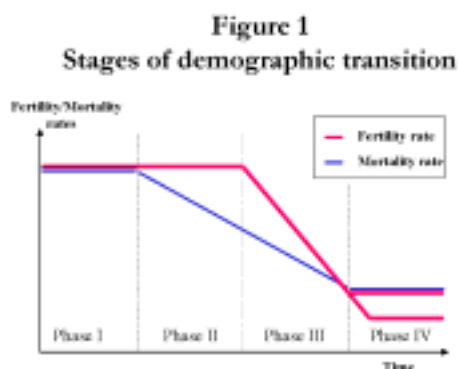
SECTION 1:

DEMOGRAPHIC CHANGE IN EUROPE AND THE WORLD.

Demographic transition: Is it global phenomenon?

Demographic transition is linked with the history of human evolution

Demographic transition appears to be a global phenomenon closely linked to the course of economic and social change. A classical idealised picture of the different stages of this interdependence can be found in *figure 1*. Population growth can be divided into four main stages. In pre-industrial societies (stage 1) high fertility and mortality lead to very slow population growth. In the second stage, gradual economic development and technological progress lead to some extension of life expectancy while fertility remains high. The population starts to grow. In the third stage, urbanisation, education and improvements in social welfare lead to significant changes in life-style. Both fertility and mortality are decreasing and the population continues to grow but at a decreasing rate. In the last stage, there would be a tendency towards stabilisation of the population size at lower fertility and mortality levels. However, since 1980, a growing number of demographers have foreseen a stabilisation of fertility rates below replacement levels¹. This hypothesis could mean that the total population will continue to decrease.



To complete this stylised picture of longer-term demographic evolution, changes resulting from migratory movements or from a wide range of different causes such as historical events, natural disasters etc, must be added. The most recent of these demographic “shocks” have been firstly, the one known as the “baby boom” referring to the sharp increase in births during the first two decades after World War II and secondly, the “baby

bust” - the important decline of fertility rates in the period 1965-85.

Demographic changes may refer to changes in the size or/and the structure of the population. The population may grow in size and still become younger or older in structure. Conversely, it can decrease in size and still get younger or older in structure. It all depends on the levels of the three basic demographic variables that is *fertility, mortality and migration*.

Examining the present demographic situation at a global level, one can observe a contrasting variety of demographic realities reflecting to a great extent, differences in terms of socio-economic development and to a lesser extent cultural or other characteristics.

Figure 2 presents the latest 1996-based UN projections, at global level, of the older (above 60 years) part of the population. The figure shows clearly that the ageing trend has a strong North-South dimension. In 1965, the world was more homogeneous, with the share of older people above 60 years, ranging from 4.6 % to 16.3 % (ratio 1:3,5). In 2025, this share will range from 5.8 % to 29.6 % (ratio 1:5).

The wealthier and older northern hemisphere is heading towards the last stage of demographic evolution. The important gains in life expectancy, reflecting the high welfare standards attained, have been the main characteristic of the demographic evolution in the last 50 years. Fertility rates have also decreased as a result of significant changes in life-style. Nowadays, for the first time in human history, in a substantial number of cases 4 generations are all alive at the same time.

In demographic terms, it should be noted that this extension of the age pyramid has made the demographic trends more unstable to shocks. This observation is of particular importance for policy making. The echoes of the strong fertility fluctuation, the baby boom and baby bust, and the policy questions related to them, will be present in the age pyramid for several decades to come, since life expectancy for the generations concerned is expected to exceed 80 years.

¹ At present, replacement level is estimated to be at 2,1 children per woman in the age of fertility.

Demographic Projections: Are they reliable ?

By definition any projection into the future is based on a number of assumptions on which the reliability of that projection depends. Although, population projections tend to be much more stable than e.g. economic trends, they do not escape from this rule. The longer the time horizon used, the greater the risk of errors; furthermore, the smaller the region considered, the bigger the projection inaccuracies might be.

Statistical measurement problems in the base population may also cause over or under estimation of future population size and composition. Projection errors are generally more important for the two ends of the population-age structure : babies and the very elderly. Assumptions on future fertility may lack precision which can affect the accuracy of the projected number of young children. In the medium and longer run, the number of teenagers and adults could also be affected. However, as far as the working age population is concerned for the period 1995-2015, both these sources of possible errors can be virtually excluded since the population in question is already born and does not relate to the very old either.

Unforeseen developments in mortality trends, may also, though to a lesser extent, cause errors in forecasting the future number of elderly people. Unexpected changes in migration may lead to misjudgements especially concerning the size of those aged around 20. After some years the numbers of those aged 30 and over could also be affected.

Finally, some further difficulties, beyond the demographic and statistical risks of error, should

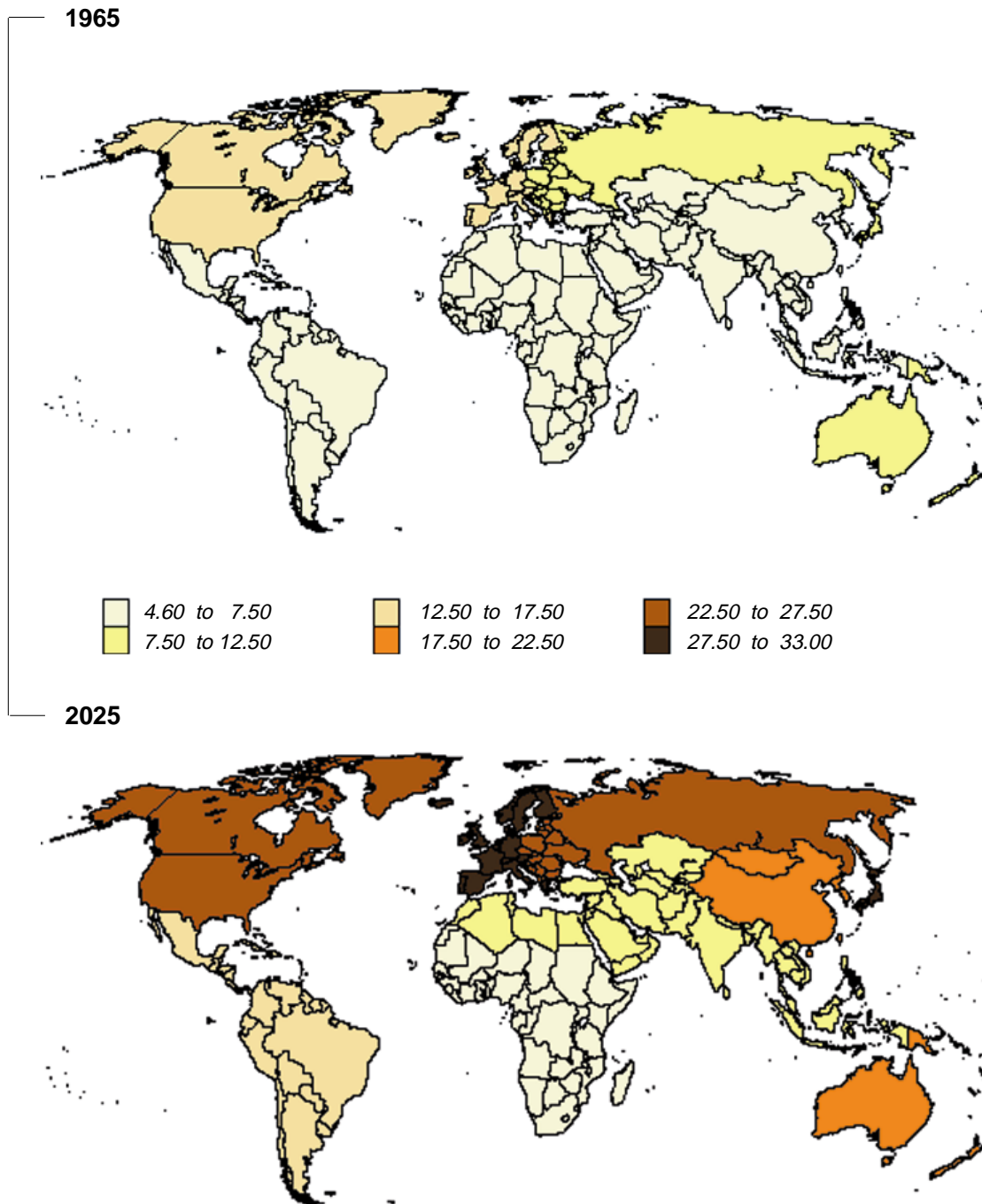
also be taken into account. The importance of the ageing trend for policy making is due to the changes in people's behaviour associated with age, rather than to biological or demographic ageing per se. Yet, behaviour of the different age-specific groups is changing from generation to generation reflecting changes, in economic, technological, institutional or societal conditions. These generational effects on behaviour introduce a strong element of uncertainty concerning the behaviour of future generations that calls for a great deal of prudence when dealing with forecasting over a relatively long period .

The medium projection presented in this paper is considered to represent the best guess based on fertility, mortality and migration assumptions considered as the most likely by the experts. Alternative scenarios using different assumptions as well as full probabilistic assumptions can provide additional information about the range of uncertainty in the demographic trends. This range tends to be narrow for the coming 10-20 years since most of the people that will be leaving then are already alive today.

Taking account of all of the above factors, it can be reasonably argued that the intensity of the trends observed regarding the ageing process combined with the available statistical tools considerably narrows the possibility of serious mistakes as far as the major trends over, at least, the next two decades are concerned. Among social sciences, demography is the one providing the most reliable projections.

Figure 2: Demographic change in the world

Share of the age cohort 60 years and over



Source : The sex and age distribution of the World population, The 1996 Revision, United Nations, 1997

How does the European Union compares in terms of demographic evolution to USA and Japan ?

Demographic ageing is a common characteristic but varies in speeds and intensity.

In the next 20 years, Europe and Japan will be, the areas of the world with the most pronounced ageing trends. In 2025, the share of the above 60 age group in Europe and Japan will be around 30 % compared to 25 % in North America. Projections show also that other countries, like China will be

confronted with similar demographic ageing trends 20 years later. Finally, population growth in North America will continue to be relatively strong and the ageing trend will remain weaker than in Europe.

It is of particular interest to establish a comparison of the demographic trends between these three leading world economic powers. *Figure 3* shows a comparative picture of the population structure in the three areas, in terms of their age pyramids at three specific moments 1965-1995-2025.

It can be seen that, in 1965, the ageing process in the EU was more advanced than in the USA or even Japan. However, the shift in its age structure has been slower than in the case of Japan and USA, as is shown in *table 1*.

**Table 1: EU-USA-Japan
Evolution in the average age of
population**

	1965	1995	2025
EUR15	34.8	38.8	43.7
USA	31.8	35.7	39.6
Japan	30.3	39.3	45.9

Japan with its higher pace of ageing has left behind the EU, in the first half of '90's, and will also be faced with a stronger ageing challenge in the next 25 years. This is partly due to the strong post-war baby-boom but also to the lower migration in-flows.

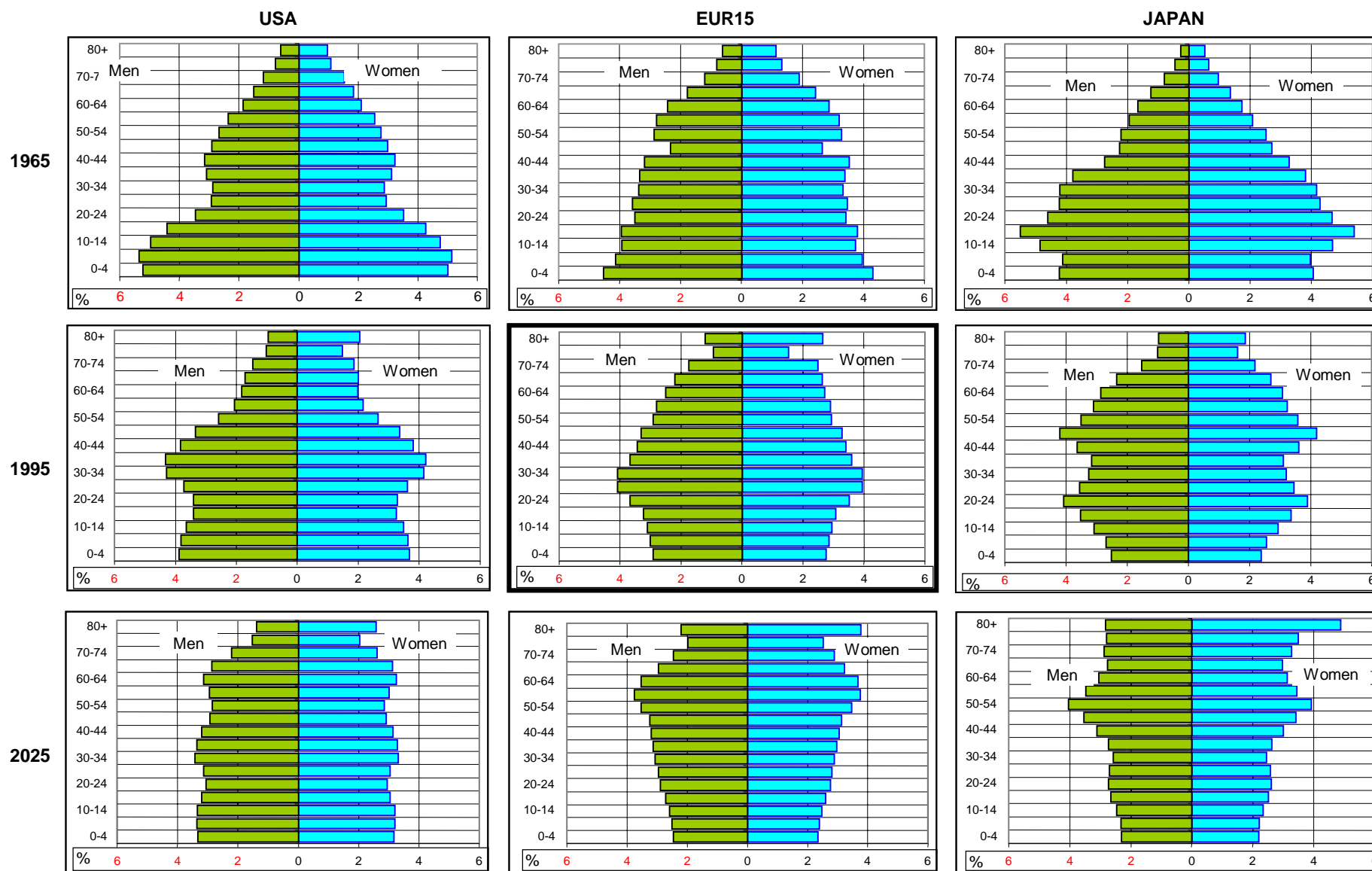
The USA underwent a less significant fall in fertility during the 70's and 80's and a higher level of net migration, resulting in a significantly smoother ageing process. Ageing is expected to develop more slowly over the next 25 years since fertility and migration levels will be higher and also due to the sharper fertility slowdown of the 30's, resulting to a slower growth of the very old. Average age will still stay below 40 years in 2025.

