More Jobs for Older Workers

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For several decades the share of older people in the population has gradually increased in the industrialised countries. This development started early in the Scandinavian countries, especially Sweden. But this development is now prevalent in all European countries.

There are two main factors behind this development. The first one is the fertility rate that is low and declining – the average number of children a woman gives birth has declined therefore the number of children born each year declines. The new cohorts are smaller than the older ones at birth. For some countries this development has been very rapid. Such is the case for European countries like Germany, Italy and Spain. During the first decades of the post-war period, Southern European countries had higher fertility rates than Northern European countries. Now the pattern is reversed.

The other factor behind the age explosion is that life expectancy is increasing. During the 19th century and the early 20th century life expectancy increased, mainly by the decreasing child mortality rates and partly through the mortality rates among people of active age declining. Vaccination campaigns and new medicines are some of the factors behind that development. In the last decades the main factor behind increased life expectancy is that people life longer beyond the age of retirement compared to earlier. This tendency towards increasing life expectancy is strong in many countries.

An ageing population has consequences for the labour market and the economy of a country. The number of people to be supported by each person of active age increases. If the standard of those of active age is not reduced, but rather increases in the same way as that for other groups, the tax rates have to be increased. Increased tax rates have consequences for labour supply and demand. The problem is enhanced, as there is a tendency towards increased *early exit*; i.e. that people leave the labour market before they reach the ordinary retirement age. In some countries this tendency has become especially pronounced as a result of that special programs have been introduced which facilitates early exit.

An ageing population means (if everything else is kept constant) that the number of older people per employed individual is increasing. It leads to a demand for increases in fees and taxes. In addition to changes in the pension systems there are several other methods which can be utilized to reduce this problem. Before concentrating on pension reforms I will say something about the different types of measures available.

The simplest way of "solving" the problem, but usually not the easiest way of solving it politically, is to lower the replacement rates in the pension systems and lower the costs for old age care by lowering the quality and the conditions for access. Such kinds of proposals put the burden on those of old age. However, there may be different ways of sharing the burden with other generations.

A higher productivity level will lead to a lesser burden for those of active age if the pensions and old age care is not increased as a response to the productivity growth. Other policies are such that may increase labour force participation. One way to do so is by increasing the formal retirement age. Other measures aim at increasing the actual retirement age by counteracting early exit, for example by changes in the compensation rates and the possibilities of access to different social security schemes.

Giving older workers access to labour market programs and special labour market programs for older workers may also be a possibility. Access to the educational system to facilitate a second career is another option.

The increasing share of the old age population together with a lower growth rate than during the years in which the pensions system were created and tendencies towards a lower labour force participation rate among those of active age had put the pension schemes into focus for the political debate. Most countries have made major and minor changes in the pension schemes and more are to be expected. I will try here to describe the main types of pension reforms.

1. Many countries have changed their pension system so that it gives a lower compensation given earlier earnings and labour force participation.

2 Another way of keeping the pension costs down is to change the indexing system making it less favourable.

3. A third way to better the finances is to increase the fees. A problem in using that as the only instrument is that fees may become very high.

4. In some countries the lower age for taking an old age pension is dependent on the number of years worked. One way of keeping the costs down is to increase the minimum number of years necessary to take up a pension before the ordinary retirement age.

5. One of the problems leading to the discussion on how to cut pension costs is the lower growth rate. One way to increase the growth rate is by increasing the savings and the investments in the economy. An increase in the savings can be obtained by more funding in the social security pension schemes or by giving the occupational and private pensions a larger role.

6. Besides lowering pensions increasing the retirement age would a simple solution for the high pension costs problem in a bookkeeping sense. In the last two decades the development has been in the direction of a higher retirement age.

7. Another type of change is the development in the direction from defined benefit to defined contribution systems. It means a shift of the risk from the state to the individual.