



The challenges of an ageing population

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Budgetary and labour force projections for Belgium and the EU Member States

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WSE Arbeidsmarktcongres 2013

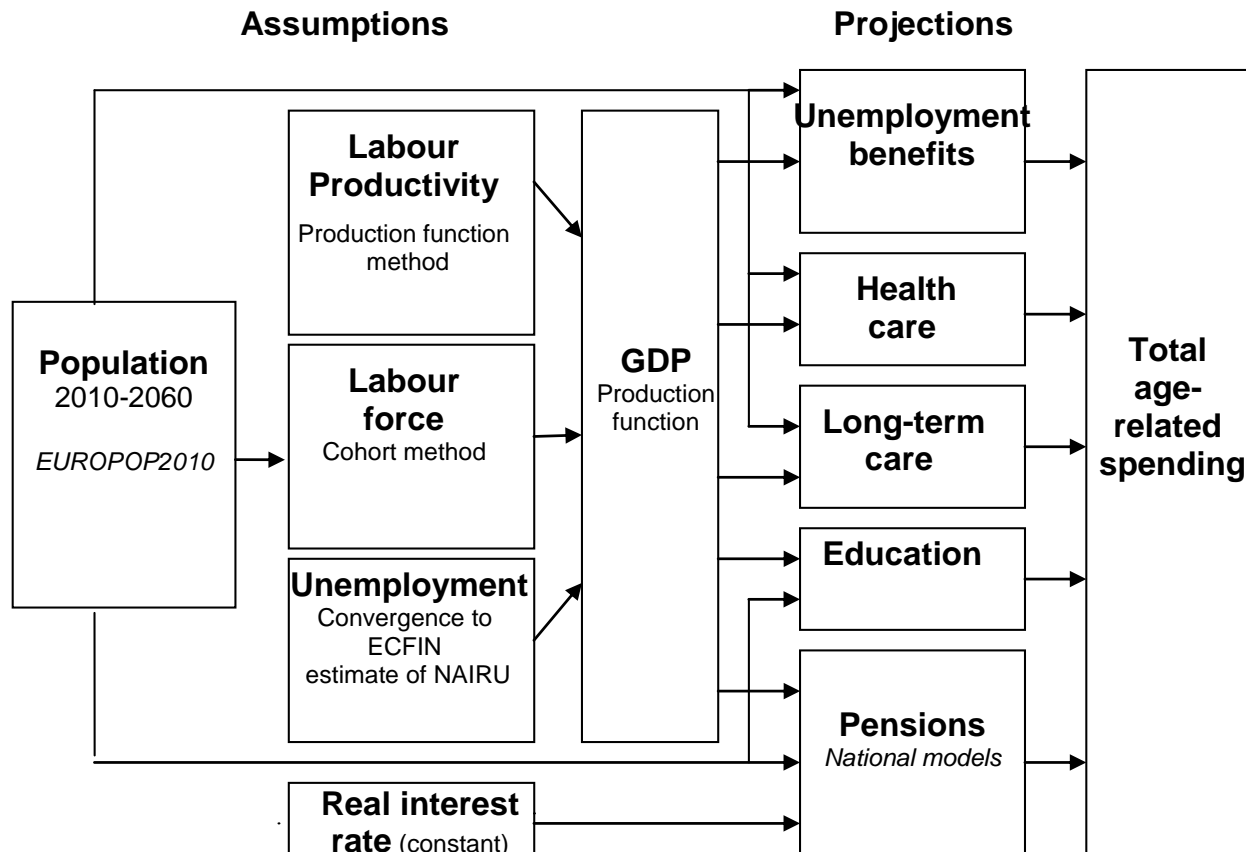
07.02.2013

Provinciehuis Vlaams-Brabant, Leuven

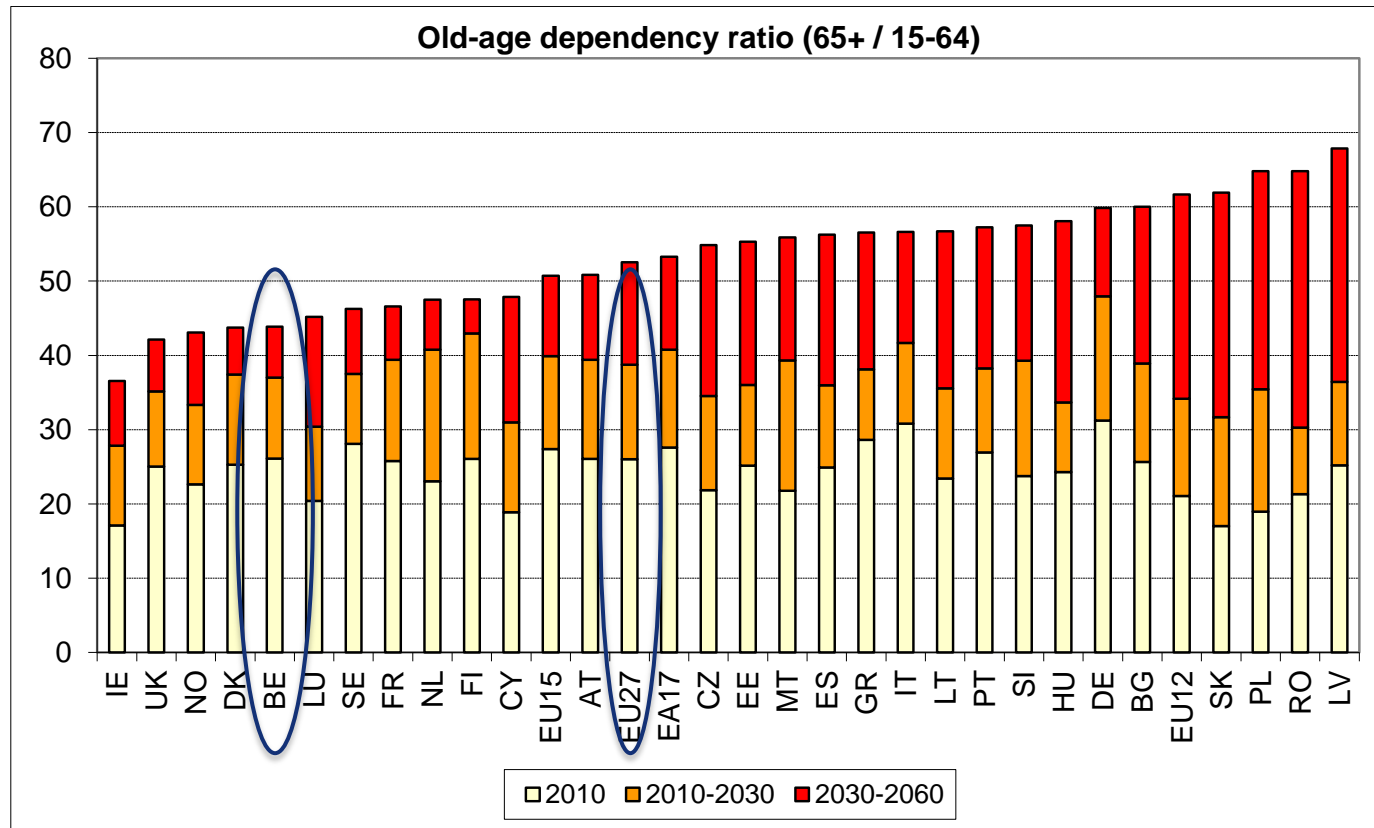
Outline

- **General features of projections**
- **2012 Ageing Report projection results**
 - Labour force projections
 - Budgetary projections
- **Latest BE and NL pension reform effects**
 - Labour force projections
 - Budgetary projections
- **Policy recommendations for further pension reforms**
- **Conclusion**

General features of age-related expenditure projections for 2012 Ageing Report



Population projections: Old-age dependency ratio



Pension projection exercise: 3 steps to be taken

- **Agreement on common assumptions**
 - 1. Labour force projections; 2. Macroeconomic assumptions
- **Pension projection based on national models**
 - Provision of commonly agreed variables in pre-defined questionnaires
- **Peer review of pension projections by Economic Policy Committee (AWG)**

Labour force projections

The cohort approach:

Participation rates are projected for each single year of age (15 to 74) and gender

Three main features of the methodology :

- 1) Use of historical entry rates and exit rates:
2001-2010 average kept constant over the period of projections
- 2) Incorporate the impact of increasing female labour market participation ("cohort effect") and
- 3) Incorporate the impact of pension reforms (reference age group 50-74)

