

# Population Ageing and Fiscal Sustainability: Long-term projections for the EU 2012 Ageing Report

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RIDING THE POPULATION WAVE: POLICY OPTIONS FOR THE AGEING BABY-BOOMER GENERATION IN EUROPE  
Warsaw, 17 May 2012



# Outline

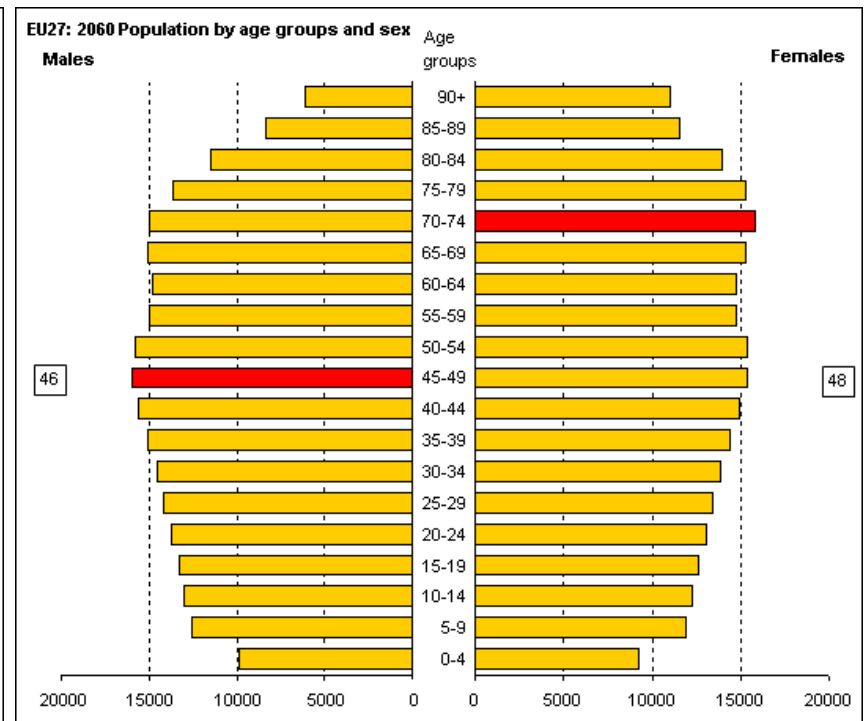
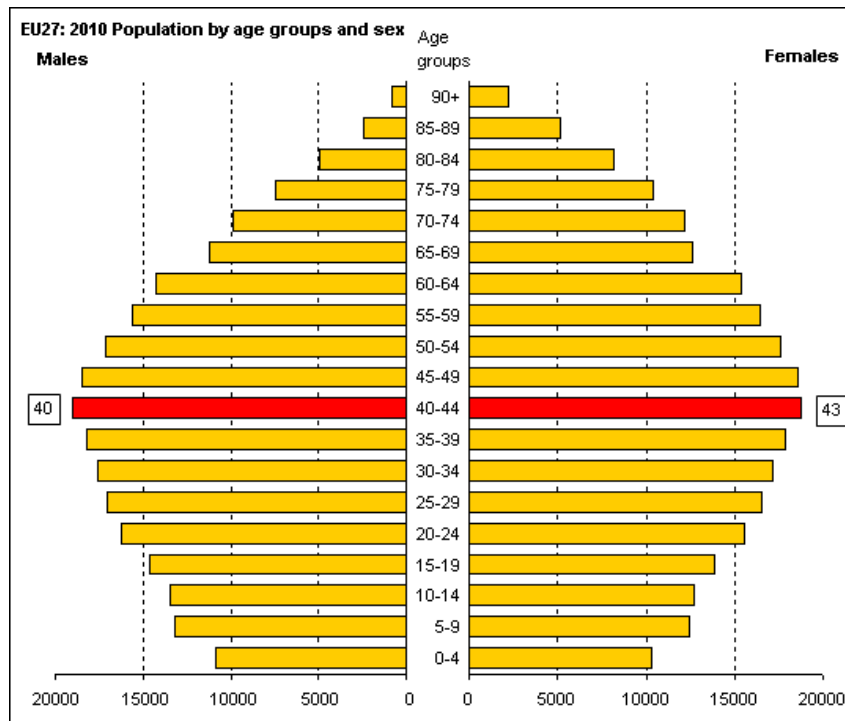
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- Longer-term challenges – 2012 Ageing Report
  - Demographic prospects
  - Economic impact of ageing populations
  - Implications for pensions
  - Overall budgetary effects of ageing populations
- Policy challenges/reform options

