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COMPACT

RIDING THE POPULATION WAVE

Policy Options for the Ageing Baby-Boomer Generation in Europe

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Key messages:

- Resistance against an increase in the retirement age is often based on myths that do not stand up to scientific evidence.
- The economic burden of population ageing is not a demographic destiny, but depends on the productivity of tomorrow's workforce.
- Policies should promote information campaigns, life-long learning activities, and measures to support a comprehensive work-education-life balance.

EUROPE'S SHRINKING AND AGEING WORKFORCE

IN EUROPE, population ageing is universal and inevitable. Neither immigration nor increases in fertility rates can offset that in 2060 the share of the population aged 65 and over will have risen from 17 to 30 per cent. At the same time the population of those aged 80 and over will become almost as numerous as the population under 15, increasing to 12 per cent (European Commission, 2012). As a consequence, Europe's labour force will shrink and become significantly older. Population ageing, therefore, will not only exert pressure on pension and health care systems, but could represent a threat to economic prosperity.

FIVE MYTHS ABOUT AGEING AND WORK

MANY LABOUR MARKET AND PENSION REFORMS that are essential for future economic and social stability have been delayed or rejected due to popular resistance. This is especially true in regard to increasing the age of retirement. However, our understanding of the retirement age is often based on a number of myths that are highly questionable in light of scientific evidence from the Survey of Health, Ageing and Retirement in Europe (SHARE).

MYTH 1: Older people cannot work because they are unhealthy. Health is not the primary cause of retirement in Europe. Seniors perceive themselves as relatively healthy and also perform well on the level of objective measures (see Figure 1). Although there is a decline in health between ages 60 and 69, it is much smaller than the variation within each age group. A flexible retirement age would be much more effective in dealing with these differences than a fixed age: people with health problems need to retire earlier whereas most people could easily work longer.

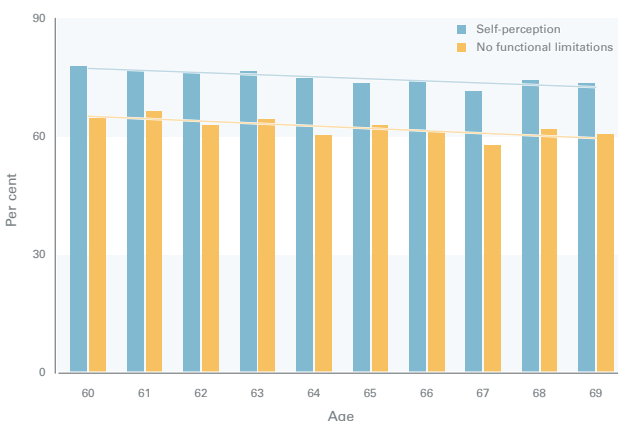


Figure 1. Self-perceived health status and functional limitations of the population 60+, 2004 – 2007 (self-perception: own health is perceived as good, very good or excellent; no functional limitation: no limitations in 10 activities of daily living; countries: AT, BE, CH, DE, DK, ES, FR, GR, IT, NL, SE)
Source: SHARE

MYTH 2: Older people should not work because they are much less efficient than younger workers. Research from manufacturing companies has shown that although older people tend to make small mistakes more often than young people, the errors young people make are much more serious and costly. In routine jobs productivity remains high over the working life, but reaching high productivity in a new job is harder for older workers. Therefore, using human capital wisely means keeping experienced workers in their current workplaces instead of forcing them to look for new jobs (Börsch-Supan et al., 2008).

MYTH 3: Life after retirement is bliss. In reality, life satisfaction after early retirement decreases faster than after retirement at a later age (Börsch-Supan & Jürges, 2006). People who retire later also retain their cognitive abilities longer. In Sweden, for example, cognitive performance of 60-64-year-old men and women is significantly higher than in France or Italy where people tend to retire earlier (Rohwedder & Willis, 2010).

MYTH 4: Active ageing harms the young. The argument is frequently made that instead of working longer, older workers should give way to the young. If the young really benefit from this, countries with high early retirement rates should have lower youth unemployment rates than countries with fewer people entering early retirement. In reality, the relationship seems to be the opposite (see Figure 2). One of the reasons for this is that early retirement is expensive and a serious burden to the economy.