Compared to the USA and Japan, EUR15 has been in an intermediate situation. However, since the 70's, the constantly narrowing base of the pyramid will remain a matter of concern for several decades. The European population will approach its peak within the next 5 years, followed by a period of relative stability. Japan seems to have already reached this stage. According to the UN projections, in 2020, it will have a smaller population compared to 1995. By contrast, population in the USA is continuing to grow. In 2025, it will be 25% higher than its 1995 level. As a result of this significantly faster demographic growth, the existing gap in terms of the population size between the EU and the USA will continue to diminish. Compared to the EU population (index 100), the USA index will rise, between 1995 and 2025, from 72 to 86, whilst Japan will see its population index decreasing from 34 to 31.

As regards the working age population, the process of ageing will develop faster and sooner, raising important economic and social questions. Japan has already passed its maximum in terms of working age population. Between 1995 and 2025, it is expected to decrease by 16 %. As employment rate in Japan is close to 75%, this decrease in working-age population could be translated into increasing structural difficulties in the labour supply.

The USA which are attaining at present employment rates above 70 %, will see their working-age population growing slightly faster than the total population for the next 15 years, followed by a phase of stabilisation. There are no apparent demographic constraints for the American labour supply at least for the next two decades. The situation in the EU is quite different. The average employment rate of the 15-64 population was close to 60 % in 1995.

Figure 3 : EUR15 - USA - Japan
Age pyramids 1965 - 1995 - 2025



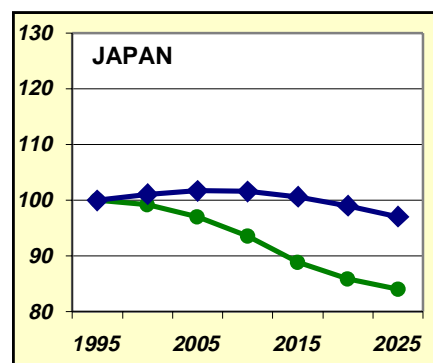
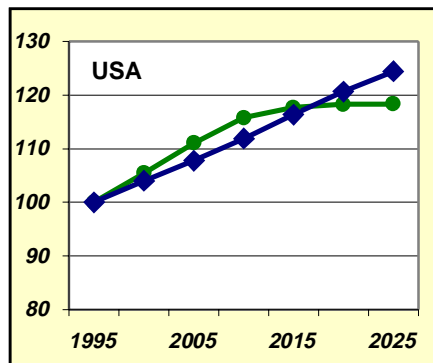
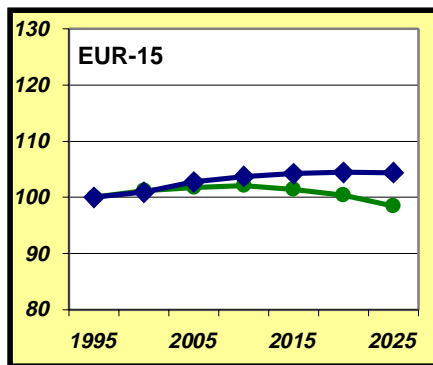
Assuming an annual increase in employment at 0,7% until 2015 and a rate of growth around 2,6%, as in the current Commission 5year projections, it would bring employment rates close to 68 % by 2015. This leaves a margin for labour supply growth, although northern Europe is already much closer to the 75% limit in terms of employment rate. After 2010, GDP growth in Europe would rely, more and more on the flexibility of the labour market and the growth of productivity.

Figure 4: EU – USA – Japan

Total population and working-age population

Total population 
 Working age population (15-64) 

1995(=base100) - 2025



Source: Eurostat and UN

In summary, with regard to the working age population, demographic transition will progressively narrow the availability of human resources in the labour market. Japan is leading in this trend, followed by Europe some 10 years later, and then by the USA after a further delay of 10 years.

In the area of social protection, the EU has, today, the highest share of people over 65. However, future change will be slower than in the USA or Japan, as shown in table 2. Nevertheless, the cost of demographic ageing, keeping all other factors constant, could continue to grow due to the increase by 49% between 1995 and 2025 of this age group.

Table 2: EU-USA-Japan

Aged 65 and over as % of population 1995-2025

	Aged 65+ as % of population		Increase 1995-2025 (Size)
	1995	2025	
EUR15	15.4	22.0	+49%
USA	12.6	18.3	+82%
Japan	14.2	25.9	+77%

Demographic trends and enlargement

EU enlargement is an important step in the process of European integration. Hence, it is of particular importance to bring into the picture the demographic characteristics of the candidate States. Demographic trends confirm that the Eastern European countries are also affected by the ageing trend. All of these countries, except Poland and the atypical case of Cyprus, will also experience, a decline in the population as a whole and in that of working age, before 2010. In most cases, this process has already started.

In the area of social protection the dependency ratios are still lower in the candidate States than the EU average. However, all of these countries, except Cyprus, are confronted with significantly lower levels of life expectancy and higher infant mortality. Finally, growing differentials in terms of demographic and economic trends between urban districts

and the countryside might challenge the internal balance in some of these countries and give rise to migratory movements.

When will the population in the EU regions start declining?

There is no single answer to this question. Europe is entering into a period of accelerating population ageing. However, the existing evidence shows that the regions of the EU are unevenly affected by demographic trends. This asymmetrical demographic impact adds to an already diversified regional environment. Different combinations of diverging and converging socio-economic and demographic dynamics are created, calling for forward-looking policy adjustment to specific regional realities.

Figure 5 offers an overview of this regional diversification. In a considerable number of regions the population will stop growing already before the end of the century. The phenomenon will extend to the majority of EU regions, which will see their population stagnating or declining before 2015. The younger generation, the 0-24 age group, representing 31% of the population in 1995, will be reduced to 27% in 2015, a decline of 11 millions. In some regions in Germany, Italy, Spain and France the younger generation will represent less than 25 per cent. The retired generation (65+) will increase, significantly and unevenly, throughout Europe. The growth of the very old (80+) is the strongest in terms of intensity and speed among the demographic trends reviewed in this paper. In some regions of France, Italy and Spain the 80+ generation will represent between 7 and 9 per cent of the population (compared with 3,9 per cent as an average 1995). As a consequence the average age of population will increase from 38,3 years in 1995 to 41,8 years in 2015. In some regions in eastern Germany, northern Italy, central France and northern Spain the average age will be between 44 and 50 years. The youngest population, between 34 and 38, is to be found in some regions in Portugal, Spain, UK, France and Ireland.

The diversity of demographic trends at regional level constitutes an important challenge in a wide range of policy fields. Interaction between demographic and economic trends at regional level requires particular attention. The regional dimension will be critical for the overall performance at national and even European level.

What are the main demographic trends and what policy challenges do they raise for the European Union?

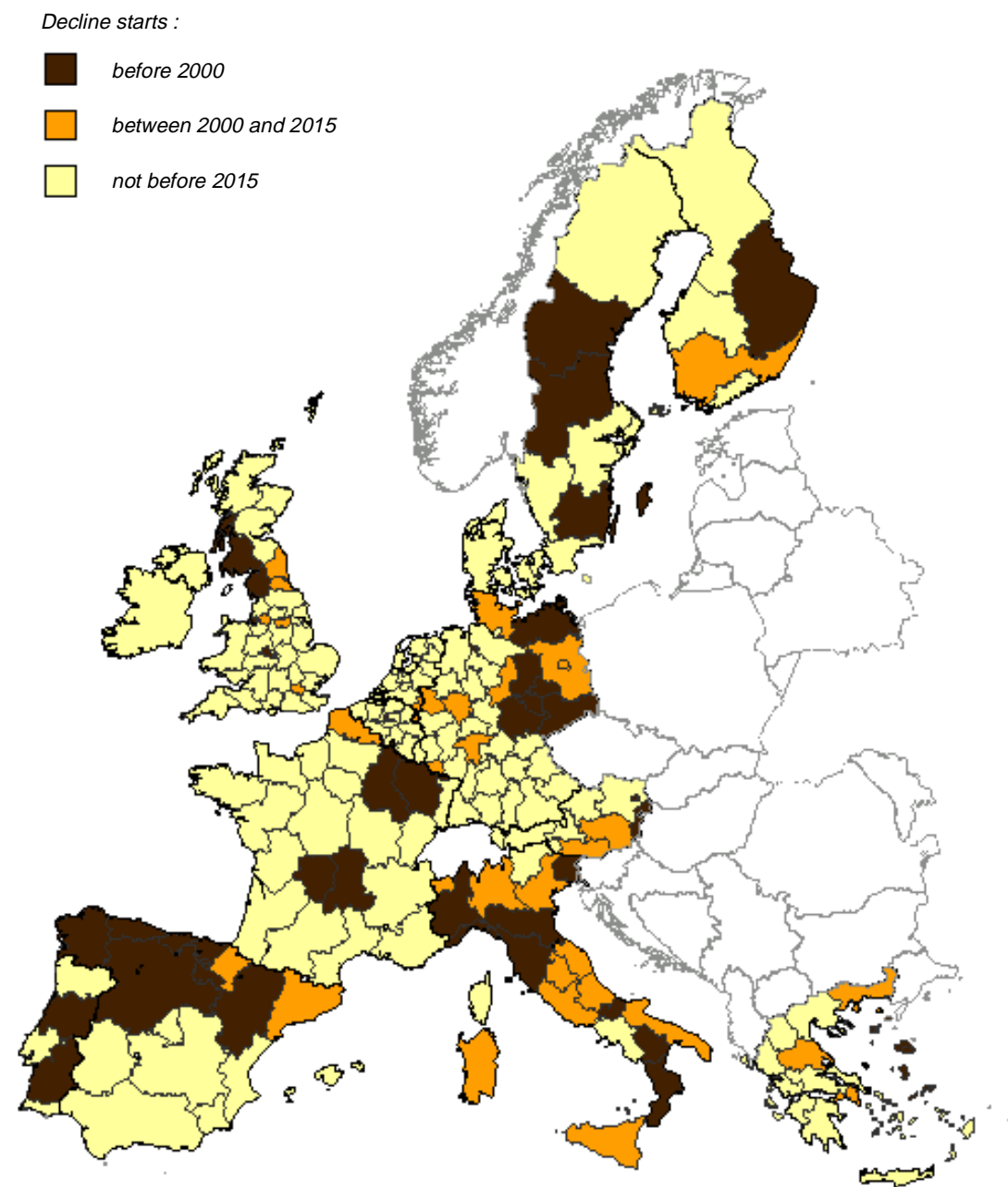
Demographic evidence indicates that during the first decade after the year 2000, most EU Member States will enter a period of fast transition in terms of demographic change. This rapid trend could challenge the sustainability of what is known as “the European Social Model”. What are the main components of the so-called demographic challenge?

To provide a better understanding of the implications of demographic change, we provide here a short presentation of the 4 main demographic changes. They refer to 4 specific age cohorts that are of particular importance for policy-making. The presentation includes, for each age cohort, a comparative picture of the situation in the 15 Member States based on Eurostat demographic projections. It serves as an introduction to the discussion on policy issues presented in Chapter 2 and 3.

Age cohort 65 and over growth, increases the need for social policy reforms

The trends concerning this age cohort are of particular importance not only for social protection but also for the future of civil society. *Figure 6* shows that among the 5 larger Member States, in terms of population, only Italy, after a very important fertility fall in the 80's - will undergo an ageing process significantly stronger than the European average with 24 % of the population aged over 65, in 2025: this is the European record – 2 % above the European average, but still 2 % below the Japanese figure. Only Finland, within Europe, is likely to approach the same level.

Figure 5 : When will the population in the EU regions start declining ?



EUR15 NUTS2

Source :
Eurostat, Demographic
Projections 1997
- Baseline scenario

Among the other Member States, most, except Belgium, Sweden and Greece, will preserve a relatively younger structure, with a share of those aged above 65 slightly lower than the average (Austria, Denmark, Netherlands), or much lower than the average in the case of “youngest” Member States (Luxembourg, Portugal, Ireland). Ageing in those three Member States should remain roughly 10 years behind the average European timetable.

In most cases the speed of the ageing process will increase after 2010. This will become clearer in the 5-year period between 2010 and 2015. The number of people aged 65 and over will then increase by as much as 19 % (Finland) or 17 % (Netherlands), against an average of 7.6 %. 7 out of 15 countries will have increases over 10%. The main exception to this speeding up is Germany, where the 1937-42 baby boom will accelerate ageing in the first decade of the next century (by almost 14 % between 2000 and 2005). These increases are of particular importance for social policy. They confirm that, although ageing is a common concern, the evolution in time among Member States is quite different.

The increase in the age cohort 80 and over raises the question of health and care

The age group over 80 is of particular importance for social policy, health and care planning. It also means different needs for housing services, transport and mobility facilities and other public infrastructures.

Figure 7 shows that in many Member-States the share of people aged 80 and over is low or decreasing at the present. This is due to the strong fertility fall during the World War I and to some extent to the high mortality of young men during the World

War II in some of the Member-States. To a great extent, the timetable of this category of ageing over the coming years will reflect the size of generations born during the relatively unstable, in demographic trends, period following the World War I.

Within this period, the 1920’s, the 1950’s and the first half of the 1960’s were, on the whole, the years with high fertility rates. Therefore, the next decade will be one of very fast increase in the proportion of the population over 80.

A considerable share of the total increase over the next 25 years (+62 % between 1995 and 2025) will take place within the 5-year period 2000-2005. Within those 5 years, the increase will be above 25% in Belgium and France, and almost as much in Italy and Austria. The average increase in the Union will be 18.6 %, a leap from 13.5 millions to 16 millions. This will be a worth-noting change both in demographic and social policy terms.