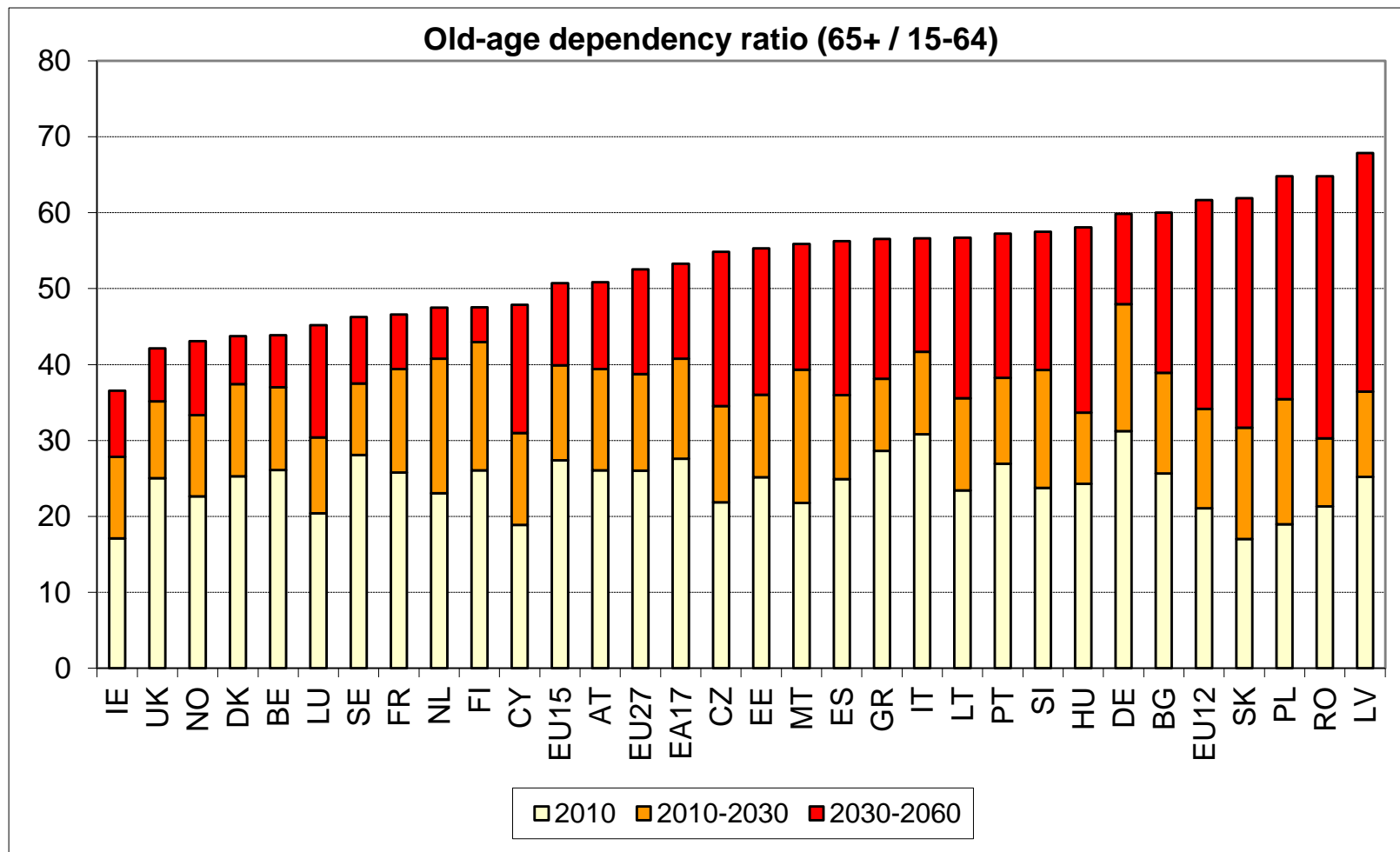


# Population projections: EUROPOP2010

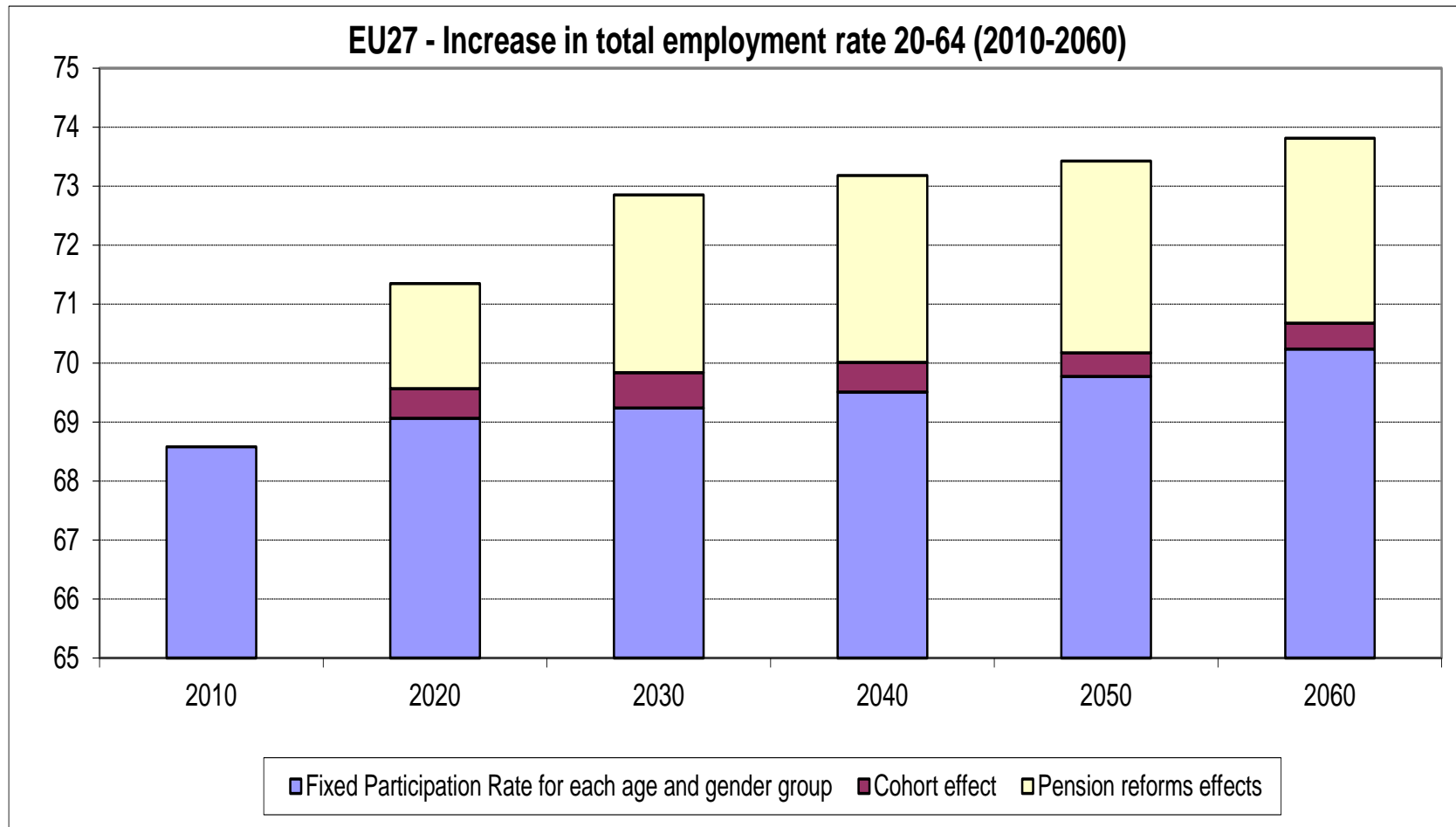