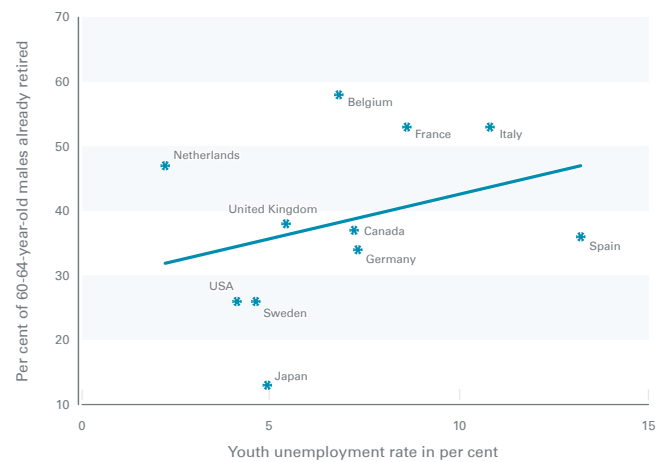


Figure 2. Early retirement and youth unemployment rate
Source: OECD Employment Outlook 2007

MYTH 5: Population ageing is a tsunami and its consequences are our demographic destiny. Through demographic research, we see population ageing coming, we know how it will proceed, and we can specify which policy interventions are necessary to handle its consequences. The focus, therefore, should shift from mitigating population ageing to compensating for its effects.

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THE BURDEN OF AGEING AND COGNITIVE ABILITIES

HUMAN CAPITAL AND PARTICULARLY COGNITIVE ABILITIES ARE CRUCIAL but often neglected factors in regard to compensating for population ageing. The GDP per capita, among others, significantly depends on the productivity of the labour force. This productivity is also influenced by the degree of cognitive abilities within a population. Variations between countries in such cognitive abilities, like immediate recall, can be very large. Figure 3 shows that seniors in the U.S., northern and continental European countries have much higher immediate recall abilities than their counterparts in China, India, Mexico, and southern Europe. Given the strong relationship between cognitive abilities and individual productivity, these findings show that the USA, northern and continental European countries have a significant advantage in comparison to the demographically much younger states like China, India, and Mexico. An advantage – and a chance – that does not become obvious when only the chronological age is taken into account.

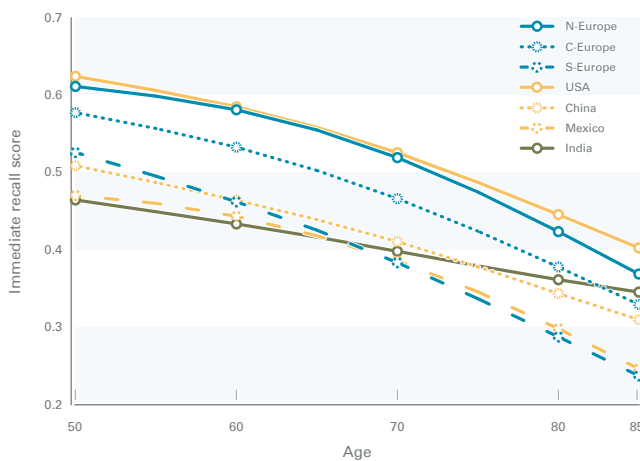


Figure 3. Immediate recall score
Source: Skirbekk et al. (2012)

Usually the societal burden of ageing is measured by the old-age dependency ratio (OADR). It is defined as the number of people aged 65+ (that are presumed to be economically inactive) to the number of persons between the ages of 15 and 64. A cognitive adjusted dependency ratio (CADR) also takes into account how old a population is in terms of cognitive abilities. The CADR measures the ratio of the number of persons aged 50+ with limited cognitive capacities to the number of persons that are younger (15 to 49), plus those that are 50+ but have good cognitive functioning.

Countries that are chronologically younger like Mexico, India and China fare poorer when the cognitive functioning of their elder population is taken into account, whereas the United States and northern Europe do much better (see Table 1). These countries are effectively “younger” in terms of productivity, having a lower share of seniors with poor cognitive performance.

| Rank | OADR (ratio, countries) | CADR (ratio, countries) |
|------|--|--|
| 1 | 0.07 India | 0.10 USA |
| 2 | 0.09 Mexico | 0.12 Northern Europe (DK, UK, IE, SE) |
| 3 | 0.12 China | 0.14 India, Mexico |
| 4 | 0.19 USA | |
| 5 | 0.24 Northern Europe (DK, UK, IE, SE) | 0.15 China |
| 6 | 0.25 Continental Europe (AT, BE, CZ, FR, DE, NL, PL, CH) | 0.18 Continental Europe (AT, BE, CZ, FR, DE, NL, PL, CH) |
| 7 | 0.27 Southern Europe (GR, IT, ES) | 0.32 Southern Europe (GR, IT, ES) |

Table 1. Different measures for the burden of ageing
Source: Skirbekk et al. (2012)

One explanation for the international variation is life-course differences among the older cohorts which will decrease in the long run. However, as cohort replacement is a slow process, the countries whose seniors have higher cognitive levels today are likely to continue to have an advantage for several decades. To further counter-balance the effects of chronological ageing and to secure existing advantages it is essential to effectively prepare European societies for an older population by improving and maintaining cognitive abilities throughout the life-cycle (Skirbekk et al., 2012).

