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COMPACT

EUROPE'S CITIZENS SHOULD HAVE A CHOICE

Toward a new policy of life-course flexibility

Authors:

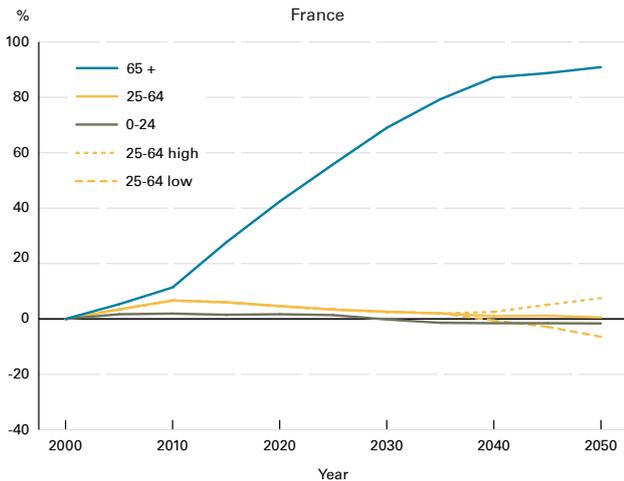
JANE C. FALKINGHAM
FRANÇOIS HÉRAN
JAMES W. VAUPEL

Key messages:

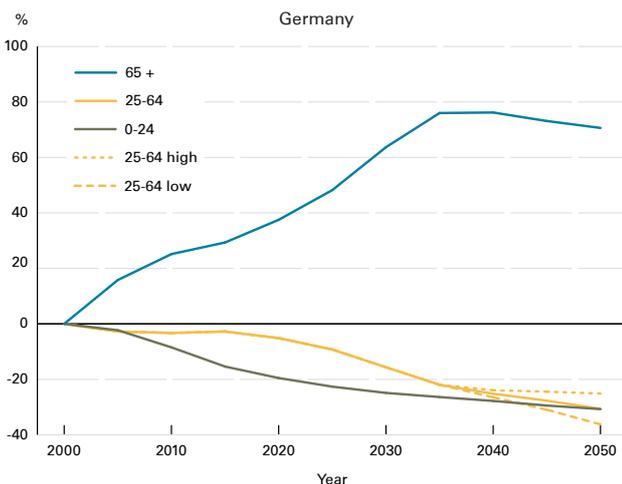
- Even a new baby-boom and high immigration cannot prevent Europe from population ageing over the next decades.
- Population ageing and shrinking labour force will affect the productivity of the economy if no further reforms are undertaken.
- These reforms should include a redistribution of work over the life-course which will also require a new system of social protection.

POPULATION CHANGE – A EUROPEAN CHALLENGE

POPULATION AGEING IS INEVITABLE. Demographic research shows that for the next four decades neither an increase in the birth rate nor increased immigration alone can substantially compensate for the effects of demographic change. Deterministic and the more advanced probabilistic projections alike tell us the same story: Increased longevity will make old age a mass phenomenon throughout Europe.



Graph 1. Relative changes in population shares of people aged 65+, 25-64 and 0-24 in percent; France 2000-2050



Graph 2. Relative changes in population shares of people aged 65+, 25-64 and 0-24 in percent; Germany 2000-2050

Graph 1 illustrates impressively that even in a country like France, where fertility levels are still relatively high compared to other countries like Germany (Graph 2), the main demographic force over the decades to come will be the relative increase in the population share of people aged 65 and older. The dotted lines mark the effects of different scenarios for the age group 25 to 64 years, which account for a higher or lower rate of fertility and in-migration. Effectively, even a change in fertility corresponding to the size of a baby-boom (equivalent to 0.5 children per woman on average less or more) would only have marginal effects in either direction in the far future.