## European Union



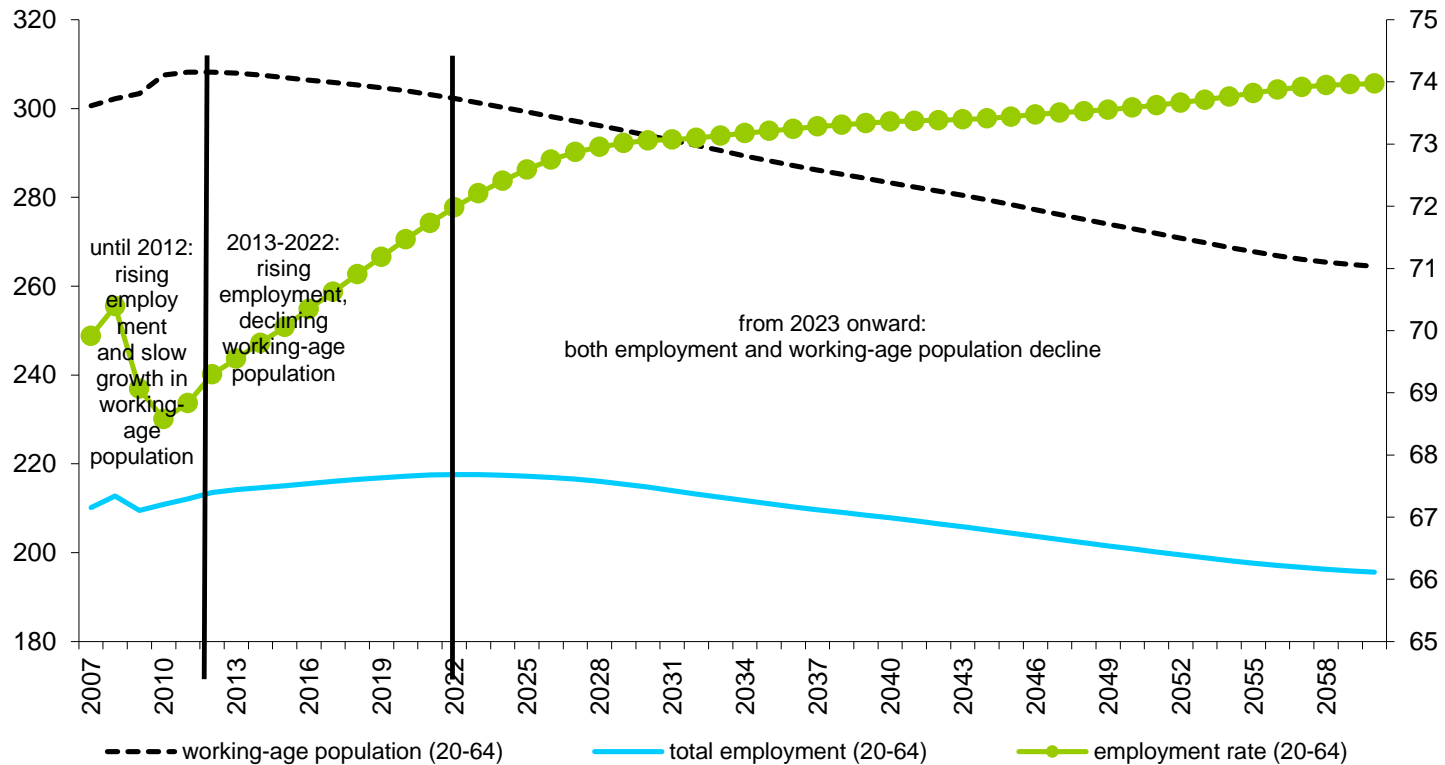
# Population projections: Old-age dependency ratios