**Table 3:
Increase of the age group 80 and over between 2000 and 2005 (%)**

Period	A	BE	DE	DK	ES	FI	FR	GR
2000-2005	22,2	26,2	16,8	4,0	19,1	16,0	27,3	15,0

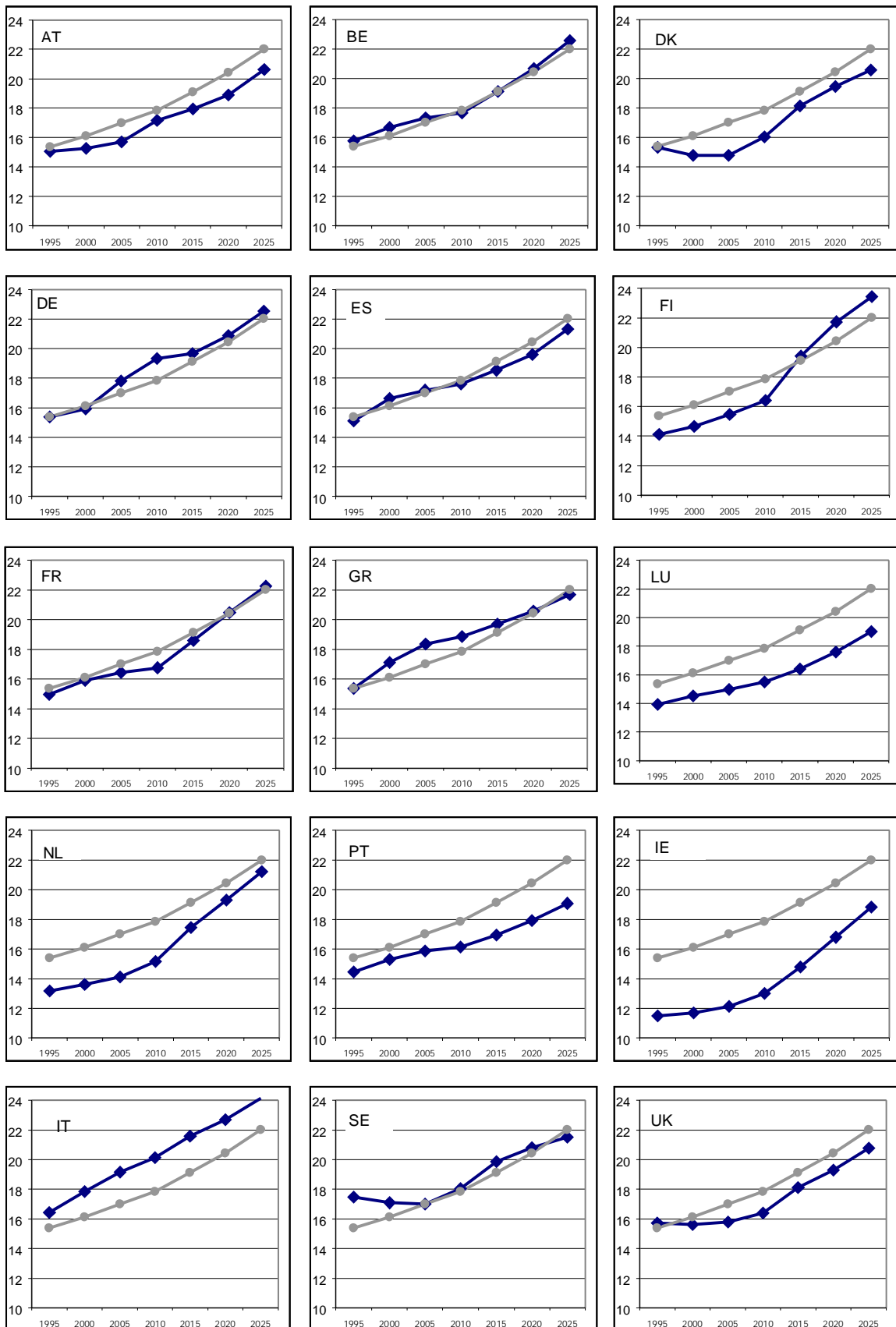
Period	IT	NL	PT	SE	UK	LU	IRL	EUR 15
2000-2005	24,3	15,2	16,5	9,1	10,8	14,6	10,7	18,6

Once more, Italy is leading the trend: in 2025, 7.1 %, or one out of every 14 Italians, will be over 80. The Italian age structure, in the next quarter of the century, relates back to the inter-war high fertility and to the severe fertility decline in the 1980’s, adding up to the over-representation of older people.

**Figure 6 : Age cohort 65 and over as % of population
1995 - 2025**

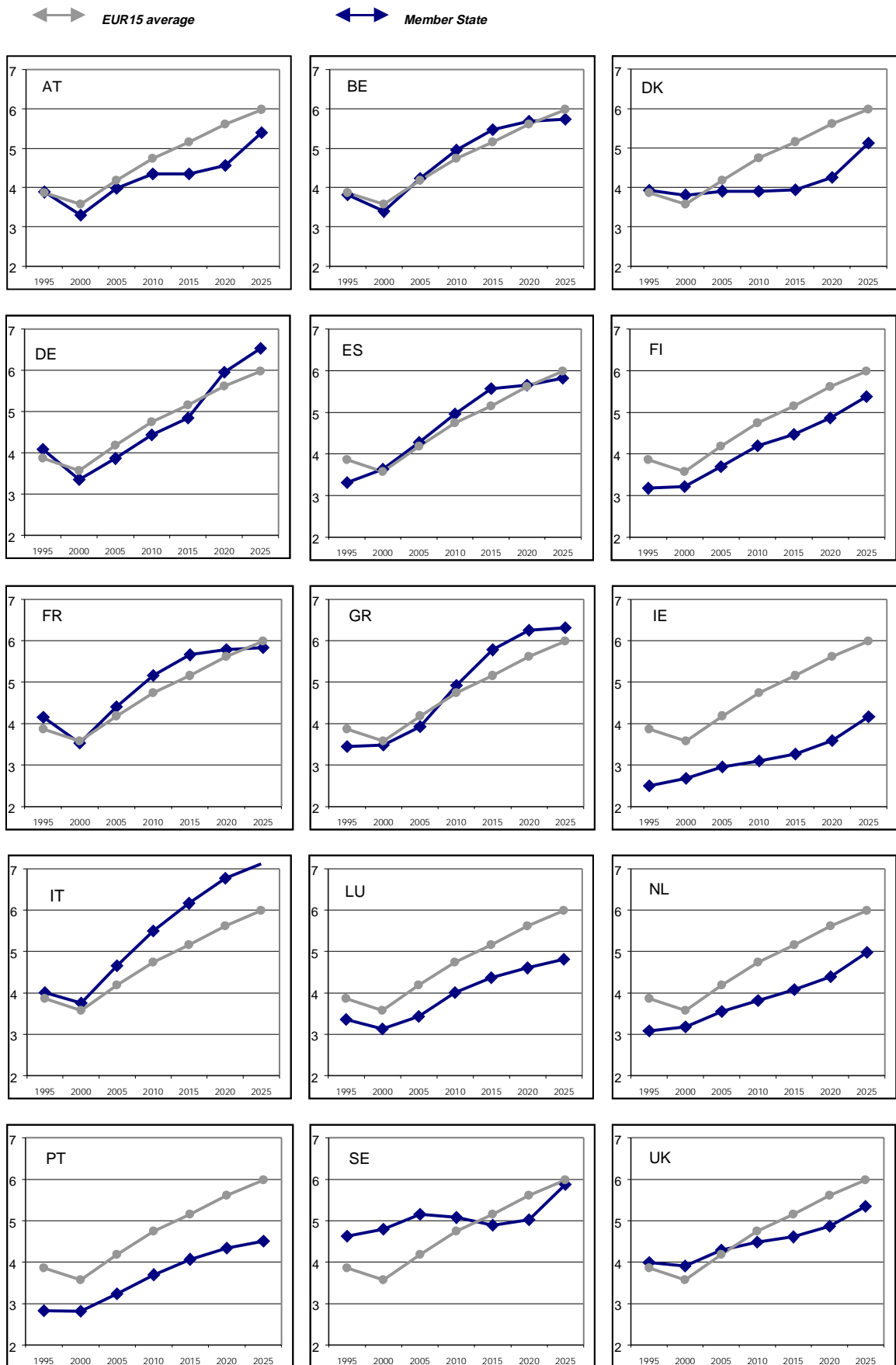
←→ *EUR15 average*

↔ *Member-State*



Source : Eurostat 1997 Demographic Projections (Baseline scenario)

Figure 7 : Age cohort 80 and over as % of population
1995 - 2025



Source : Eurostat 1997 Demographic Projections (Baseline scenario)

Germany comes next, due to the pre war baby boom. Denmark, Sweden and Ireland –will follow after 2020. Together with the longer life expectancy, it is clear that in most other countries, the age group 80 and over will have a very important growth after 2025, when the baby boomers will join this age group.

Growth in the age cohort 50-64 raises the issue of active ageing

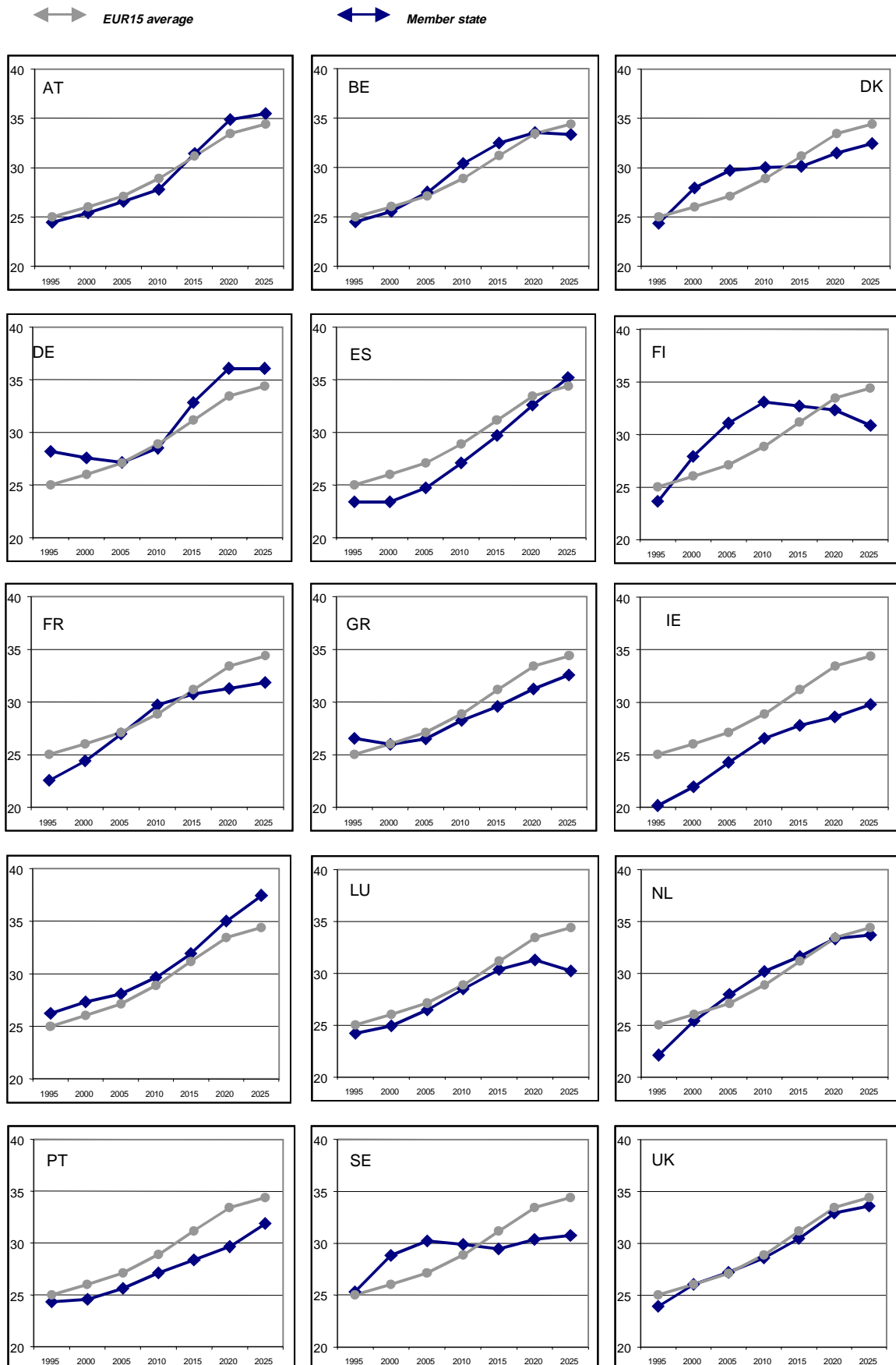
This age group is of particular importance for labour market policy and pension reform. According to Eurostat projections, its share at the EU level, will increase from 25 % in 1995 to 34.4 % in 2025. *Figure 8* shows that, in the Scandinavian States, the increase will be significantly faster over the next decade. This average can hide even more extreme situations at the local level.

Decline in the age cohort 15-24 raises the issue of human resources development

Demographic trends in this age group are of particular importance for education, human resources development and labour market policies for the young. *Figure 9* shows significant differences in terms of intensity and timing of the trends. The Mediterranean States face the most significant decreases over the next decade.

The demographic decline of this age group will progressively contribute in reducing young unemployment pressure particularly in regions combining economic performance and demographic slowdown.

**Figure 8 : Age cohort 50-64 as % of population
1995 - 2025**

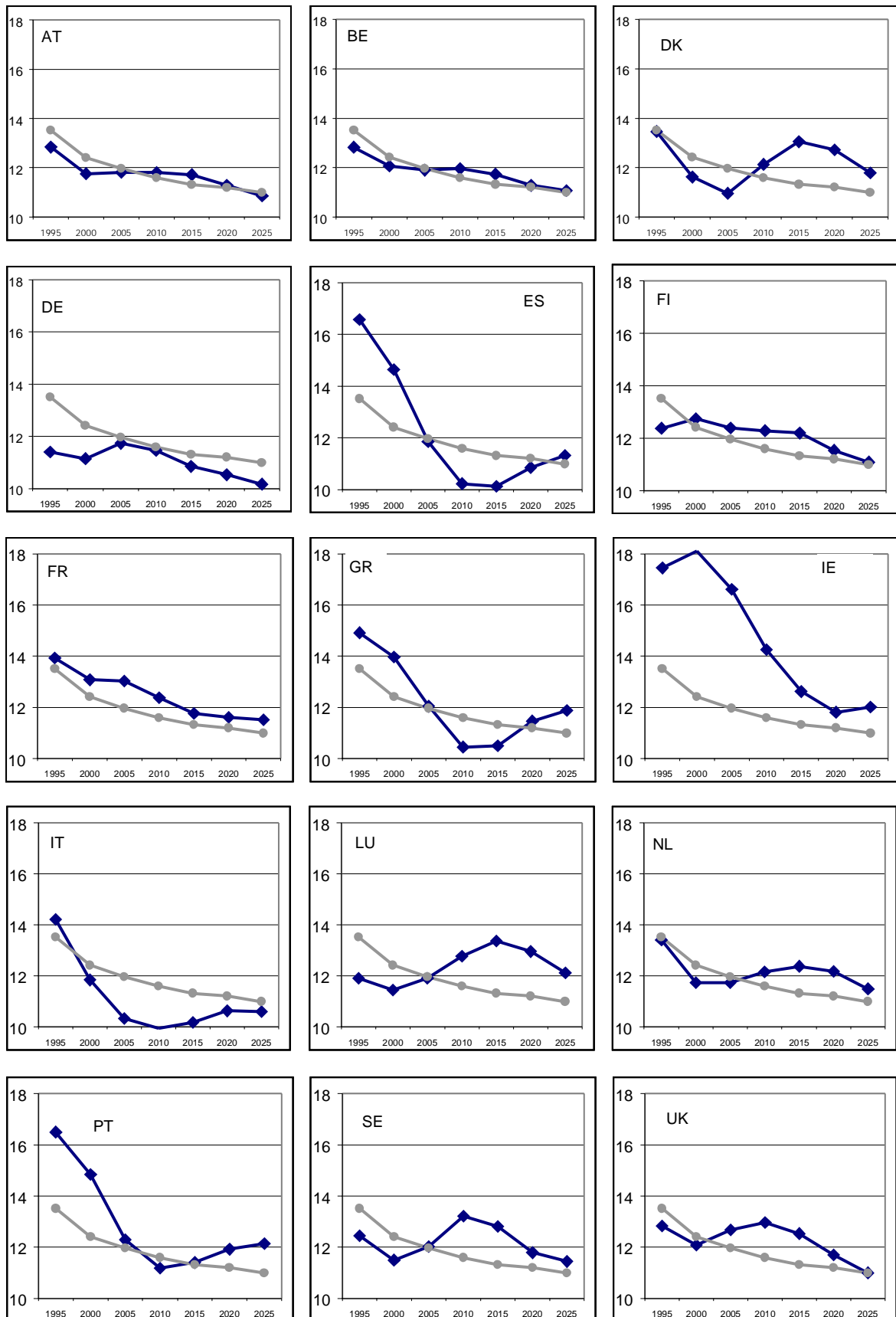


Source : Eurostat 1997 Demographic Projections (Baseline scenario)

