



2. Berlin Demography Forum

Strategies to Keep Prosperity in Ageing Societies

**Remarks by Yves Leterme,
Deputy Secretary-General
OECD**

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Ladies and Gentlemen,

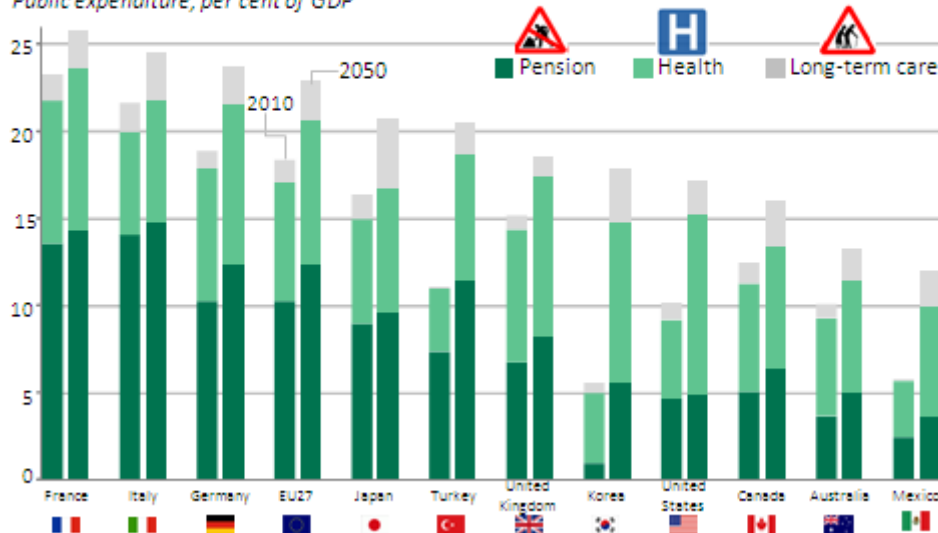
It is a great pleasure for me to participate in the Second Berlin Demography Forum. I would like to thank the organizers for giving me the opportunity to share with you some international experiences with policies to address the multiple challenges of population ageing. Another important point that I will touch on is intergenerational solidarity, how it is evolving in international comparison, and what policy makers can do to ensure that it remains strong.

I will structure my remarks in three parts: first, I will show you how the ageing process in Germany compares to other OECD countries and discuss, in particular, how the speed and patterns of ageing differ between countries. Second, I will outline a few examples of strategic approaches to population ageing that are being developed in other OECD countries. Third, I will report to you the evidence we have found at the OECD on the state of intergenerational solidarity, what influences how generations think about each other and ways that may work to foster good relations between old and young in the future.

[Slide 1]

The fiscal challenge

Public expenditure, per cent of GDP



My first slide shows the fiscal challenge of population ageing in selected OECD countries. European countries, including Germany, show the highest projected spending on pensions, health and long-term care up to 2050. Outside of Europe, Japan has been the demographically oldest OECD country since 2005 which is reflected in high age-related expenditures. The fastest ageing process is happening in Korea, which is the third youngest OECD country today but will be the second oldest in 2050. On current policies, five countries as well as the European Union, on average, will have to spend more than one fifth of their GDP on ageing in 2050. Finding the additional resources to meet these demands on the public purse will be a huge challenge for governments and tax payers everywhere.

So what are countries doing to address the demographic challenge?

Pension reform has been the first and most obvious reaction given the weight of pension spending on public expenditures. In all OECD countries there has been action on this front: Retirement ages have gone up, benefit promises have been scaled down, rules have been changed to offer more rewards for working longer, and more and more countries are introducing ways of automatically adjusting pension rules to demographic change. Germany has been one of the countries showing the way in this respect, not only with its pension reforms but also with its impressive success in increasing the employment rates of older workers.

The second field of action is family policy. Some countries, such as the Nordics and France, have long been putting much emphasis – and resources – on helping parents combine work and family responsibilities; both fertility rates and female employment rates are high in these countries, giving them more space to confront the challenges of population ageing. And more recently, ageing has become a trigger for policy change in countries which were previously lagging behind in family policy.