# Pension reforms matter: employment impact



# The consequences of ageing populations on employment



**Phase 1 : rising employment and slow growth in working-age population.**

**Phase 2 : rising employment, declining working-age population**

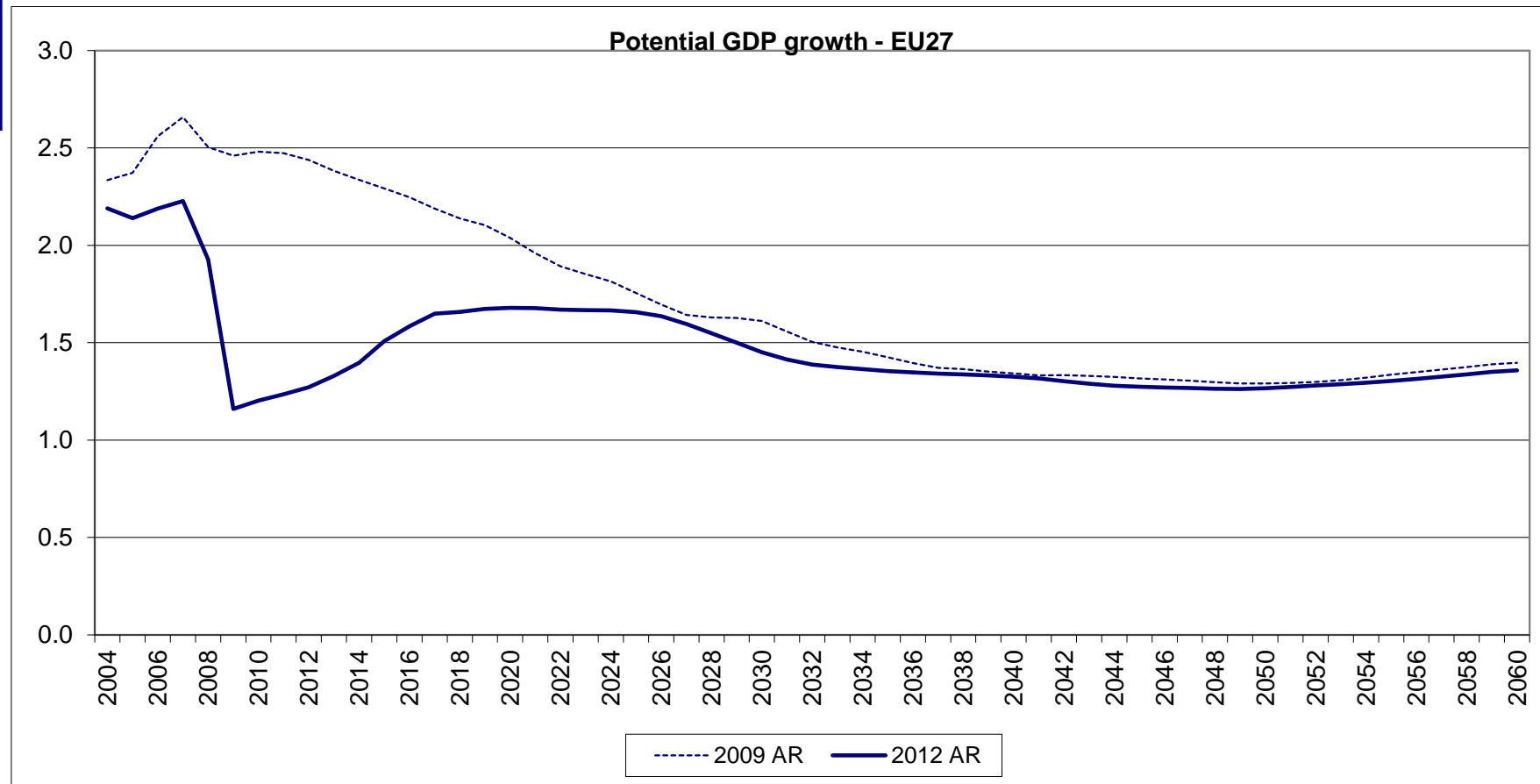
**Phase 3 : both employment and working-age population decline**



# Potential growth rates decline

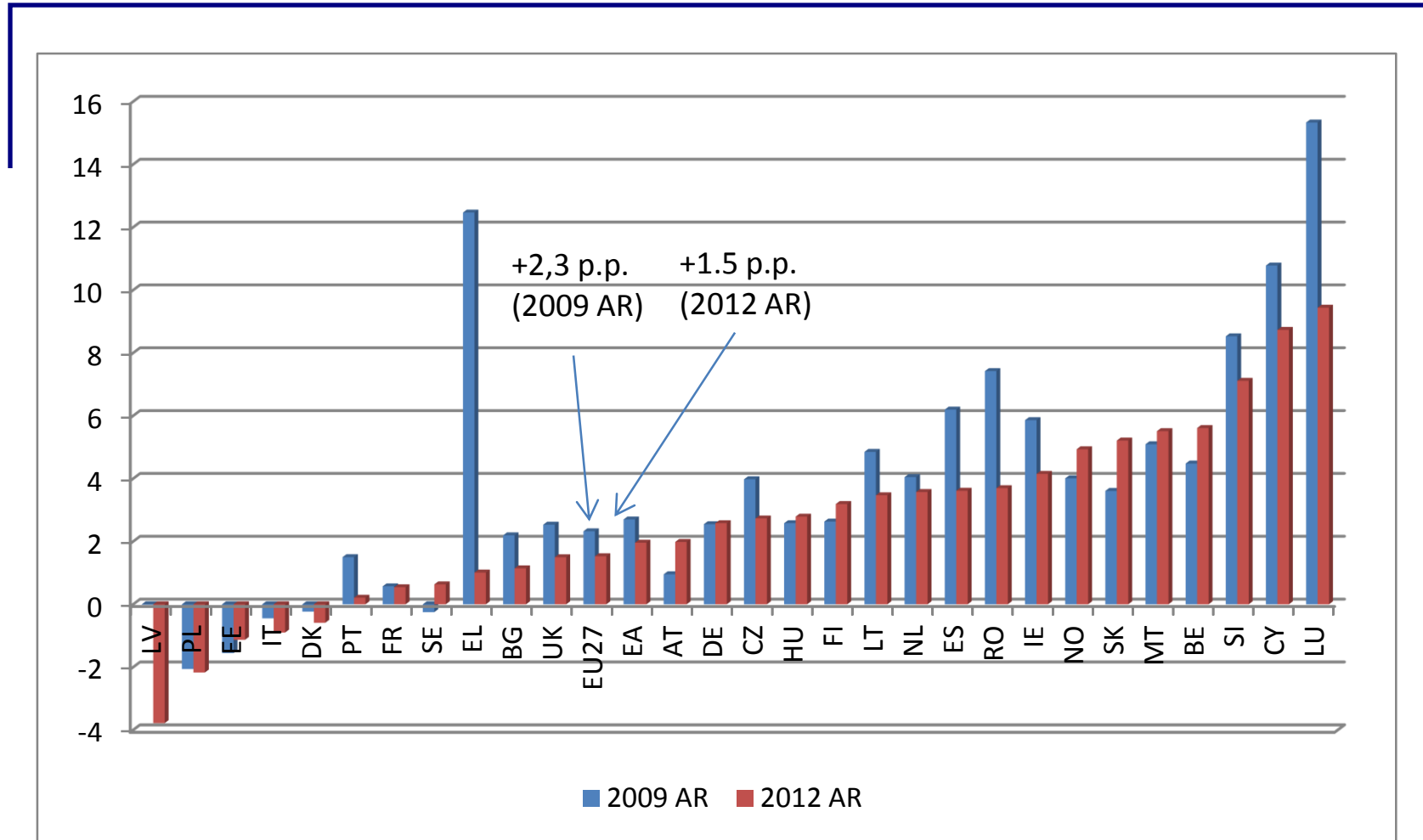
due to shrinking working age populations

