Ageing societies: The benefits, and the costs, of living longer

Population ageing, defined as a process which increases the proportion of old people within the total population, is one of the main problems of this century. It affects or will affect both developed and developing countries. It appears on the agendas of meetings of all kinds, from the G8 conferences to the North Atlantic Treaty Organization (NATO) summits. According to a report for a recent meeting of the International Social Security Association (ISSA), this does not mean, however, that all the necessary action has been taken yet.

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The population of developed countries is ageing fast, and the developing world is only a few decades behind. The proportion of the population aged 65 and over is expected to triple in less developed countries over the next 40 years, rising from 5.8 to 15 per cent of the total population, while in the more developed countries this figure is expected to rise from 16 to 26 per cent (an increase of more than 60 per cent), the ISSA report says.[1] In other words, in the developed countries one person in three will be a pensioner. [2]

Japan has the oldest population, with more than 22 per cent of its population aged 65 and over. This figure is 20 per cent in Italy and Germany; and in the Southern Cone of America, Uruguay has the oldest population with almost 14 per cent of its population aged over 64. This tendency will increase everywhere by the year 2050; in Japan, for example, there will be only one child under 15 for 3 adults over 64.

The figures clearly show that the ageing process is accelerating, with the number of old people expected to double at the world level.

> The challenge for the future is “to ensure that people everywhere can grow old with security and dignity and that they can continue to participate in social life as citizens with full rights”. At the same time “the rights of old people should not be incompatible with those of other groups, and reciprocal intergenerational relations should be encouraged.”
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> *(United Nations, World Population Ageing 1950-2050, Population Division)*

“Population ageing should be seen as a success story in the history of mankind, but nevertheless it brings problems at the familial, community and national levels, affecting their ability to provide for older generations. The rapid increase in the size of older age groups means changes in personal needs. The tendency towards deteriorating health, for example, means an increase in the demand for care for these groups,” explains Adriana Scardino, chief of the Office of Actuarial and Economic Evaluation in the Social Insurance Bank of Uruguay and author of the ISSA report.

What’s more, the fact that women live longer than men leads to a higher proportion of women in these at-risk groups. Worldwide, women now account for 55 per cent of the population aged 60 years and over. Among the very old (aged 80 and over), women are almost twice as numerous as men.

These women are likely to be widows, and to have acquired less education with fewer years at work and therefore more restricted access to social security. Special attention needs to be paid to these realities when deciding upon public policies concerning health, housing, social services and pension systems.

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1 Adriana Scardino, Improvements in life expectancy and sustainability of social security schemes, report for the International Conference of Social Security Actuaries and Statisticians, Ottawa, Canada, 16-18 September 2009.

2 The study covers Argentina, Chile, Germany, Italy, Japan, the United States and Uruguay.

The viability of long-living societies will depend on the adaptability of labour markets and the sustainability of social protection systems.

The greying of the workforce

Ageing has a direct impact on the labour market, since improvements in life expectancy affect individual behaviour in deciding to remain in work longer.

"In this context, we should remember that changes in employment have a direct impact on the sustainability of pension schemes, both public and private. The labour market has an impact on pension schemes, while they in turn affect the decisions made by older workers to retire or remain in the market," explains Mrs Scardino.

The numerical relationship between those who are in a position to be economically productive (14 to 64 years old) and those who are dependent (aged 65 and over) clearly shows the impact of the age structure in a society. There are fewer and fewer people in the productive age group able to provide support and protection for old people as years go by.

The problems of population ageing go hand in hand with economic growth and rates of participation in the labour market, and force us to analyse the need to change direction as regards the trend towards early retirement.

"Generally speaking it is safe to say that senior citizens who choose to remain in the labour market and to postpone their retirement generate additional income which will contribute to the financing of pensions. Probably, most young people take it for granted that they will work longer than their predecessors. However, it is more difficult to convince employers that they should keep older workers on their payroll and that it is worthwhile to do so," explains Mrs Scardino.

Will health care costs get out of hand?

Public expenditure on health soaks up a large part of government budgets. According to an OECD report,[3] the over-65 age group accounts for 40-50% of healthcare spending and their per capita healthcare costs are three to five times higher than for those under 65. And there are fears that public expenditure could rise as ageing in OECD countries accelerates.

The phenomenon of population ageing is directly related to what is known as "health transition" which is developing throughout the world, even if at different speeds and indifferent ways.

Health transition, also known as "epidemiological transition" is defined as a series of interconnected changes which include the change from high to low fertility rates, a steady increase in life expectancy at birth and at advanced ages and a transition from predominantly contagious diseases to non-transmitted diseases and chronic conditions.

In Uruguay, the average figure for "healthy life expectancy at birth" is 66 years. In Italy and Japan it is over 70, at 72.7 and 75 respectively. Individual access to health services and care, which includes disease prevention, means that health promotion throughout life must focus on prevention and on delaying the onset of illnesses and disabilities, as well as on improving the quality of life.

Access to medical assistance and adequate social services are an essential part of social security and a prerequisite for healthy aging. Consideration of ways in which to improve the systems in order to prevent certain illnesses connected with old age or improve their treatment could simultaneously improve the wellbeing of old people and lead to more rational use of resources.

Reform pressure on pension schemes

Ageing will affect pension schemes in at least two ways: beneficiaries will be more numerous and they will claim benefits over a much longer period than at present.

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3 Dang T., Antolin P., Oxley H., Fiscal implications of ageing: projections of age-related spending, OECD Economics Department Working Paper, OECD, 2001.

In many countries the statutory age of retirement has remained the same in spite of the demographic changes. Furthermore, many people retire before reaching the official age of retirement to take advantage of early retirement incentives, which makes the situation even worse.

One of the biggest challenges will be to guarantee adequate income for old people without creating an unbearable load for the younger age groups. In a few countries such as Japan or Italy, where there are only just 1.5 active workers for each one who is passive, the situation will be very difficult to keep under control. The systems will have to be reformed, and probably workers will have to remain in the labour market longer.

Historically, the impact of the demographic factor was not taken into account, mainly because most of the social security institutions were not originally intended to cover the entire population. The demographic factor began to become evident only when benefits began to be extended.

Population ageing is an issue which is currently causing increasing concern to social security schemes, particularly those financed through pay-as-you-go (PAYG) systems, which operate best when the relative number of contributions and beneficiaries under the system are fairly stable. The main problem facing us is the increasingly high number of persons reaching retirement age compared with the number of active workers.

Social security systems are a social and economic necessity, but the modification of such wide-ranging financial systems raises problems of political and economic options which are not easy to resolve.

“The challenge goes far beyond the limits of change in the financial structure, including the public private dichotomy, and is better focused on clear redefinition of the objectives and instruments; in this context it can include various types of institutions, which complement each other in order to achieve the goals of social security more effectively,” concludes Scardino.