Demographic concerns are prompting countries such as Japan and Korea, for example, to step up efforts in promoting family-friendly policies. Germany too has advanced in this area but still has a long way to go. The German example, by the way, illustrates the importance of culture and tradition in this area. I was surprised – and saddened - to learn from the recent study of the Institute for Population Research that many German women would rather not have any children at all than to expose themselves to the criticism of being a “Rabenmutter”, a mother who neglects her children. This is impressive proof that providing childcare infrastructure will not be enough. Mentalities will need to change and this is likely to be an even slower process, and one that policy makers have less power to influence.

Unfortunately, the window of opportunity is closing fast. We are facing societal change of an unprecedented scale. For most of us it is very difficult to even imagine what a so much older world will look like and what the implications for the many facets of our daily lives will be.

To respond to this challenge, many OECD countries have launched strategic frameworks on population ageing. Often, however, these do not take a very wide perspective. They focus primarily on older people, on their material and financial needs, on their contributions to society, and on necessary adaptations of their environments to enable healthy living in their home setting. Examples are the Ageing Well Programme in the United Kingdom, the National Positive Ageing Strategies in Ireland and New Zealand, the Strategy for Positive Ageing in Nova Scotia, Canada, and also the Madrid Plan of Action on Ageing, which has a more global perspective and includes developing countries.

These strategies have in common that they stress the positive aspects of ageing rather than the challenges and tend to address also regional, local and community issues. The fiscal implications, on the other hand, are often treated separately in Ministries of Finance, while other aspects, such as spatial dimensions of ageing or environmental impacts are covered by the respective Ministries. An important exercise to assess the financial impact of ageing is also undertaken at the European level by the so-called Ageing Working Group which projects future ageing expenditures for EU member states.

While most national plans on ageing do mention the need for an intergenerational approach, the concerns and needs of younger people are often not addressed in nearly as much detail as those of the elderly, leaving out a crucial aspect of mastering the ageing challenge. With high levels of youth unemployment, increasing social hardship and political discontent of this group in many countries around the world this omission is a serious problem.

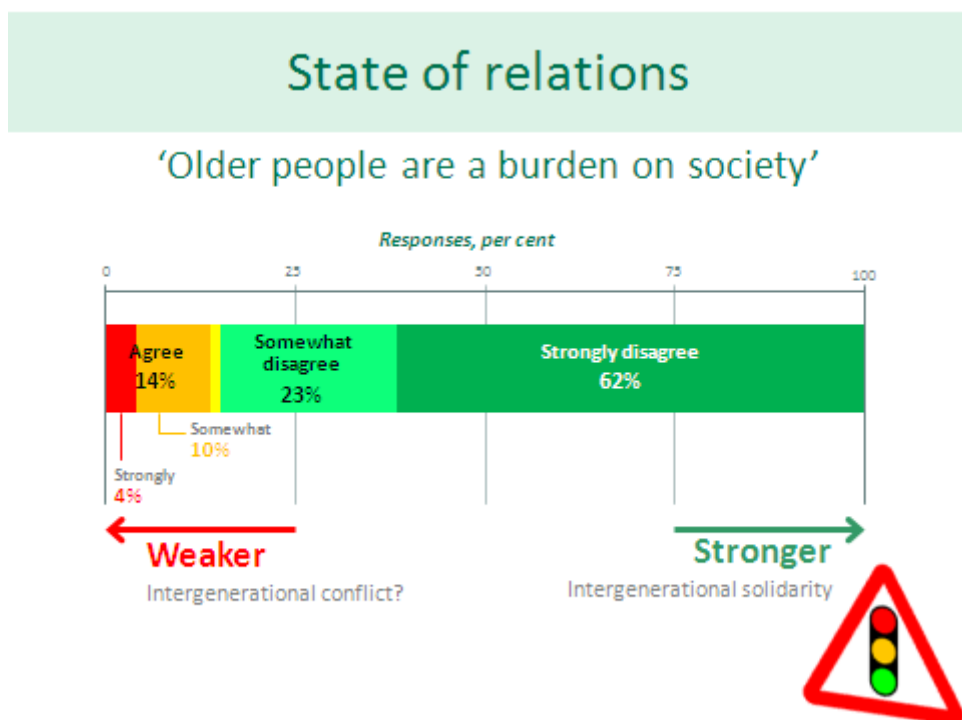
I would like to mention just one good example from a country outside of Europe which is addressing demographic change in a holistic manner: Australia. Since 2002, the Australian Treasury has the obligation to publish an Intergenerational Report every 5 years. The report initially focussed on budget projections but has become much broader over time, including issues such as climate change, education and the overall well-being of Australians. The series of intergenerational reports has resulted in projection tools for policy makers which can provide guidance for the difficult decisions and trade-offs they face. The Australian example is also interesting in another respect: It is one of the countries with lowest projected increase of age-related spending and nevertheless very pro-active in addressing the challenge.