Productivity (+1.5 %) becomes the dominant source of growth



# Progress with pension reforms: spending

(change 2010-2060 in percentage points) - 2009 and 2012 AR

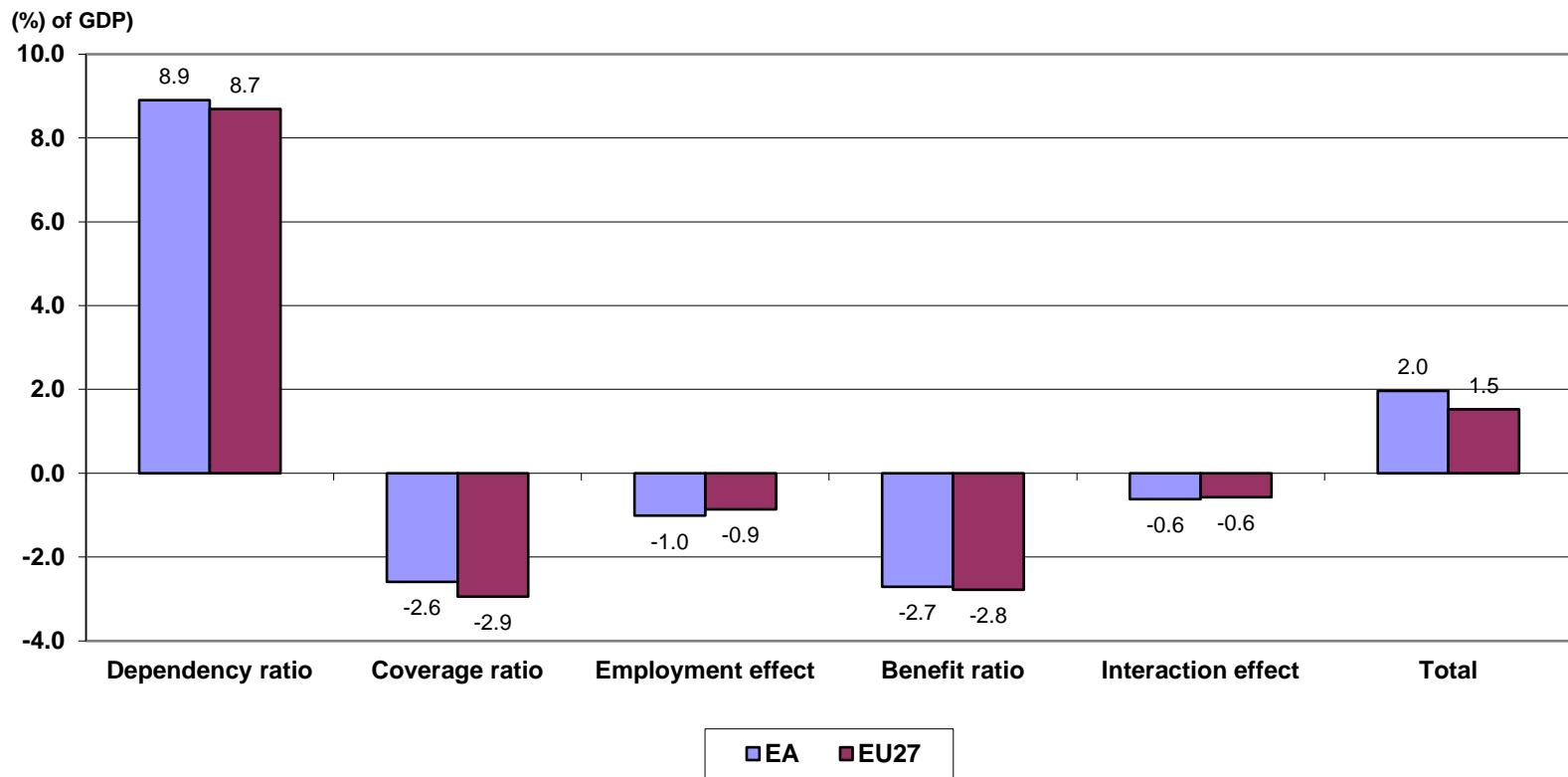




# Decomposition of the increase in pension expenditure

$$\frac{\text{PensExp}}{\text{GDP}} = \frac{\text{Pop}_{>65}}{\text{Pop}_{(15-64)}} \times \frac{\text{Pop}_{(15-64)}}{\text{EmplNo}} \times \frac{\text{PensNo}}{\text{Pop}_{>65}} \times \frac{\text{PensExp}}{\text{PensNo}} \times \frac{\text{GDP}}{\text{EmplNo}}$$