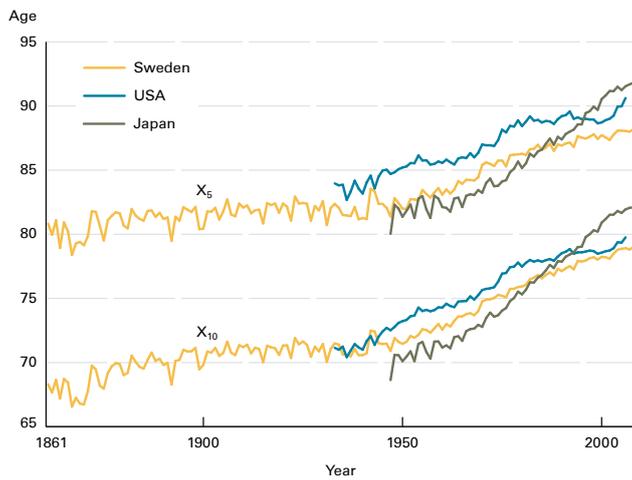
Population ageing is a demographic issue – but it does not call for a demographic solution: Given the age structure of most European countries, during the decades to come population ageing cannot be “countered” by population policies. However, this should not be misunderstood as if we argued for a fatalistic attitude that takes inevitable population ageing as an excuse for non-action. The support of families and working parents and the integration of migrants remain high on Europe’s social policy agenda. But policy-makers should be aware that over the next decades we should also make better use of the potentials we have in addition to resources we might create in the far future. In this sense, an increased labour-force participation of the elderly could counterbalance a significant part of the social and economic consequences of demographic change.

LONGER LIVES AND WORK-LIFE FLEXIBILITY

THE IMPORTANCE OF A NEW POLICY APPROACH becomes particularly evident when looking at the debate on retirement in many European countries. This discussion is dominated by the question of how long people can continue working at higher ages, which depends on labour market demands, the capacities of older employees, the optimal age structure of working teams, and other factors.

While the effective age of retirement in Europe today is below 62 years for males on average, demographic evidence shows that life expectancy – and healthy life expectancy – increased tremendously over the last decades. Not only do people live longer, they also have more years of healthy living.

The reduction of mortality at higher ages is particularly important in this context: Since most kinds of morbidity and disability, including heart disease and dementia, lead to higher death rates, the observed reduction would be difficult to achieve if a postponement of poor health were not taking place. It is a good indicator that older people are much healthier today than they used to be in the past (see Graph 3).



Graph 3. Ages at which remaining life expectancy is 5 years (x5) or 10 years (x10) for Sweden, the US, and Japan; men and women; Source: Vaupel, J.W. (2010), *Nature* 464, p. 537

However, this finding, and its implications, have not yet been absorbed and integrated into later-life planning across Europe. The labour force potential will shrink significantly during the next decades in practically all European countries if no substantial reforms are implemented. The hours worked per week and capita until 2025 will decrease, due to the changing age structures of the population and age-related employment rates (see Table 1).

This is true for countries with rapidly ageing populations such as Germany, as well as in countries with higher fertility rates such as France or with higher immigration rates such as the UK. Thus, from a demographic perspective, there is much room to rethink the fundamentals of the life-course: A redistribution of work across the life-course should take into account that today we are able to participate in the labour market later into our lives.

An extension of the time spent in work beyond the current age of retirement could provide people with more freedom of choice and flexibility to reduce their working hours in earlier periods of life. At

the same time, if people worked fewer hours per week, more people would work, so work would be more evenly redistributed over the life-course and across people. It would also relax the current “rush hour” of life and enable people to have more time to raise and educate children, to attain further skills by investing in training periods during their career, and to stay longer in the labour force – unless they prefer an early retirement with a reduced pension income.