**Figure 9 : Age cohort 15-24 as % of population
1995 - 2025**

←→ EUR15 average

↔ Member state



SECTION 2:

DEMOGRAPHIC CHANGE, EMPLOYMENT AND GROWTH

- *Since the early 1990's, the working age population has been growing at a slower pace. This decelerating trend initiates a process of important transformations of its size and structure. According to Eurostat projections, during the period 1995-2015, the 20-29 age group will decrease by more than 11 millions (-20%) while the older one (55-64) will increase by 26,5 millions (+26%);*
- *In most Member States the working-age population will stop increasing before 2012. Italy and Germany will attain this point already by the turn of the century. This demographic decline will last several decades. All Member States are concerned, although, the intensity and the timing of the trend vary not only from country to country but also from region to region;*
- *The regional diversity of demographic and economic characteristics suggests more emphasis is needed in taking account of the regional dimension. However, experience gained in Member-states or regions facing the demographic trends at an earlier stage may prove of particular help for the others. More European co-operation in the field is needed;*
- *The demographic shift could ease unemployment pressure particularly in regions combining economic vitality with demographic slowdown. However, it could raise important challenges, in terms of labour supply, to several regions with already high employment rates. Developing human resources and promoting skill and geographical mobility will be of increasing importance;*
- *Significant structural reforms are also needed to render social protection more employment friendly and more sustainable in the light of demographic change. Reforms resulting in higher levels of employment and growth could alleviate the pressures of ageing and maintain the high welfare standards in Europe. Extending active life becomes a major policy challenge;*
- *Women will be the main source of future labour force growth. Ageing raises several equal opportunity issues. Concerning the need for reconciling work and family life, further progress is needed in the area of sharing family responsibilities;*
- *Although the ageing process is still at an early stage, the right time for policy action is now, since most of the reforms needed require an important effort of awareness raising and gradual implementation.*

The European labour force is ageing. This development is regarded as having conflicting effects for labour. On the one hand, it may ease unemployment tensions by reducing the labour force, on the other, it could penalise employment growth due to the increasing dependency of the elderly and social protection costs. Policy makers all over Europe are trying to find ways to make demographic change work positively for employment without having a negative impact on social welfare. This short analysis aims at providing an introductory contribution to this fundamental policy challenge.

What are the main characteristics of the ageing process in the labour market?

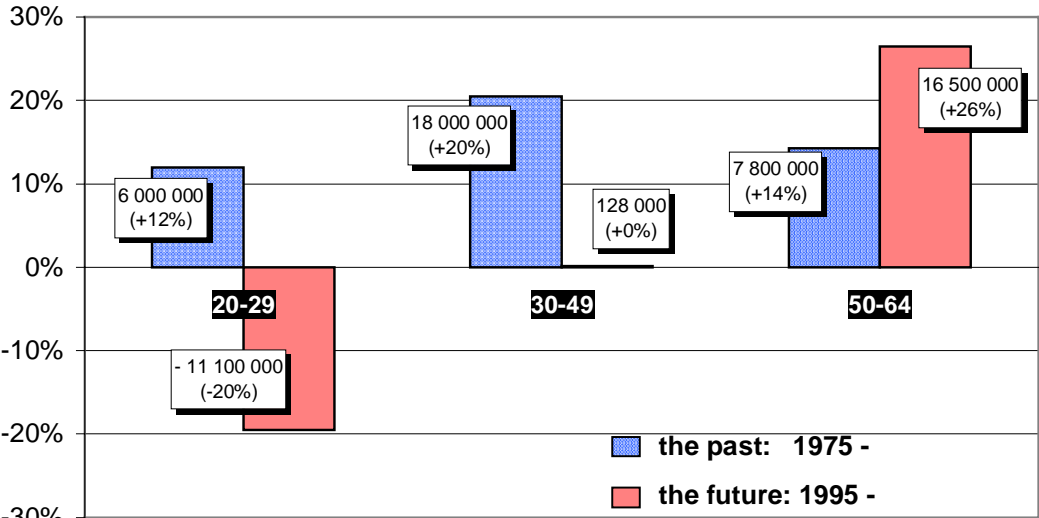
Demographic change modifies the structure and the size of working-age population that makes up the labour force. The comparison between past and future demographic trends concerning the

three main age cohorts of the working-age population, presented in *Figure 10*, provides a clear picture of the important changes taking place.

A distinctive feature of the past 20 years has been the entry of all the baby-boom generations to the population of working age. This produced a major increase in all age groups, especially the intermediate 30-49 age group.

In contrast to this, the next 20 years will see considerable imbalances in the contribution of the various age groups. The 20-29 age group, a group which replenishes the population of working age, will fall by 11 million, the intermediate group will remain at its present size, and the oldest group (50-64 years) will increase by 16.5 million, -more than 25%.

**Figure 10 - EUR15
Increase in certain age groups between 1975-1995 and 1995-2015**



Source: Eurostat, observations until 1995, projections after that date. Medium

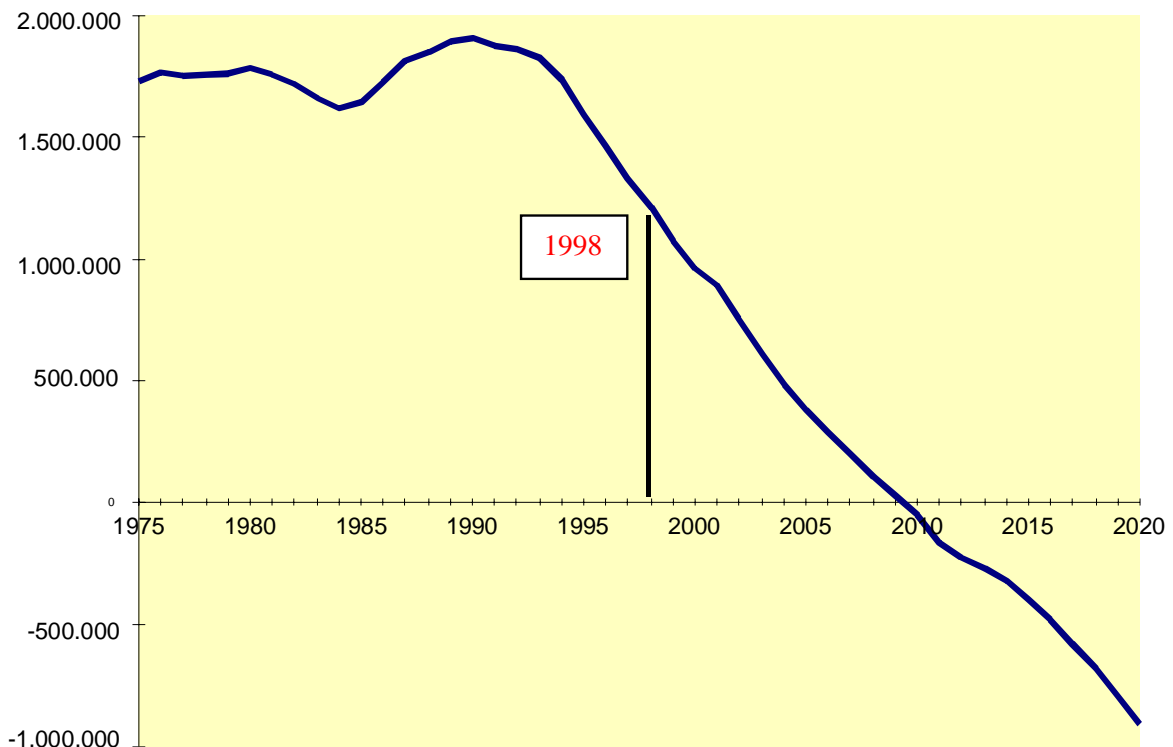
Figure 11 shows the changes in the balance between the younger (20-29) and the older (50-64) cohort during the same period. Since 1993, a steady downward trend can be seen. Both figures 1 and 2 show clearly that Europe has already entered a period of fast transformation of its working-age population.

Demographic trends are different in terms of intensity and timing from one Member-State to the other. Looking beyond this aggregate presentation, the situation of the working age population, is quite diversified. Figure 12 presents the timetable of demographic slowdown at the level of Member-States. In most Member States the working-age population will stop increasing before 2012. Italy and Germany will attain this point by the turn of the century.

Figure 13 summarises the main elements and presents a comparative picture of each Member-state and the average European level in terms of average age of the working-age population (green-grey line) and the net balance of in and out-flows (blue-grey histograms).

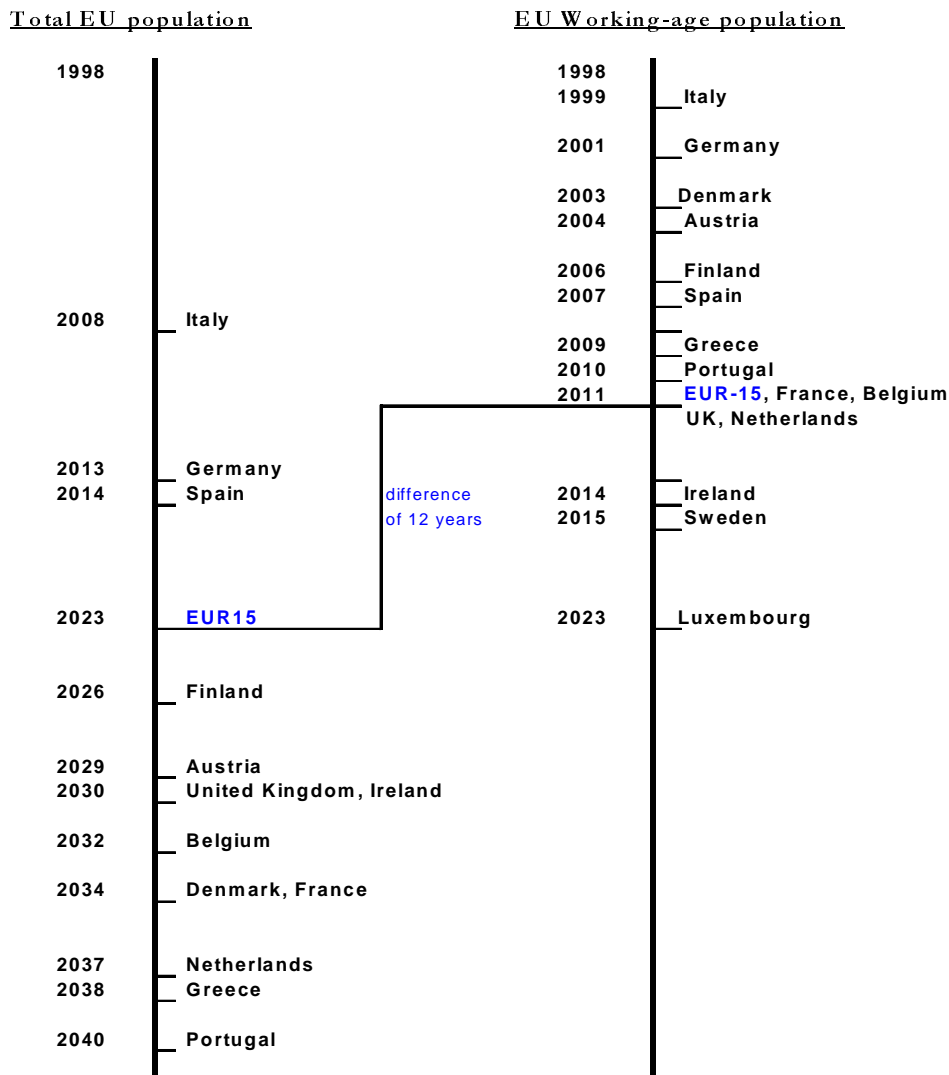
The proportion of young people will fall significantly, during the next 10 or 15 years (approximately by one third) in four Mediterranean countries, Portugal, Spain, Italy and Greece as well as in Ireland, and to a lesser extent in France. All these Member-States should then see their share of young entries converging towards the levels found in northern Europe. This global decrease of the younger cohort means more hope for an easier integration of the young in the labour market.

**Figure 11: EUR-15
Balance of entries (younger 20-29 cohort) and exits (older 55-64 cohort) from the working age population**



*Number of people between 20-29years minus the number of people between 55-64years
Source: Eurostat

Figure 12: EUR-15
First calendar year of EU population decline



Eurostat projections, Baseline scenario

The national figures show that, when the massive wave of baby boomers will begin retiring, a new balance in the labour market this will created. Greece, Spain, Portugal and France may still have significant unused labour capacities some years after 2010. Whilst in northern Europe, the turning point will be reached earlier. In Germany, the balance will be close to zero before 2000.² However, given the present levels of unemployment, employment could still grow, over the next years, in the majority of the EU regions, despite the demographic decline of working-age population.

Figure 15a shows when working age population decline will start at regional level. A number of regions in Spain, Portugal, Italy, Greece, France and Germany have already attained this point. Demographic decline will last several decades. Working-age population changes in size and structure develop faster than the corresponding changes in the total population. This is because the big demographic “wave”, created by the baby boom generation will continue, for at least another 20 years, to play a predominant role in the demographic developments within the working-age population.