Dep. effect
Empl. effect
Coverage effect
Benefit effect



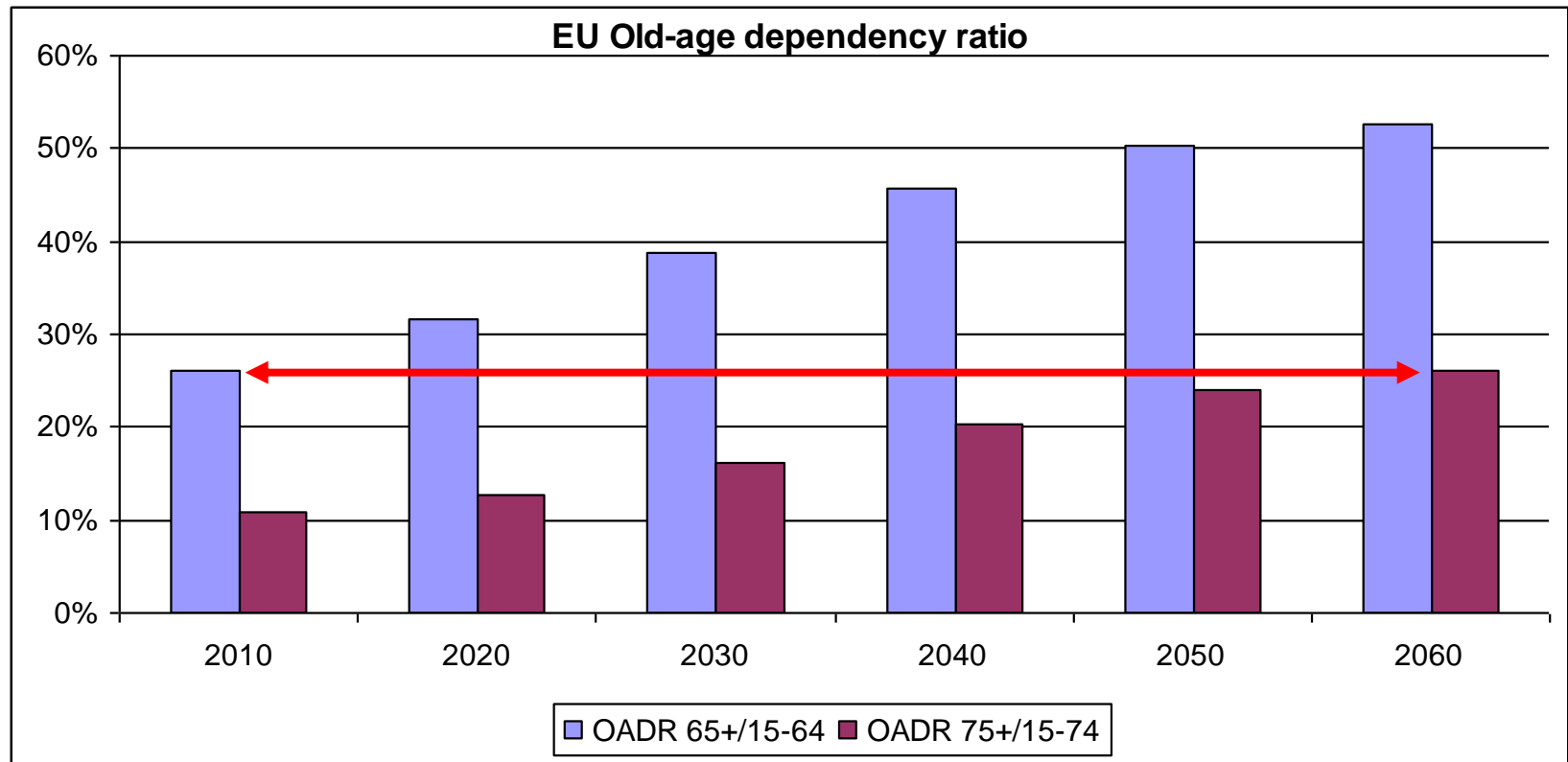
# Ageing or retirement problem ?

## Adult life spent in retirement EU27

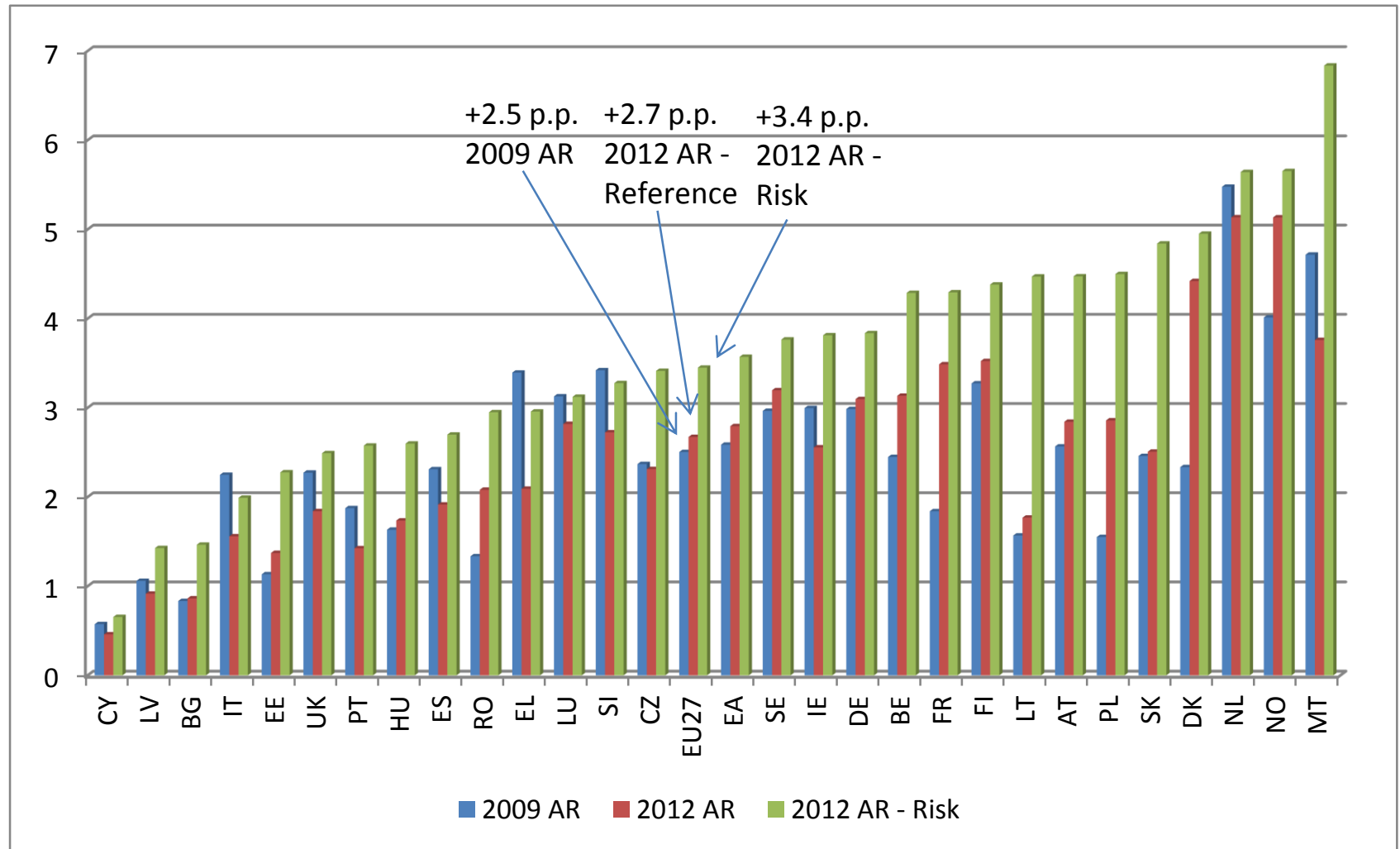
	Men		Women	
	2010	2060	2010	2060
<b>Employment rate of older workers (55-64)</b>	54.5	66.7	38.6	60.3
<b>Average entry age</b>	21.6	21.6	23.6	23.6
<b>Average exit age</b>	62.5	64.3	61.7	63.8
<b>Life expectancy at the time of withdrawal</b>	18.9	22.7	22.7	26.0
<b>% of adult life spent in retirement</b>	31.7	34.7	37.4	39.3
<b>Requested exit postponement in years (to keep % life spent in retirement constant)</b>		2.0		1.3