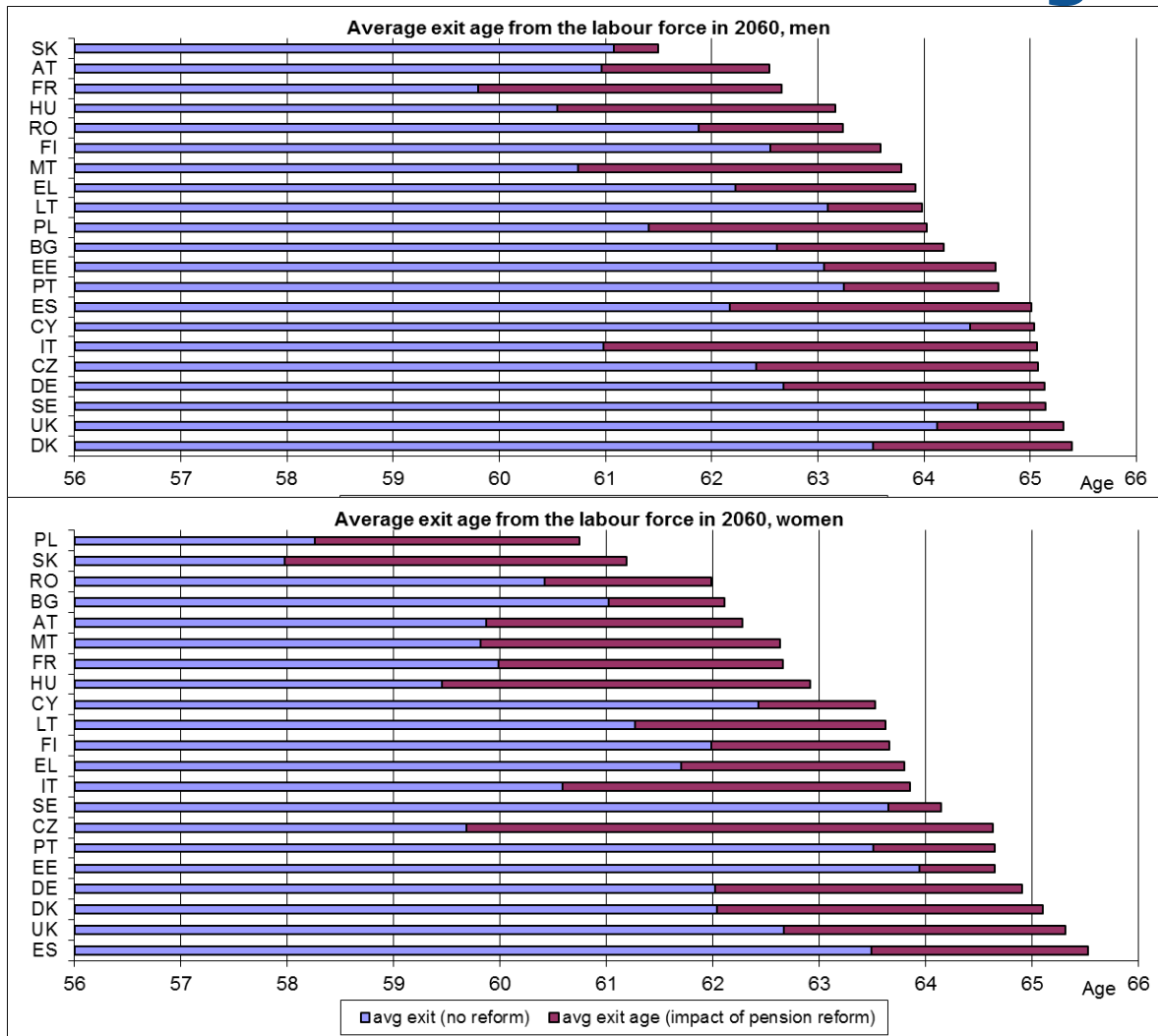
Higher participation rate of older workers in the future