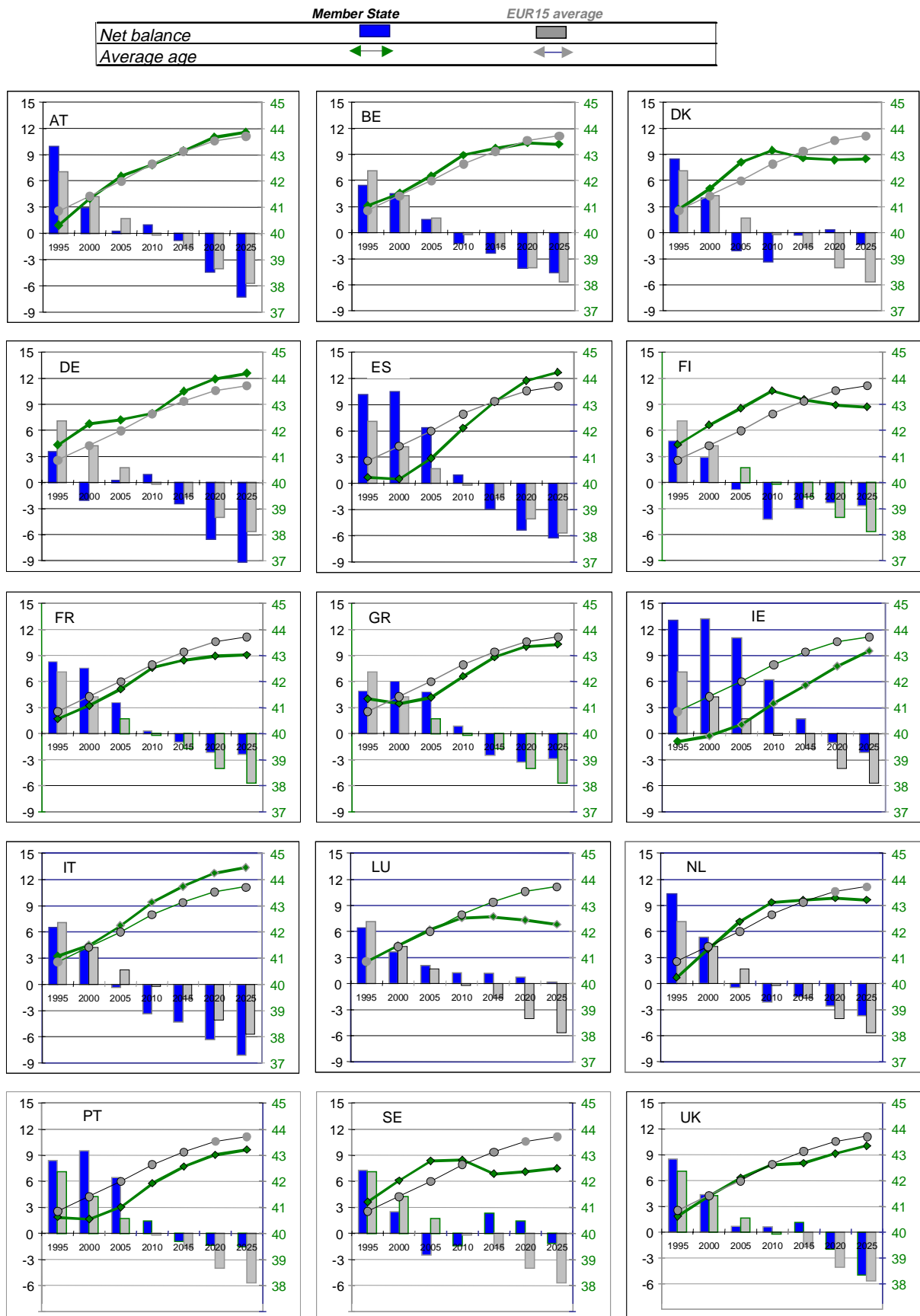
² In two Member-States, namely in Sweden and Luxembourg the population is not expected to stop growing until the end of the projection period (2045).

Figure 13:

Net balance between incoming [20-29] and outgoing [55-64] working age group

Age group [20-29] less age group [55-64] as % of working age population [20-64]

Average age of working age [20-64] population - 1995-2025



How does demographic change affect the labour supply and the labour market?

It is necessary at this point to establish the link between the working age population and labour force trends. The labour force is dependent on the number of people of working age and the activity rate of the working age population. Over the last decades, demographic growth, reinforced by rapidly growing female participation, played a significant role in the labour market by increasing the working age population and expanding the labour supply. For the last five years, average European activity rates have been rather stable at around 68% with a falling rate for men and an increasing rate for women. The 1990's are a turning point towards a new demographic reality that might last several decades. Working-age population growth is becoming slower and slower. In a

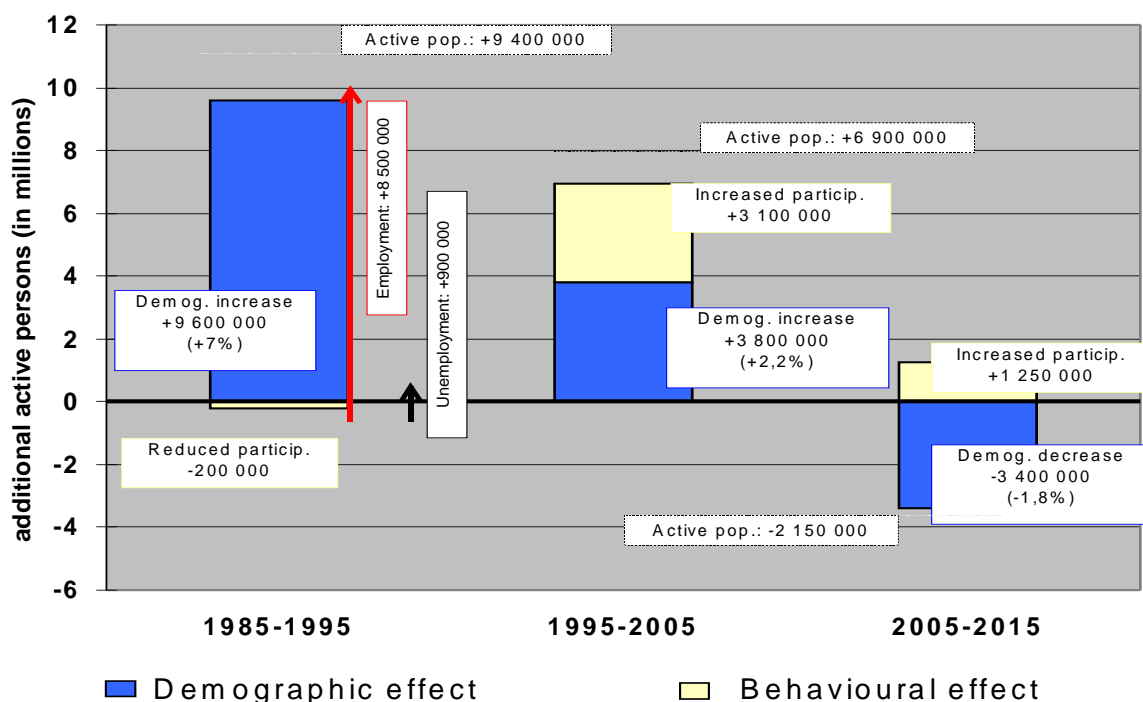
number of European regions it is already decreasing.

Fig. 14 presents the findings from a comparison between labour force growth during the decade 1985-95 and those provided by Eurostat projections concerning the two future decades 1995-2005 and 2005-2015.

Labour force change is split into two components:

- the "demographic" component, that is, the variation in the population's age/sex structure and size assuming the activity rates remain constant;
- the "behavioural" component, that is, the variation in the levels of activity per age group over time.

**Figure 14 - EUR12 and EUR15
Respective roles of the demographic factor and behavioural factor in producing changes in the size of the Labour Force³.**



Sources : Eurostat, 1996 demographic projections, medium scenario
 Eurostat, Labour Force Survey (EUR12 1985-1995, EUR15 after 1995)
 Eurostat, projections of activity levels

³ For technical explanations, see p34, 1997 Demographic Report, European Commission

Table 4 : EUR-15 - Projections of unused labour capacity in 1997 and 2015 (in millions)

		1997	2015
1	Working age population	250	253
2	Employment*	150	170
3	Employment rate (%)	60	67
4	Max. Employment	75	75
5	Unused labour Capacity Rate (4-3)	15	8
6	Unused Labour Capacity	38	20
7	Unemployment	18	?

* *Employment projections based on Commissions 5year projections*
Average annual growth of employment : 0.7%

The figure shows that the demographic dimension will become particularly significant in the next decade, when the first baby-boomers start entering the age of retirement. In most Member-States, the working-age population will stop growing before 2012. In two of the largest Member-States, Italy and Germany this point will be reached in the next three years. From that point, the impact on the size of the labour force could grow in importance given the very small size of the in-coming generations and the progressive stabilisation of the female participation in the labour market. Over the period 1995-2005, labour force in the EU-15 could be moderately increased by approximately 6,9 million, while in the decade 2005-2015, an anticipated drop of 2,1 million is expected.

Working-age population decline will be observed in a considerable number of European regions well before 2015. Labour projections, at European level, show that the available labour reserves will decrease, although this does not rule out unemployment persisting in several regions. Table 4 shows a projection of the available labour reserves at EU level in 1997 and 2015. More precisely, if employment continues to grow at an average rate of 0,7% and the maximum (average) employment rate is 75%, then the labour reserves will almost halve by 2015.

The regional situation has been presented in Figure 15a. Some of these regions in Southern Scandinavia, Northern Italy, England, Central Portugal and Southern Germany combine relatively high employment rates ranging sometimes beyond 70% as seen in Figure 15b, and a fast declining demographic trend. This implies that their ability to compensate for the demographic effects, over the next decades, will be limited. Mismatches and local scarcity of

human resources might prove a serious challenge for economic growth in several parts of Europe, at the beginning of the next century. However, the slowdown in labour force growth over the next decades could contribute towards a gradual reduction of unemployment, if the appropriate policy adjustments take place in time.

Could mobility help improve employment and growth performance?

The reversal of demographic trends that, so clearly differentiate Europe's regions, naturally raises the question of mobility. Increased labour mobility is one way of dealing with regional imbalances. Mobility has both an occupational and a geographical dimension. Occupational mobility - training, retraining of the workforce - is the most important factor for adjustment to new economic conditions. However, geographic mobility also plays an important role.

There are two types of migration:

- **Migration flows into and out of the EU.** Although this kind of migration cannot compensate for demographic ageing, at the EU level⁴, it has an important regional impact particularly on certain frontier regions and the more prosperous areas, offering more employment opportunities (especially in urban areas). Eurostat scenarios assume that, over the next years, net immigration will remain virtually unchanged, that is, less than 0,2 per cent per year.
- **Migration flows between EU regions.** Despite the important progress made in the

⁴ see 1997 Demographic Report, European Commission

liberalisation of the free movement of persons over the last decades, Europeans have still tended to move less than in the early post-war period. Geographical mobility between Member States is limited to 0,1 per cent a year. Nevertheless, the scale of labour mobility between regions is bigger, about 1,5 per cent a year, not so different from mobility in the US. Furthermore, across the Union a significant number of commuters (3,5 per cent of employees) regularly travel quite long distances from their home in one region to their place of work in other regions. Thus, on average, about 5 per cent of the workforce is mobile, in one way or another, although with large variations between regions.

The issue of mobility will be increasingly important over the coming 10-20 years. Account needs to be taken of emerging needs caused by demographic change. Demographic trends require the definition of policies promoting mobility of all factors. Skilled and highly skilled people will be more mobile, while unskilled workers will be less in demand.

Moreover, it is expected that in the near future, the socio-economic and institutional environment will be more favourable for geographical mobility. On the one hand, growing economic integration, together with improved economic performance, will certainly contribute to this trend. On the other hand, fast technological change and particularly the expected progress in telecommunications, networking and transport will help improve the allocation of human resources without recourse to geographical mobility.

The increased participation of women in the labour market and the reduction of the gender imbalance will also have an effect on geographical mobility, as mobility in many cases concerns two people with professional careers. A mix of measures could further promote skill and geographical mobility. Removing remaining institutional restrictions and other rigidities to labour mobility and improving the information on job opportunities and the incentives to mobility would help tackle emerging skill shortages, thus enhancing employment and growth.

The framework for managing and promoting this broader definition of mobility is variable and requires a combination of micro- and

macro-economic approaches, to be adjusted regionally on a case-by-case basis. Measures in favour of local development are also equally important. The mobilisation of reserves in the labour supply could be a source of economic vitality and local development, particularly for regions in demographic decline. It will therefore be necessary to consider what human resources policies are best suited to regional economies.

Could demographic change help in finding a solution to the problem of unemployment?

A lot will depend on the ability of Europe to provide adequate policy answers to the emerging structural challenges. As we have seen, projections, at European level, show that the available labour reserves will decrease. However, unemployment may persist since it is very unevenly distributed among the European regions. Policies need to take account of the specific socio-economic characteristics of the regions. Demography could not in itself solve the problem of unemployment in Europe, nevertheless, it represents an opportunity for a labour reserve of more than 30 millions of unemployed and presently inactive but potentially active persons. It could, for instance, create a more favourable environment for the young people entering the labour market for the first time or for those women who have left the labour market but want to return.

Although the expected changes in the age structure of the working age population could create a more favourable environment for combating youth unemployment, the risk of unemployment may persist or even increase for the older part of the labour force. The size of the older cohort of the labour force is expected to increase significantly as a result not of only demographic trends but also because it is unlikely that the recourse to early retirement schemes could be sustained in the future. The need to maintain a rapidly increasing number of older workers in work will call for a new approach to all matters relating to the link between age and the labour market. It will be necessary to promote both the employability of the older workers and the adaptability of firms to an ageing working population.

Certainly, the debate on the extension of active working life is reinforced by the challenge of reforming social protection. Social protection and taxation reforms, must be seen as an integral part of a comprehensive employment growth strategy. A number of proposals towards this direction, including the reduction of non-wage labour costs, the question of reforming tax and social benefit systems and the promotion of gradual retirement, are explored in the recent Commission Communication (COM97 102final) *“Modernising and improving social protection in the European Union”*.

Modernising and improving social protection systems will be essential to sustain the European Social Model in the future. Social protection needs to be reinforced in its role as a productive factor promoting economic growth and employment.

There are also strong reasons for re-examining education and life long learning policies. In the coming years, the diminishing number of new entries to the labour market will reduce the possibilities of labour supply to adjust to changing skills and qualification through the natural renewal of the labour force. This trend coincides with trends of growing depreciation of qualifications and skills due to the technological change and increasingly competitive global environment. Under these conditions, policies promoting active ageing cannot be successful unless the qualification of older workers meet the requirements of labour demand.