# Old-age dependency ratios: there a need to re-think what 'old' is

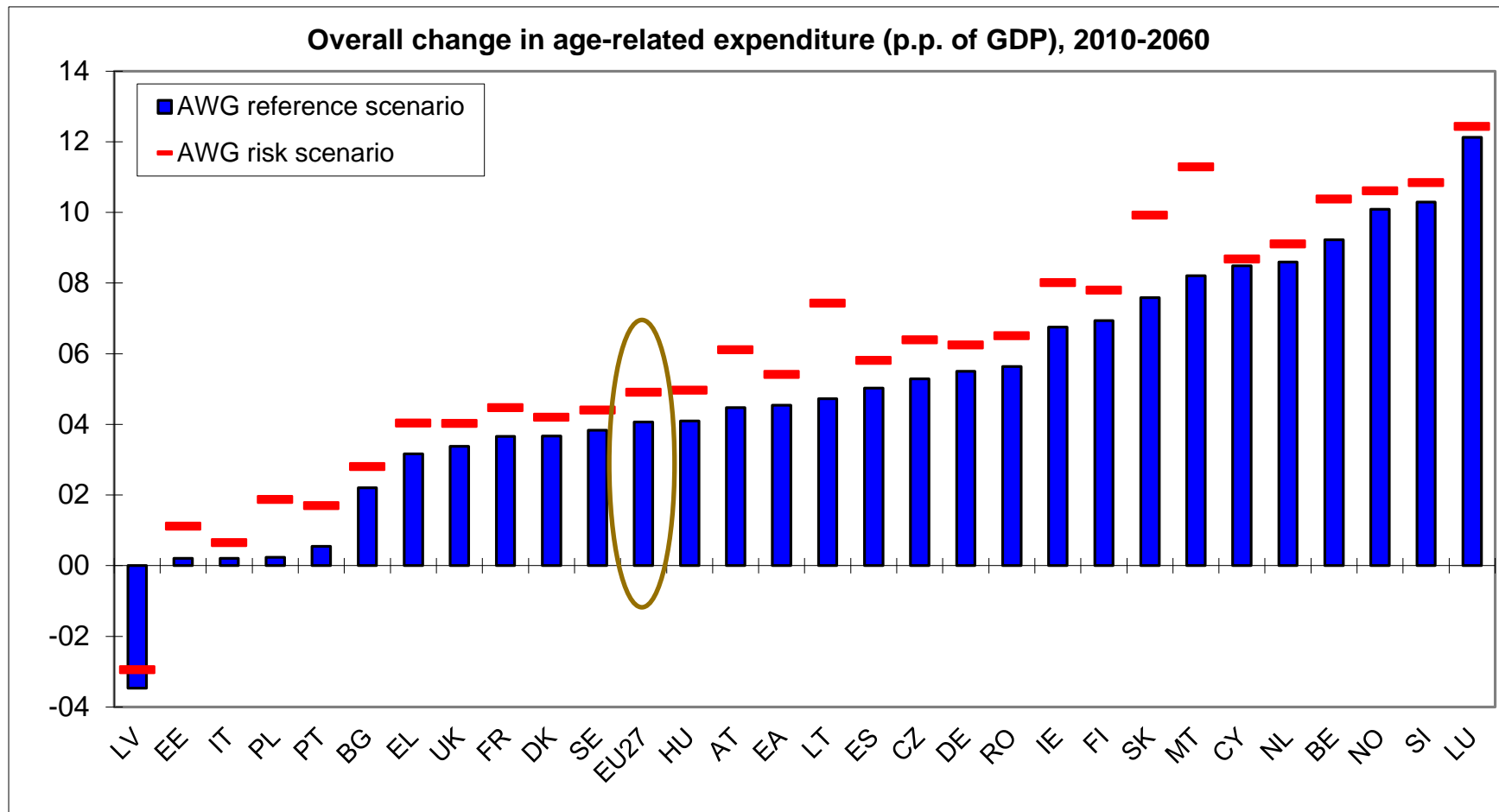


# Coping with care-related spending trends (health and long-term care) remains a major challenge (change in p.p. of GDP, 2010-60)