A NEW SYSTEM OF SOCIAL PROTECTION FOR EUROPE

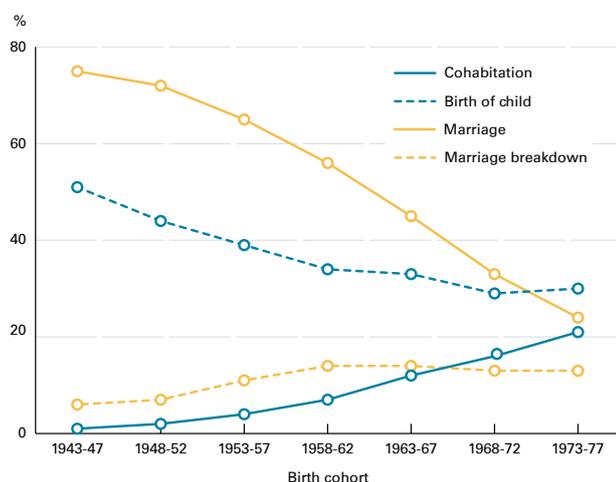
THE CURRENT SOCIAL POLICY RESPONSE towards population ageing on the national as well as the European level is mainly to look at social protection in terms of retirement and, in particular, changing the age of retirement. It is not taking into account a life-course perspective, which would include all intended and unintended periods out of the labour market and related life-course events and phases (child-bearing, education, life-long learning, etc.). This is particularly disadvantageous for women.

The past century has witnessed a transformation of the life-course, not only with a significant rise in life expectancy, but also with changes in family and working life. Graph 4 shows impressively how the pattern of successive life-course events has changed when looking at different cohorts. At age 25 the likelihood to be married or for having given birth to a first child decreases continuously on a rapid path from the birth cohorts 1943 to 1977. At the same time, cohabitation as well as marriage dissolution have become more frequent until this age. The traditional life-course pattern as we have known it is thus being changed in a fundamental way and requires a new policy approach.

The challenge is to develop social policies that are sensitive to the life-course and allow for a redistribution of income both within a person’s lifetime as well as across members of society, between the rich and poor. One option could be a “unified funded social insurance”,

Country	R, nonworkers per worker			H, hours worked per week per capita		
	2005	2025	Change	2005	2025	Change
Germany	1.27	1.47	16%	16.28	14.95	-8%
Denmark	0.97	1.12	15%	17.46	16.11	-8%
France	1.43	1.69	18%	15.09	13.63	-10%
Italy	1.59	1.86	17%	15.19	13.48	-11%
Netherlands	1.01	1.20	19%	15.31	13.88	-9%
UK	1.09	1.19	9%	17.32	16.34	-6%
USA	1.09	0.99	-9%	18.71	18.29	-2%

Table 1. The impact of population ageing on the future development of the work force in various countries (Rostock Indicator); Source: Vaupel, J.W. & Loichinger, E. (2006), *Science* 312:5782, p. 1912



Graph 4. Proportion of women in UK experiencing various life events by age 25, by birth cohort;

Source: UK Office for National Statistics (2010)

which operates as a savings bank across the life-course and may also help address the demographic trends Europe is facing. This fund would operate across the life-course and would provide “insurance” for periods of education, retirement, and other phases out of the labour market. It would be financed by a mix of contributions from individuals and credits from the state. The contributions could be set at a level sufficient to generate a fund to purchase an annuity providing a target level of income in later life (for example, 50% of average earnings in a country). Should the age-specific profile of the fund fall below the level necessary to provide a guaranteed income at a socially agreed level (for example, 33% of average earnings in a country), the state would provide credits. In this way, protection during periods out of the labour market for ill health, unemployment or family care or part-time work or low pay could be provided for all citizens of working age.

Some countries have already designed a pension system that allows for certain individual choices during the life-course for the level of pension contributions. For example, in Sweden a comprehensive reform in 1999 introduced a new system based on three pillars: an earnings-related element based on notional accounts (financed by payroll tax), a guaranteed pension for people with low income (financed by general tax), and an individual pension-savings account. Furthermore, a flexible retirement age was established, which gives people the choice to retire at any time after age 61.

Efforts like these should be extended to a more comprehensive system of social protection in Europe in order to address the various challenges of population change. It is not only age that matters but also the varieties of modern life-courses.

FURTHER READING

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Technical Coordination: Insa Cassens

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Contact: Population Europe Secretariat, Markgrafenstraße 37, 10117 Berlin, Germany

Phone: +49 (0)30 2061 383 30, **Fax:** +49 (0)30 2061 383 50

Email: office@population-europe.eu

Web: www.population-europe.eu/pp_compact

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