Furthermore, job creation is increasingly generated through SME's, independent employment and the different forms of flexible employment. The big industrial firms experience important structural transitions opting progressively for less blue collar workers, a smaller number of highly qualified executives and more extensive use of flexible forms of employment. Temporary contracts, part-time and subcontracting represent an increasing source of job creation. To what extent do the existing structures of formal and informal vocational training and human resources development meet the needs of the ageing labour force? Moreover, are our present structures prepared to satisfy the increasing

training needs of the growing number of workers in flexible forms of employment? A growing part of the labour force (older workers, mainly blue collar, self employed, temporary and part-time workers) may face increasing difficulties since they do not belong to the traditional target groups of our present vocational training systems.

An equally important issue concerns the management of modern enterprises. Since 1997, the average age of the working age population remaining stable at the level of 40 years will start moving upwards (*see Figure 16*).

The rapidly increasing number of older workers, will call for new approaches to all matters relating to the link between age and productivity. There is a need for new policies on work organisation, aiming at improving the employability, productivity and motivation of older workers. The age dimension in human resources management and job design is often neglected by the firms. This has been a contributing factor to the increasing trend of laying-off of older workers over the last two decades. However, modern technology and ergonomics can reduce stress and increase the productivity of older workers compensating for any physical decline where this proves to be a critical factor.

Promotion of health prevention at work could also contribute in extending healthy life and active ageing.

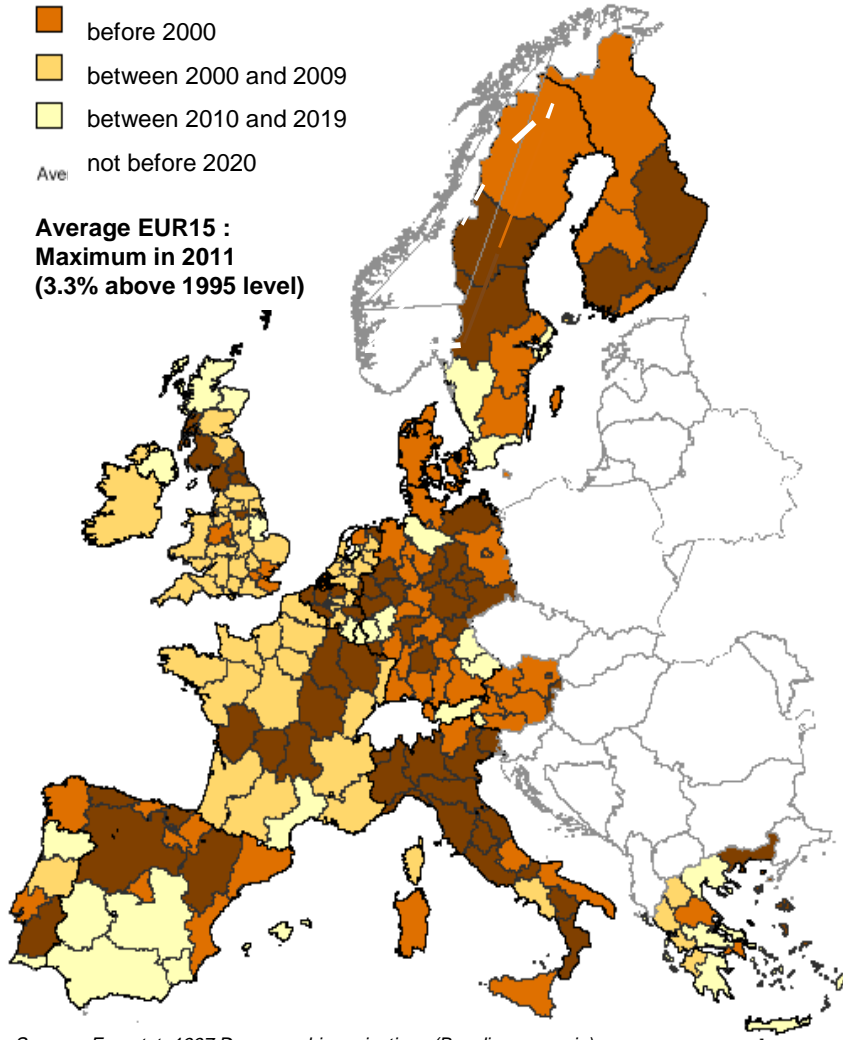
There is a wide range of changes in the working environment that could both improve productivity and reduce work stress and work related illnesses. Raising awareness and promoting good practices in the field is a pre-requisite of a successful active ageing strategy. The success in fighting unemployment will not only depend on the policy responses of public authorities. A lot will also depend on the trends at the micro level. Current practices at the level of the enterprise need to be re-examined. Best practices in the field need to be encouraged. New policy approaches must ensure that older workers are not neglected and that learning and career opportunities will be offered throughout working life.

Figure 15: EUR-15 Regional level

15a: When does the working age population start declining?

- before 2000
- before 2000
- between 2000 and 2009
- between 2010 and 2019
- Average: not before 2020

Average EUR15 :
Maximum in 2011
(3.3% above 1995 level)



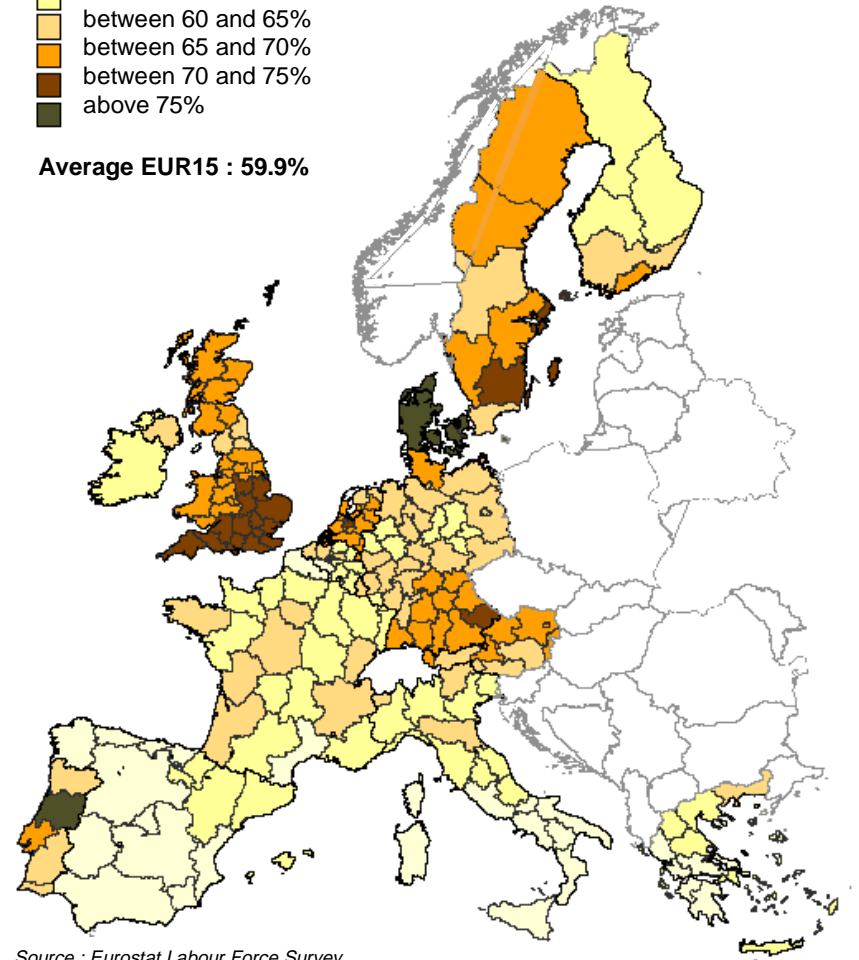
Source : Eurostat, 1997 Demographic projections (Baseline scenario)

15b: Employment rates by region in 1997

Employment rate (%)

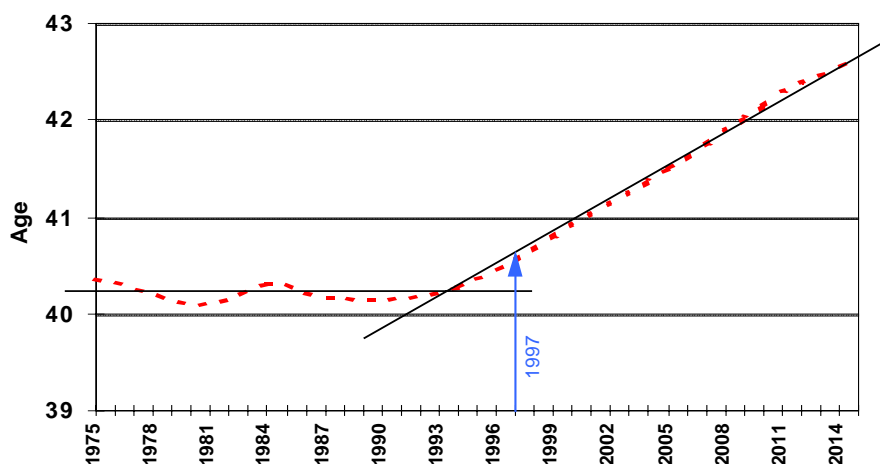
- between 30 and 50%
- between 50 and 60%
- between 60 and 65%
- between 65 and 70%
- between 70 and 75%
- above 75%

Average EUR15 : 59.9%



Source : Eurostat, Labour Force Survey

Figure 16: EUR-15
Change in the average age of working-age population (20-64years)



Does demographic change raise gender issues?

Over the next 15 years, women will be the main source of labour supply growth. Figure 14 shows, the split of the labour force between its demographic and behavioural components. The female participation increase accounts for virtually 50% of the demographic increase and almost 100% of the behavioural increase given that male participation has already attained its maximum. Even in the case of some marginal rises in male participation due to expected reductions of the early retirement schemes, these would be counterbalanced by the increasing duration of initial education which will further delay the entry of the younger generations into the labour market.

This issue is of particular importance since, as shown before, the labour force will start decreasing in the EU by the end of next decade. Viewed from a regional perspective, this trend seems even more relevant and urgent in terms of policy action since a number of regions have already entered the phase of working-age population decline(see *fig.15*).

Although these scenarios, presented in *fig. 14,15*, represent a plausible guess of the future in the absence of unexpected changes, there is still sufficient room for improvement through policy making aiming to extend active life and better valorising the labour supply potential.

The prospect of increased female participation in the labour market raises a number of related issues. Two of them are of particular importance:

Firstly, the question of reconciliation of family and work. The links between activity rates and the demography of the family and households have been shown by a number of studies. For a number of women the birth of a child means that they stop working or, in certain cases, seek alternative part-time employment. Depending on the country, this change prompted by the birth of a child can sometimes be permanent, for any number of reasons, ranging from the availability of child-care services to cultural factors.

Trends in the demography of families will further increase in importance. With increased life expectancy, it is not unusual to find three or four generations living at the same time, and increased demographic ageing is set to make this even more common. Within the family structure, it is usually the woman who cares for elderly people when they become dependent. In future, this burden of responsibility is likely to increase as smaller families mean that the task is spread among fewer individuals.

There has been significant progress in women's sharing working life responsibilities, but very few signs of progress in men sharing family responsibilities. Therefore, there is a risk, not equally distributed among regions, that ageing could increase family charges for women and consequently could raise constraints to their

increasing presence in economic and social life. Promoting the reconciliation of family life and work, both for women and men, could prove an efficient strategy not only for encouraging activity within regions facing labour shortages but also for combating the drop in fertility rates, improving the quality of child care and responding to the growing needs for daily care services for older people⁵.

The household itself has a determining influence on the life-cycle career of its members. Taxation, family benefits, employment management policies and other factors will all have a major impact on the behaviour of family members. Trends in the demography of families and households are going to influence the ability to activate the labour force, and the female labour force in particular, while on the other hand employment policies have an impact on family trends and women.

Secondly, the issue of equal opportunities in education, training, equal pay and career opportunities. These are areas where significant progress has been made over the last two decades.

Nevertheless, women continue to be over-represented in the more vulnerable and lower paid (part-time or temporary) career patterns. Further progress is needed in these areas, given the increasing importance of women participation in the labour force.

Finally, with respect to social protection, the fact that women live, on average, 6 to 8 years longer than men, combined with the relatively small female participation in the labour force over the past decades, gives rise to an increasing number of poor and socially excluded old women insufficiently covered by social protection systems.

In conclusion, the main message coming out of this short analysis on the implications of ageing in the labour market, is that Europe is entering a phase of rapid demographic ageing affecting the basic conditions under which the labour market operates. It is becoming a major structural challenge which policy making at all levels, European, national or regional, public or private, will have to address during the next decade.

⁵ *The need for further promoting policies along these lines has been set out in the Council resolution of Dec. 15, 1997 referring to 1998 Employment Guidelines.*

SECTION: 3

HEALTH AND CARE SERVICES

The state of health in the European Union is better than ever before. This is due to spectacular progress made over the second half of this century in terms of medical research, health services provision and living conditions. However, older people require more, and substantially different, health and care services than younger people. The central challenge of the policy makers is to ensure that future health care policies will provide an adequate and cost effective response to the changes brought about by demographic trends.

The rising cost of the health and care system and the need for structural reform constitute key issues for the present and future of social protection systems. Today the main focus of the discussion on health and care policies can be resumed as follows:

- *how to balance quality and costs;*
- *how to reduce persistent gaps in the equity of the health care systems, improving health conditions among the most vulnerable age and income groups;*

Undoubtedly, the most important demographic trend, concerning the provision of health and care, is the increasing share of the older old age group (over 80 years). At present, the majority of these persons needing permanent assistance and care are attended to at home by their families, while the proportion of professional services provided is still rather low. In the future, families will be less and less able of assuming the increasing care tasks. The role of both formal and informal carers will be of increasing importance. More professional services like home nursing, old age assistance, old age apartments will be needed. The role of the civil society in providing health and care services is also of particular importance.

Increasing education and welfare standards have contributed in extending healthy life. The proportion of older people requiring help with locomotion, self-care or other aspects of domestic work is decreasing. Promotion of healthy life could further reinforce this trend. Progress in medicine could also contribute to this objective. However, medical research has been in recent years predominantly market (rather than cost saving) oriented. Although some technologies can reduce costs in certain cases, taken together, they tend to increase overall spending, not only because they are often more expensive but also since they enable previously untreatable health problems to be treated. Taken full advantage of medical progress would imply more effort for cost containment through preventive policies including healthier nutrition and physical activity. Assistive technology could also help maintaining longer autonomy even in the presence of disability.

Finally, increasing demand for care suggests that the health sector is of particular importance in terms of potential for future employment expansion.

What are the implications of demographic trends for health and care?

50 years of continuous progress in terms of health standards and longevity.