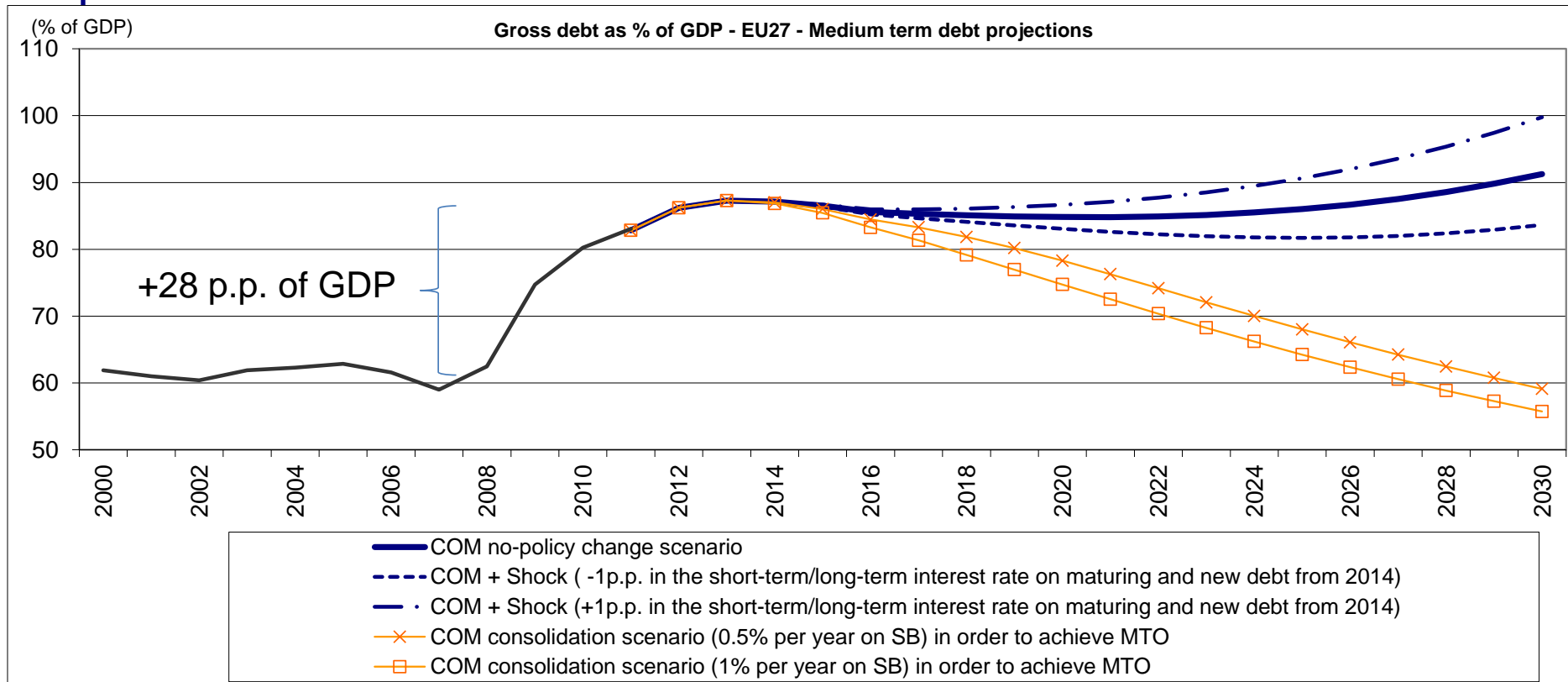
# The Cost of Ageing, variety in the EU

(change in percentage points)



# Medium-term debt projections under alternative assumptions – EU

**Daunting fiscal challenge: sustained consolidation needed bring debt ratios towards 60%**



Source: Commission services



# The challenge of transforming the European social models to be fit for the future

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**Mario Draghi**  
**(President, ECB)**

**"You know there was a time when Rudi Dornbusch used to say that the Europeans are so rich they can afford to pay everybody for not working.**

***That's gone.*"**

*WSJ, 27 February 2012*



# Policy challenges/reform options (1)

- **Europeans living longer than ever before**, and hopefully in good health, **is an enormous achievement** for societies and should not be seen as a threat
- *The sooner* measures to improve fiscal sustainability are identified and implemented with determination *the better*
- the Commission takes a comprehensive approach with the **Europe 2020 strategy**, with a focus on pension policies:
  - *Annual Growth Survey 2012*
  - *White paper on pension*





# Policy challenges/reform options (2)

- On pension policies, **the EU is facing a retirement challenge and not an ageing challenge**, stemming from European social models of yesterday not being apt for tomorrow, affecting expectations and behaviour of the population
- The Commission set out its line in the **2012 Annual Growth Survey** on pension-related issues:
  - *upward **adjustment of the retirement age**, linking it with **changes in life expectancy** in the future*
  - ***restricting access to early retirement***
  - *encouraging the **development of supplementary pillars** so as to support retirement incomes in old age*



# Policy challenges/reform options (3)

- Moreover, the transformation of the European social models and notably the organisation of provision of health care need to be intensified to support jobs, growth and sustainability
- Bold reforms are needed to make progress towards smart, sustainable and inclusive growth for all in Europe



**The 2012 Ageing Report can be found  
on DG ECFINs website:**

[http://ec.europa.eu/economy\\_finance/publications/european\\_economy/2012/pdf/ee2\\_en.pdf](http://ec.europa.eu/economy_finance/publications/european_economy/2012/pdf/ee2_en.pdf)

***Thank you for your attention!***