Germany, of course, is also working on a comprehensive demography strategy and it will be interesting to see not only which areas will be included in this strategy but also how the strategy will translate into concrete policy action for the years to come.

Let me now turn to the issue of intergenerational solidarity. Often this term is interpreted only as one way: younger workers paying taxes to support older people's pensions and healthcare costs. But the exchanges go in both directions. Forwards, towards younger generations, are investments in education, infrastructure, innovation and environmental protection. Backwards, to older generations, are pensions and public and family care for older people. This two-way exchange works well in times of demographic balance, but less so when the population is ageing and there are less and less young people for each retired person.

To get a better grasp of the concept of solidarity, we looked at a Eurobarometer opinion survey which included a question on people's attitudes towards older persons. And here the news is good.

[Slide 2]



When asked the rather provocative question “Are older people a burden on society?” the majority of people in 22 European countries disagreed. As you can see in the graph, 62% of respondents disagreed strongly with this statement with a further 23% somewhat disagreeing.

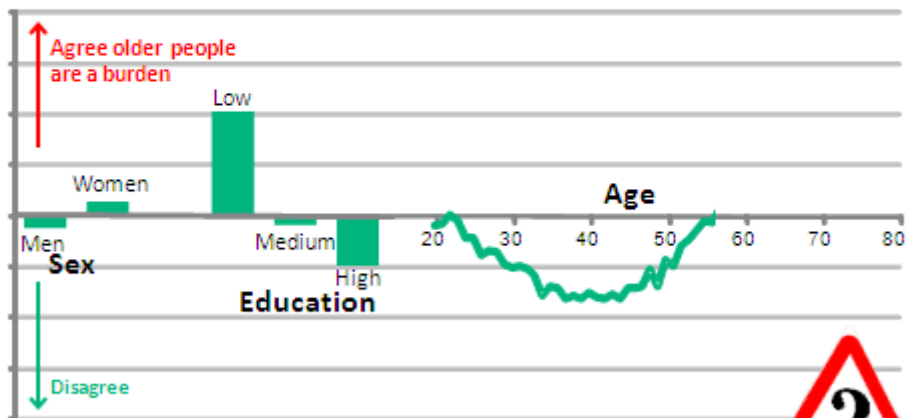
We wanted to know a bit more detail about these responses, in particular what the different age groups thought, but also whether there are gender differences and how the responses vary with the education level. Here are the results:

[Slide 3]

Attitudinal patterns

'Older people are a burden on society'