In general terms the state of health in the European Union is better than ever before. This is due to the spectacular progress made over the second half of our century in terms of medical research, health services provision and living conditions. Several indicators provide evidence of this improvement. Since 1970, life expectancy at birth for women has risen by 5,5 years and for men, by almost 5 years. The average life expectancy of the EU population is among the highest in the world and it has been growing steadily. In 1995, it was 74 years for men born in this year, and in the case of women it was more than 80 years. This increase in life expectancy has also had positive effects on the older population: at present a 60-year old woman may expect to live for another 22,9 years, and a man of the same age, 18,9 years.

The changing needs

Older people require more, and substantially different, health and care services than younger people. The central challenge is to ensure that future health care policies will provide an adequate and cost effective response to the changes brought about by demographic trends.

The following factors are typical of the morbidity of older populations:

- Higher incidence : older persons tend to fall ill more frequently.
- Old age diseases : certain diseases like cancer, cardio-vascular disease, physical disabilities and mental disorders are found primarily among the old age group
- Chronicity : older people generally take a longer time to recover from disease and there is a higher risk of diseases turning into chronic conditions. Dementia is a typical old age disease for which

professional care services are often needed.;

- Multi-morbidity : older persons run a higher risk of suffering from several diseases and impairments at the same time.

Concerning the future, although predictions concerning the longer term remain highly speculative, the following developments may be expected for the next 10-15 years :

- due to advances made in modern medicine, mortality rates will tend to decrease though the extent of this decrease cannot be predicted ;
- the advances in medicine might have rather limited effects on chronic diseases and physical impairments among the very old age group.

The future development of old-age morbidity may be assessed as follows :

- the generation that is economically active at present will be more healthy in old age than the present group of older people;
- this decline in morbidity will not be linear and its effects will differ according to age and income group. The increase in the overall state of health will have considerably more positive effects on the “younger” old-age group than the older old age group ;
- as far as dementia is concerned, a considerable increase is to be expected up to the middle of the next century.

Older people and the growing demand for long-term care

Over the next few decades, the proportion of older persons among the total population will steadily rise, especially as far as the older old age group (over 80 years) is concerned.

The absolute number of older people is important in relation to pensions and benefits, but with regard to health and social care it is essential to understand how many of them will need help – whether from

families or services. Due to the advances of modern medicine mortality rates could further decline and life expectancy could rise, though it is rather difficult to make any safe predictions on the effects concerning chronic diseases and physical impairments of the older people. Nevertheless, there is sufficient evidence indicating that the general state of health will be better among the younger old age group.

Studies in Belgium, Italy, the Netherlands and Ireland indicate that the health of the older population is improving (Anderson, 1992). Results from the UK General Household Survey 1994 (OPCS, 1996) suggest that although the population is growing older, there has been little increase in the proportion of infirm or dependent older people. Nearly 40 % of all older people reported that their health had been good over the past year compared with fewer than 25 % who said it had been only fair or poor. This is a slight improvement on the figures from 1980, and suggests that in future years, the proportion of the 65+ population who are unable to look after themselves may not increase as dramatically as often predicted.

Estimating the number of elderly people who will require assistance in the future is hindered by our incomplete knowledge of current levels of dependency in Europe and uncertainties concerning the likely future relationship between changes in life expectancy and changes in disability free expectancy. However, surveys during the European Year of Older People (Walker, 1993) show that altogether somewhat less than one third of people aged 65 and over report receiving regular help or assistance with personal care or household tasks.

Despite these favourable developments, as life expectancy keeps growing, future need of permanent care is likely to increase for the fast growing group of persons over 80. In addition, the number of dementia patients is expected to rise. At present, the majority of persons needing permanent assistance and care are attended to at home by their families, while the proportion of professional services provided is still rather low.

Even if the willingness of the families to take care of their relatives remains the same, they will be less and less able to cope with this task. On the one hand, the trend towards smaller households, which has been observed since the 1980s, will continue in the future. More and more persons in need of assistance and care live at some distance from their relatives, which makes it more difficult for the families to provide informal care.

On the other hand, a rising number of very old persons suffering from chronic age-related diseases would have to be attended to by a decreasing number of children. As a consequence more professional services like home nursing, old age assistance, old age apartments will be needed.

In conclusion, as regards long-term care, it is expected that in the future two tendencies will become predominant:

1. the demand for care services may rise, due to demographic developments and most particularly, to the rising life expectancy of the population ;
2. families will be less and less capable of assuming the increasing care tasks, so the demand for care services provided by the formal sector or civil society is expected to increase.

Organisational, institutional and financial challenges.

Health standards for individuals and populations rely, to a great extent, on the ability of the institutional and organisational framework to adjust itself to changes taking place both in the demand and the supply side. These changes relate to technological progress but also to social and economic trends determining the size and nature of the available resources. The rising cost of the health and care system and the need for structural reform constitute key issues for the present and future of social protection systems. Today the main focus of the discussion on health and care policies can be resumed as follows:

- how to balance quality and costs by means of more appropriate macro and micro measures;
- how to reduce persistent gaps in the equity of the health care systems, improving health conditions among the most vulnerable age and income groups;

To what extent are our health care systems ready to face the ageing challenge?

This question raises several issues. Recent work in the field shows that most of the medical expenditure is related to the last year of life. An increase of deaths due to ageing could then signify increasing medical expenditure.

Post-war economic growth in Europe offered the possibility of a remarkable growth of health care systems and the improvement of health care standards. In 1995, total health expenditure was around 8% of GDP in the European Union, twice the level of 1960. This expansion is mainly due to the increase of inpatient spending and, to a lesser extent, to pharmaceutical costs. However, after attaining peak growth levels in the 70's and 80's, health care expenditure has tended, in the recent years, to stabilise or even, in some cases, to decrease. This stabilisation has been accompanied by a decrease in the share of public expenditure on health, explained by the important budgetary restrictions that public budgets faced throughout the last decade, and also by the rapid growth in private health spending.

So far, the effect of ageing has not been a determining factor in these trends. However, there is evidence that its importance will increase in future years, mainly because of the rapid increase in the number of the older cohort of the population (above 80), with a consequent increase of age specific diseases and daily care needs. Elderly people are most affected by a loss of autonomy. Statistics show that 30% of people over 65 have special needs. This percentage increases significantly after 75.

The increasing number of elderly people especially the substantial increase of the very old, due to demographic changes, will result in a growing number of potentially dependent people with a reduced quality of life. In this area, two considerations are of particular importance. These are:

- the increasing importance of both formal and informal carers.
- the impact of modern technology in extending healthy life but also in maintaining autonomy even in the presence of disability

The increasing importance of carers

The widely quoted survey in Germany (Schneekloth and Potthoff, 1993) shows that 72 % of the main carers of those in need of nursing care (at all ages) are not employed, 5 % are working at a low level, 7 % are employed part time and 10 % are in full employment. However, among carers aged 18-64, two thirds were in employment when caring began ; subsequently, at least a quarter of these had given up work and a similar proportion had reduced their working hours. In the United Kingdom a majority of women of working age who provide care also participate to some extent in the labour market ; and there is evidence to suggest that women who work are no less likely to provide some care for an elderly relative than women who do not. However, data from Britain also show that carers are less likely to be in paid employment than non-carers with carers being more likely to work part time. Numerous studies have found that significant proportions of informal carers state that they have found it necessary to give up their paid employment in order to be able to provide care. Other research has demonstrated that, whatever the rewards of caring (Jani Le Bris, 1993), caring responsibilities can affect work opportunities both at the time of caring (e.g. lost pay from unpaid time off, work interruption, having to change to less well paid but more convenient jobs, reduced hours of work, forgoing shift

work and overtime opportunities) and later | in life (e.g. loss of pension rights).

Table 5. Global comparison of health and long-term expenditure

	Total Spending Long-term care (1992-1995) % GDP	Public Spending Long-term care (1992-1995) % GDP	Share of private Financing Long-term care (1992-1995) % total	Public expenditure health care 1980 % GDP	Public expenditure health care 1995 % GDP	Total expenditure health care 1995 % GDP	Share of private Financing health care 1995 % total
<i>Belgium</i>	1.21	0.66	46	5.5	6.9	7.9	13
<i>Denmark</i>	2.24	n.a.	n.a.	5.8	5.3	6.4	17
<i>Finland</i>	1.12	0.89	20	5.1	5.7	7.7	26
<i>France</i>	n.a.	0.50	n.a.	6.0	8.0	9.9	19
<i>Germany</i>	n.a.	0.82	n.a.	7.0	8.1	10.4	22
<i>Netherlands</i>	2.7	1.8	33	5.9	6.7	8.8	24
<i>Sweden</i>	n.a.	2.7	n.a.	8.7	5.9	7.2	18
<i>U.K.</i>	1.3	1.0	24	5	5.8	6.9	16
<i>Greece</i>	0.17	n.a.	n.a.	2.9	5.5	7.2	24
<i>Ireland</i>	0.86	n.a.	n.a.	7.2	5.2	7.0	26
<i>Italy</i>	0.58	n.a.	n.a.	5.6	5.4	7.8	31
<i>Luxembourg</i>	0.41	n.a.	n.a.	5.7	6.5	7.0	7
<i>Portugal</i>	0.39	n.a.	n.a.	3.7	5.0	8.2	39
<i>Spain</i>	0.56	n.a.	n.a.	4.5	6.2	8.0	23

Source: OECD

Table 6. Concentration of total health expenditures on the elderly people, 1993

	0-64		65+		75+	
	Population (in %)	Expenditure (in %)	Population (in %)	Expenditure (in %)	Population (in %)	Expenditure (in %)
<i>Finland</i>	86.2	61.5	13.8	38.5	5.7	22.1
<i>France</i> ¹	80.4	58.6	19.6	41.4	-	-
<i>Germany</i>	84.9	67.7	15.1	32.3	6.5	16.5
<i>Netherlands</i>	86.9	60.1	13.1	39.9	-	-
<i>Portugal</i>	86.3	64.1	13.7	35.9	5.4	18.7
<i>Sweden</i>	82.5	62.2	17.5	37.8	8.1	21.4
<i>U.K.</i> ²	84.4	58.0	15.6	42.0	6.8	27.1

1. France: 0-59, 60+, 70+

2. United Kingdom: England

Source: OECD

**Table 7. Per capital total health expenditures by age group
(0-64 = 100)**

	Year	65-74	65+	75+
<i>Finland</i>	1990	281	395	552
<i>France</i> ¹	1991	220	296	373
<i>Germany</i>	1994	234	268	317
<i>Netherlands</i>	1994	-	442	-
<i>Portugal</i>	1991	140	169	214
<i>Sweden</i>	1990	230	283	343
<i>U.K.</i> ²	1993/94	254	388	559

1. France: 60-69, 60+, 70+

2. United Kingdom: England

Source: OECD

Taking full advantage of advances in modern technology and medical research.

Modern technology can also play a particularly important role. Assistive technology can help *maintain autonomy even in the presence of disability* and lack of formal / informal supports.

The use of assistive technology is, however, still quite limited in the majority of Member-States and, therefore, estimates of

its effect on preventing the transfer of disabled individuals from home to institutions are lacking, though findings from US studies show that a great advantage could be expected.

It should be noted that the area of assistive technology is extremely important in order to foster informal support. The burden of providing assistance to disabled elderly people falls mainly on family members and

this is the main cause for a growing trend towards institutionalisation.

An additional issue stems from the fact that medical research has been in recent years predominantly market (rather than cost saving) oriented. Innovative medicinal products generally cost more than existing therapies. Yet, it has been estimated that only 15-20% of new therapies are proven to be more cost effective than available alternatives. This increases the risk of an excessive medicalisation of the aged in the future and calls for greater emphasis on evaluation of health interventions. The development of medical technology in the coming years is likely to make an even greater impact on health services and costs than has been the case so far. Important innovations include the use of computer technology and robotics, new diagnostic techniques, genetic engineering and more extensive use of organ transplanting. While some technologies can reduce costs in certain cases, taken together, they tend to increase overall spending, not only because they are often more expensive but also since they enable previously untreatable health problems to be treated.

On the other hand, it has been argued that there is still a lot of room for cost containment improvements through *preventive policies*. Prevention and changing lifestyles could contribute significant gains in reducing disability and extending healthy life. At population level, the two major areas of intervention for delaying the onset of major chronic diseases (such as atherosclerosis, hypertension, metabolic diseases, osteo-muscular syndromes) and preventing their major complications, are *nutrition and physical activity*. Lifestyle also plays an important role. Reducing, tobacco and alcohol consumption in particular, could also provide a significant improvement.

The *nutritional* approach is based on two different tools: a) developing alimentary items with unwanted components (glucose, cholesterol) removed; b) enriching foods through addition of desirable elements

(fortified food with vitamins, minerals, etc.) frequently present in the natural source of food, but lost during their manipulation for market distribution (for instance wheat flour milling). Here, development of technological procedures to improve the quality of the food preparations in both areas, definition of recommended dietary allowances in Europe (still lacking for many EU countries) and the establishment of legislation or regulations for mandatory addition / deprivation of single elements are required.

The *physical activity* approach is based on the fostering of even modest physical exercise, which has been proven to have beneficial effect on various age-related disease, such as diabetes, cardiovascular diseases, hypertension and muscle-skeletal disease. Benefits of physical activity are discernible not only at individual level, but also at societal level, because of reduced demand for medical care, of nursing home institutionalisation and of the increased autonomy of elderly. All these individual and societal advantages have been recognised and promoted by the World Health Organisation, which, has provided guidelines for the promotion of physical activity in any country of the world, regardless of the extent of facilities available.

Implications for the labour market

Finally, increasing demand for care suggests that the health sector is of particular importance in terms of potential for future employment expansion.

The shift towards more individualised health care services, coupled with the increase of long-term care needs, represent a promising area for future labour expansion. In 1992, the health sector at the EU level, employed more than 5,5% of the total workforce. Over the last decade, the health sector has, in most Member-States been at the forefront of job creation. There is a growing dynamism and a lot of new initiatives have emerged, mostly at local level, offering new products and services in this expanding market.

SECTION 4:

PENSION REFORM AND INTERGENERATIONAL SOLIDARITY

The operational and financial structures of publicly funded social protection systems were established decades ago. However, the basic needs to which they respond remain important. The economic and social conditions under which they operate have changed and will keep changing over the next years. Social protection systems will need to be adapted to:

- *The changing nature of work and the need to improve flexibility but also maintain security;*
- *The change in gender balance in working life and the growing importance of gender issues both at work and the social protection;*
- *The implications of demographic change on dependency ratios and the need to expand activity rates and employment opportunities;*
- *The increasing need for co-ordination within the European Union;*

Future financial sustainability of pensions will largely depend on economic growth and the expansion of employment opportunities. Higher economic growth and job creation could open up new positive opportunities. Increasing the number of people in work can have the effect of stabilising or even reducing the dependency ratios of the elderly, despite the increasing age of the population. The decline of the working age population over the next decades may also contribute in fighting unemployment, if the appropriate policy adjustments take place in time.