THE POSSIBILITIES AND CHALLENGES OF LIFE-LONG LEARNING

ONE OF THE MOST EFFECTIVE STRATEGIES to maintain cognition and the employability of older workers is life-long learning programmes. At least two further reasons make life-long learning an imperative of our time: (1) technological progress and globalisation lead to dynamically changing demands for skills, and (2) skills acquired during formal education tend to devalue over time (Chłoń-Domińczak, 2012).

In Europe, the level of participation in life-long learning varies greatly with Sweden leading in the top position and Greece, Romania, and Hungary having the lowest rates (see Figure 4).

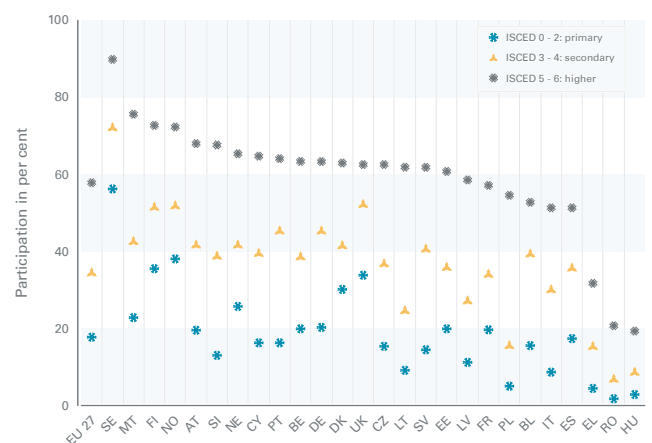


Figure 4. Participation in formal and non-formal learning by educational level, 2006 (levels of education based on ISCED 97 classification)
Source: Adult Education Survey, Eurostat

In all countries, however, educational level greatly determines who participates in life-long learning. People with higher education participate far more frequently in life-long learning than people with lower educational levels. Thus, inequalities in competences upon leaving the formal education system increase with time due to the differences in who participates in life-long learning.

Another challenge is that people tend to participate significantly less in life-long learning the older they become (see Figure 5). This gap between younger and older people has persisted over the last years in all European countries. On the participation level, however, there are significant differences between European countries. In Sweden, for example, 80 per cent of young people and 60 per cent of older people participate in life-long learning, while in Poland barely one third of the young and only 7 per cent of older people do so.

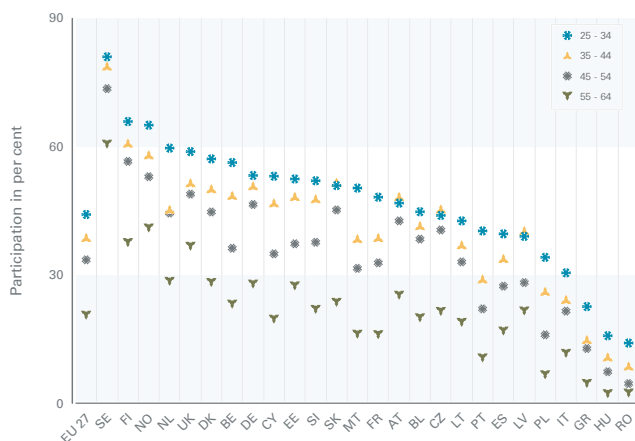


Figure 5. Participation in formal and non-formal learning by age groups in EU-27 countries, 2006
Source: Adult Education Survey, Eurostat

POLICY OPTIONS: INFORMATION AND EDUCATION

TO COMPENSATE for the shrinking and ageing of Europe's labour force policy interventions should be carried out in conjunction with public information campaigns and the involvement of all stakeholders in the development and implementation of necessary reforms: from learners to employers, the educational sector as well as local, national, and European authorities.

Apart from well-known necessary adjustments (e.g. in regard to retirement age, pension systems, etc.), investment in human capital and particularly cognitive abilities is crucial to increase the productivity of Europe's workforce. Here, education policy, especially related to life-long learning, is essential. Since current life-long learning activities in Europe have not led to a reduction in educational inequalities thus far, policies that focus explicitly on the increased participation of older age groups and those with lower formal qualifications in various forms of learning are particularly required.

In Europe, there is a lively debate about the need for policies promoting a better work-life balance. Given the demographic challenges ahead, this is not enough. The paradigm needs to shift from the traditional life phases of education, work, and retirement to an age-integrated approach with parallel strands of family, work, education, and training as well as leisure and community activities. Thus, policies that support a comprehensive *work-education-life balance* are needed.

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