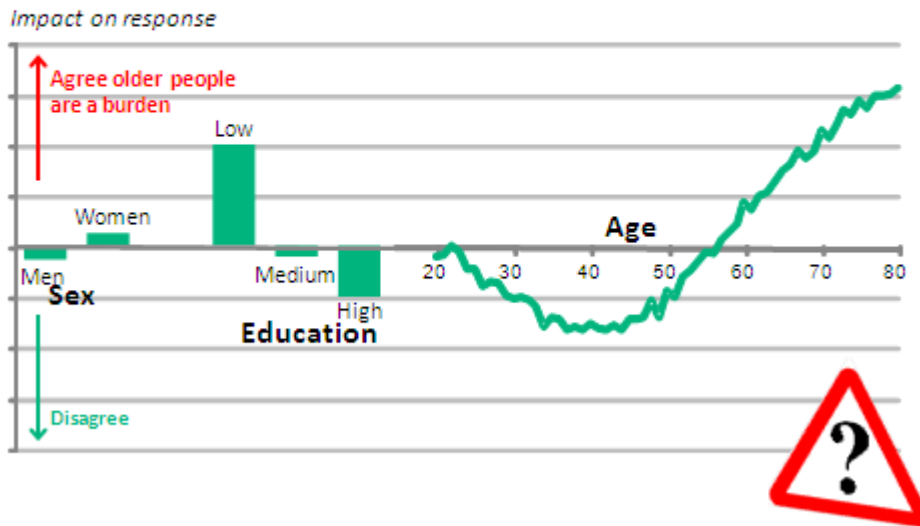
Impact on response



Women are slightly more likely than men to think that older people are a burden on society as are people with lower levels of education. People aged between 40 and 50 years are most likely to disagree that older people are a burden, while those in their 20s are somewhat less likely to disagree. But if we move on to higher ages the attitude changes quite dramatically:

Attitudinal patterns

'Older people are a burden on society'



[Slide 4]

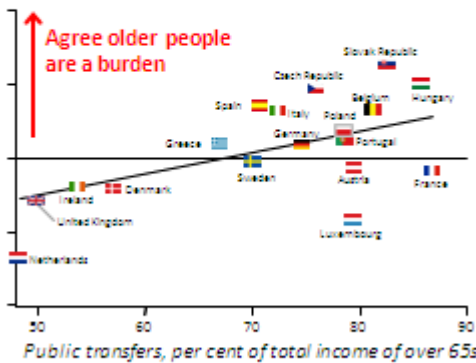
Interestingly, it is older people themselves who are most likely to think that they are a burden on society, with people aged 55 and over more likely than average to agree with the statement used in the survey and the impact gets stronger with age. This result also tells us something about the state of relations in our societies and that we perhaps must work more on convincing older people that they have a role to play in our societies than explaining this to younger generations.

We were also interested in how the structure of retirement incomes affected people's attitudes.

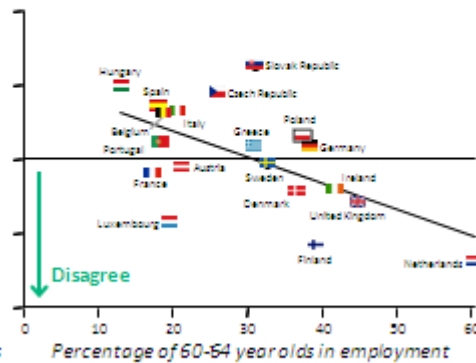
[Slide 5]

Explaining the patterns

Retirement-income systems:
role of the state



Labour-market conditions:
older workers



This slide shows that people in countries where public pensions play an important role are more likely to agree that older people are a burden than in countries where transfers make up a smaller share of retirees' incomes. We also examined the link between employment rates of people aged 60 to 64 and attitudes. While the link is weaker it still shows that intergenerational solidarity is stronger where more older people are in work. Of course, there are also other factors at play but still this does give some indication of the impact of pension policies and retirement patterns on attitudes.

All too often we focus on public transfers only when we discuss the ageing challenge but these are not the end of the story. Private transfers between generations – both in form of time and money – are substantial. Our analysis shows that people aged 50 and over are much more likely to be *givers* than *takers*. On average, more than 30% of them give time – typically in form of childcare – and the same proportion give money. Less than a quarter of older people benefit from time given by others and less than 7% receive money. Most of these transfers take place within families but older people also give time to non-relatives.

Policy makers in a few OECD countries now explicitly recognise grandparents' roles. Australia, for example, introduced a grandparent childcare benefit in 2005, which pays money to grandparents solely or mainly responsible for the child to cover the cost of childcare for up to 50 hours a week. Parental benefits can be taken by Czech, Russian or Slovenian grandparents if they provide childcare and the parents agree to transfer their entitlement..

These policy practices show that governments can take measures to explicitly recognise the contributions of older people and thus foster intergenerational solidarity in a more formal way. The fact that intergenerational solidarity is still thriving is good news and governments should build on this to strengthen the ties between old and young. There is space for better communication, creative solutions and innovative approaches, which should be designed in consultation with all generations. This short trip around the world has shown is that, even there is no magic bullet, there are a number of good international examples from which Germany can take inspiration.

Thank you very much for your attention.