Finally, informal intergenerational solidarity may also play an increasing role.

In considering social protection reforms, policy makers should take into account all these dimensions. What is needed is a good balance between long-term financial sustainability, intergenerational solidarity and equity between generations.

What are the implications of demographic trends for social protection?

The development of social protection systems in post-war Europe has played a fundamental role in ensuring income redistribution, social cohesion and economic progress. In 1995, total expenditure on social protection in the EU have exceeded 28% of the GDP (see figure 19). Within social protection, old age pensions represent the most important item of expenditure. 42.5% of all expenditure on social protection, that is about 12% of the Union's GDP, goes today on old age (including survivors') pensions; therefore, it clearly represents the largest item of social spending. However, figures vary from country to country. More than 60% of total social protection expenditure is spent in Italy (15.5% of GDP), 46.6% in Austria (13.7% of GDP), down to 32% in Finland (10.5% of GDP) and no more than 25% in Ireland (5% of GDP).

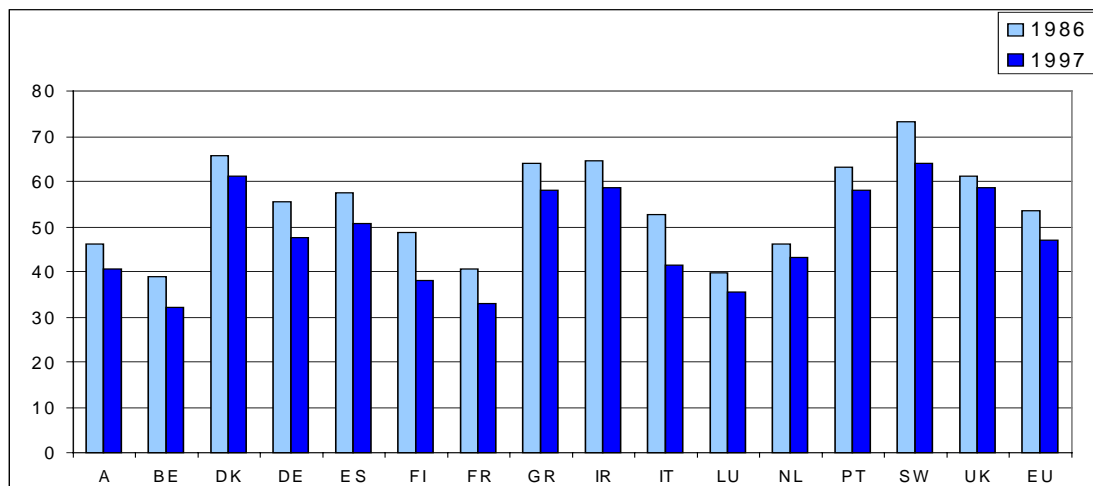
Further to the importance of pension systems within social protection, there are some additional considerations to be taken into account. Unlike many other items of social protection, such as unemployment

insurance or health care, providing those in need of social protection with a temporary financial benefit or benefit in kind, the pension system entails paying transfer benefits on an ongoing basis. Benefits may well stretch over several decades and are therefore associated with a high level of expectation on the part of the people concerned. This applies both to people who are already receiving benefits as well as to those who are about to retire and make plans for the future.

It is also clear that there is strong correspondence between the age at which retirement benefits are available and departure from the labour force. In many cases, pension systems have provided generous retirement benefits at relatively young ages.

However, during the last two decades important changes have taken place concerning the economic and social conditions under which social protection systems operate. People live longer and work less. Economic growth was sluggish for almost three decades and the overall performance in terms of employment was also poor.

Figure 17: Male employment rates (age group 55-64) - 1986*and 1996



*Source: Eurostat Labour Force Survey except Austria, Sweden and Finland.

The initial data for these 3 Member States are taken from National sources and refer to 1985.

Demographic change is an additional factor adding to this background. Future population changes will modify the structure and the size of the population,

which in turn, could further increase older people dependency ratios and social spending.

Reform measures in this field should, therefore, take account of aspects designed to safeguard confidence and stability in the system. In addition, social protection systems need to adjust themselves to the changing nature of work, where a reasonable trade off has to be found between policies designed to provide security and those designed to extend active life and improve flexibility.

Can higher economic growth reduce ageing pressure on public spending?

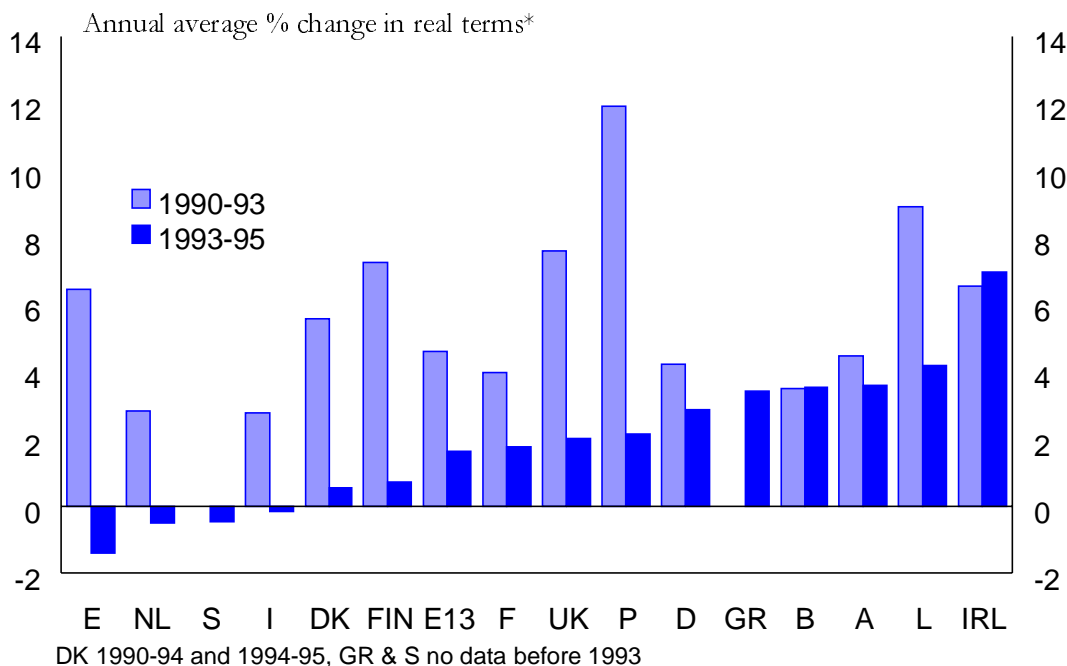
Higher economic growth can alleviate pressures arising from demographic ageing. Fast economic growth signifies increased employment opportunities and more resources to finance social protection. Within this framework, encouraging people to work longer could ensure that transfer

mechanisms operate without creating deficits.

Today Europe enters a period characterised by favourable economic perspectives, for most Member-States; the best since several decades. Growth rates approach 2.7% and forecasts are even more encouraging. Inflation is at historically low levels. Public deficits and external debt are also under control. The European Monetary Union is progressing according to schedule and is expected to generate further economic growth and stability.

This improvement of economic conditions increases optimism that demographic challenges on social protection can be addressed if appropriate policy measures are taken without harming the levels of social welfare attained by the European social model.

**Figure 18: Growth of social expenditure in real terms
In Member States, 1990-93 and 1993-95**



*expenditure deflated by GDP deflator

Why job creation is a key issue for social protection?

Despite the favourable economic perspectives, high unemployment still persists in most Member-States and a lot

remains to be done in this respect. The development of employment systems is of particular significance for the future of pension systems. If the European Union and the Member States succeed in reducing the high levels of unemployment and reverse the important trend towards early retirement, it would be quite realistic to expect that dependency ratios will stop increasing despite the growth in number of the older people.

Demographic projections show that, the share of people over 65 to those from 15 to 64 will grow by approximately one third between 1995 and 2020. If employment rates remain at their present levels, pay-as-you-go pension contributions will have to rise likewise by some 33% to maintain the current level of pensions in relation to earned income levels. However, if the employment rate can be raised from its present level of around 60% to 72% over the next years, the rise in the number of people in work will offset to a great extent, the pensioners increase.⁶ This will take considerable pressure off the financing of pensions.

The high priority placed by the European Union in fighting unemployment, promoting job creation and extending labour market participation is proving to be of particular importance from this point of view as well.

Just how close the relationship is between the labour market and the pension system can be demonstrated by statistical figures. Since the beginning of the 80's, early male exits from the labour market have been steadily increasing. In 1997, at European level, only half of the men between 55 and 65 years of age in the Member States were employed (see figure 17). Since a considerable proportion of those in this age group who are no longer work are either unemployed or have taken early retirement, the potential for relieving the dependency ratios becomes clear. The fall in size of working age population, over the next few decades, predicted by demographic

⁶ See "Some Economic Implications of Demographic Trends up to 2020, Study No5, Economy, 1994, No 56.

projections should be seen as a good opportunity to ease unemployment problems, providing appropriate policies aiming to promote employment of the older workers will be adopted in time.

What are the main priorities in modernising social protection?

The main objective of social protection modernisation is to maintain prosperity in an ageing society. This implies that reforms should ensure that the way societies transfer resources to a growing number of elderly people creates no major economic or social strains.

The reforms needed are not the same all over Europe since, there are substantial differences between Member States in terms of social protection systems but also in terms of demographic and socio-economic conditions. Moreover, several Member States have in the last years implemented important reforms aiming to contain the growth of spending and reducing dependency on social transfers.

However, as mentioned above, there is today a general concern within the European Union about the progress still needed to be made in fighting unemployment. The Employment Summit in Luxembourg and the 1998 Employment Guidelines adopted by the Heads of States and Governments show the determination of the European Union on this objective. Social protection reforms need to contribute towards this common objective. In return, social protection can also benefit from faster employment growth.

This strategy points to the following policy principles:

- Making tax and social benefit systems more employment-friendly by improving the interplay between tax and benefit systems with a view to increasing employment incentives;
- Reducing non-wage labour costs particularly for the low-skilled workers;

- Adapting social protection systems to the new gender balance in working life and to changes in family structures;
- Promoting active labour market policies;
- Promoting active ageing by encouraging older workers to work longer. Promoting active ageing requires changing attitudes not only of the older workers but also of the firms towards hiring and retraining older workers. The co-operation of social partners could play an important role in this process;
- Making the transition from work to retirement more flexible by promoting gradual retirement;
- Providing a secure environment for the development of supplementary pension schemes.

What role does the intergenerational solidarity play?

Since the mid-1980s, in particular, many Member States have been particularly concerned by the high level of social spending caused by slower economic growth and the necessity to stabilise public spending in view of the population ageing and the increasing public spending deficits.

However, in most debates on pension expenditure trends and cost containment,

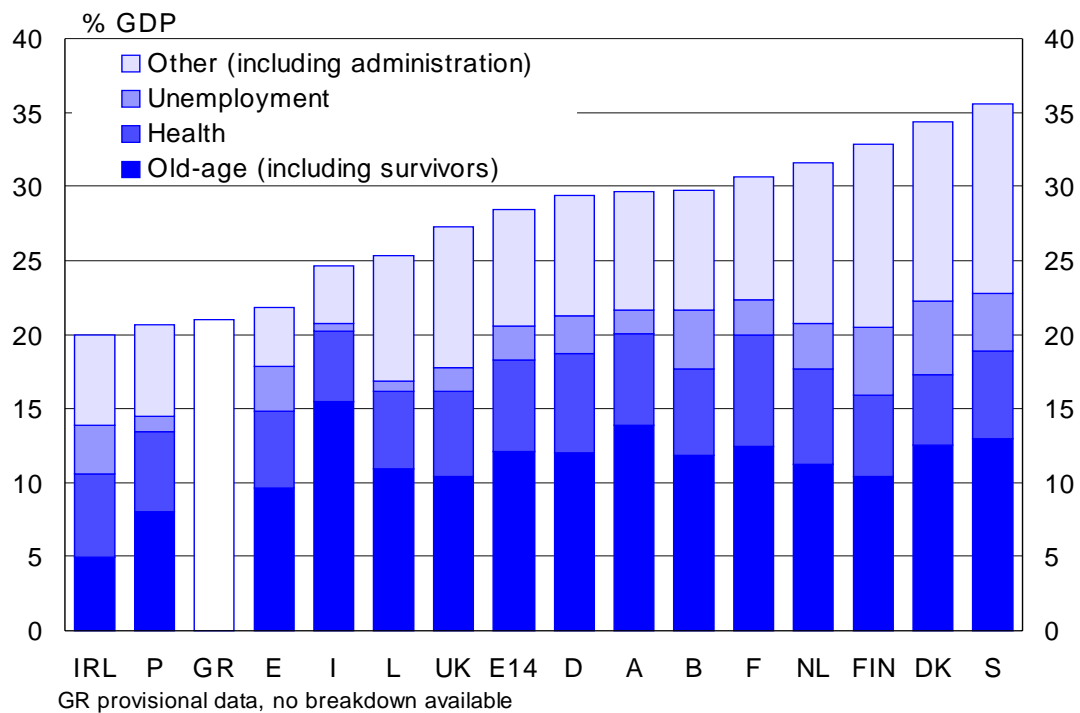
the underlying function of social protection systems is sometimes neglected: social protection systems transfer part of the disposable income of the working population to that section of the population which is not in work.

Our society cannot allow its non-working population to be inadequately provided for. Income transfers between the working and the non-working sections of the population always have and always will take place in some form or the other.

This reflects the underlying concept of intergenerational solidarity which naturally plays a supporting role in ensuring that the systems can be financed on a long-term basis.

However, in addition to the aspect of intergenerational solidarity, the concept of equity between generations is also a major issue which is gaining in importance in the ongoing debate. Attempts to highlight this theme in a broader context are currently being made, amongst other, by means of the so-called generational accounting models; these models may be relevant to some issues of equity between generations as part of pension systems as they attempt to make transfer payments transparent not only in one direction but in both directions.

Figure 19: Total expenditure on social protection by broad function in Member States, 1995



However, an examination of the financial flows within the pension systems alone highlights the limitations of this concept: transfers of benefits in kind and transfers within families are major aspects that should also be included in the equation.

Intergenerational solidarity is not a unidirectional transaction from younger active population to older inactive ones. There are many formal and informal transfers in both directions. It is the total of these transfers that determines the quality of life of both the younger and older

generations. In this context the role of the family and the different kinds of financial, material or immaterial transfers taking place within it, should not be neglected. One should also take into account the growing importance of the civil society and its potential in providing social services.

In considering social protection reforms, policy makers should take into account all these dimensions. What is needed is a good balance between long-term financial sustainability, intergenerational solidarity and equity between generations.