	Total 15-64		Young 15-24		Prime age 25-54		Older 55-64		Total 15-64	Change 2010-2060			
	2010	2060	2010	2060	2010	2060	2010	2060		15-24	25-54	Older 55-64	
AT	75.0	77.6	50.5	61.3	87.7	80.5	43.1	56.1	2.5	1.8	1.0	12.0	AT
BE	67.7	68.5	32.7	33.3	86.3	85.6	39.1	48.7	0.8	0.6	-0.7	9.6	BE
BG	67.1	69.4	32.0	29.9	82.7	84.0	49.3	59.8	2.4	-2.0	1.3	10.5	BG
CY	73.2	78.0	42.0	41.9	87.3	91.0	59.6	68.8	4.8	-0.1	3.7	9.2	CY
CZ	70.3	73.1	31.1	29.7	87.9	85.7	50.1	72.6	2.8	-1.4	-2.1	22.5	CZ
DE	76.7	78.9	51.6	50.6	87.3	88.2	62.5	74.8	2.2	-1.0	0.9	12.3	DE
DK	79.5	80.6	67.8	69.3	89.0	86.6	61.1	73.2	1.1	1.5	-2.4	12.1	DK
EE	74.1	75.6	39.6	35.7	88.3	88.2	64.4	73.6	1.5	-4.0	-0.1	9.2	EE
EL	68.4	72.6	31.4	30.6	83.5	85.9	45.5	69.6	4.2	-0.8	2.4	24.1	EL
ES	73.4	77.5	43.0	41.8	85.5	87.9	50.8	76.4	4.0	-1.2	2.4	25.6	ES
FI	74.6	76.2	50.0	50.8	87.5	87.4	60.5	65.8	1.7	0.8	-0.1	5.3	FI
FR	70.4	74.7	39.8	39.6	88.9	89.7	42.5	63.3	4.2	-0.2	0.7	20.8	FR
HU	62.4	67.1	25.7	25.3	81.0	81.0	37.1	59.1	4.7	-0.4	0.0	22.0	HU
IE	69.6	67.3	42.3	42.0	80.4	76.9	54.7	63.9	-2.3	-0.4	-3.5	9.3	IE
IT	62.2	65.3	28.7	29.2	76.9	76.1	37.8	62.6	3.1	0.5	-0.8	24.8	IT
LT	71.0	73.0	31.3	29.4	88.5	87.6	56.5	66.1	2.0	-2.0	-0.8	9.7	LT
LU	67.9	67.5	25.3	28.4	85.7	86.9	40.1	41.6	-0.4	3.2	1.2	1.5	LU
LV	73.7	76.9	42.2	38.5	88.5	91.3	57.1	64.7	3.2	-3.7	2.8	7.5	LV
MT	60.7	70.3	51.9	51.5	73.2	79.5	32.6	58.5	9.6	-0.3	6.3	26.0	MT
NL	78.2	79.9	69.1	71.0	87.9	88.6	56.0	62.4	1.7	2.0	0.7	6.5	NL
NO	78.2	78.0	57.1	57.7	87.3	87.4	69.8	68.2	-0.2	0.6	0.1	-1.7	NO
PL	65.8	67.2	35.5	33.4	84.2	82.8	36.8	47.4	1.4	-2.1	-1.4	10.5	PL
PT	74.1	76.7	37.3	37.7	88.7	90.0	54.2	69.4	2.6	0.3	1.3	15.2	PT
RO	63.8	60.9	31.9	29.2	79.5	74.8	42.3	46.3	-2.9	-2.7	-4.7	4.0	RO
SE	79.1	81.9	51.9	52.9	90.0	92.2	73.9	77.9	2.8	1.0	2.1	3.9	SE
SI	71.7	74.7	39.6	38.2	90.2	89.6	36.3	61.6	3.0	-1.4	-0.6	25.3	SI
SK	68.9	67.8	31.8	30.1	86.9	83.7	45.1	50.7	-1.1	-1.7	-3.2	5.5	SK
UK	75.4	76.7	59.4	58.4	85.0	84.5	59.9	70.1	1.3	-0.9	-0.5	10.2	UK
EU27	71.1	73.7	43.5	43.8	85.0	85.2	49.7	65.7	2.6	0.3	0.2	16.0	EU27
EA17	71.4	74.0	42.9	41.8	85.2	85.8	49.3	67.0	2.6	-1.1	0.6	17.7	EA17



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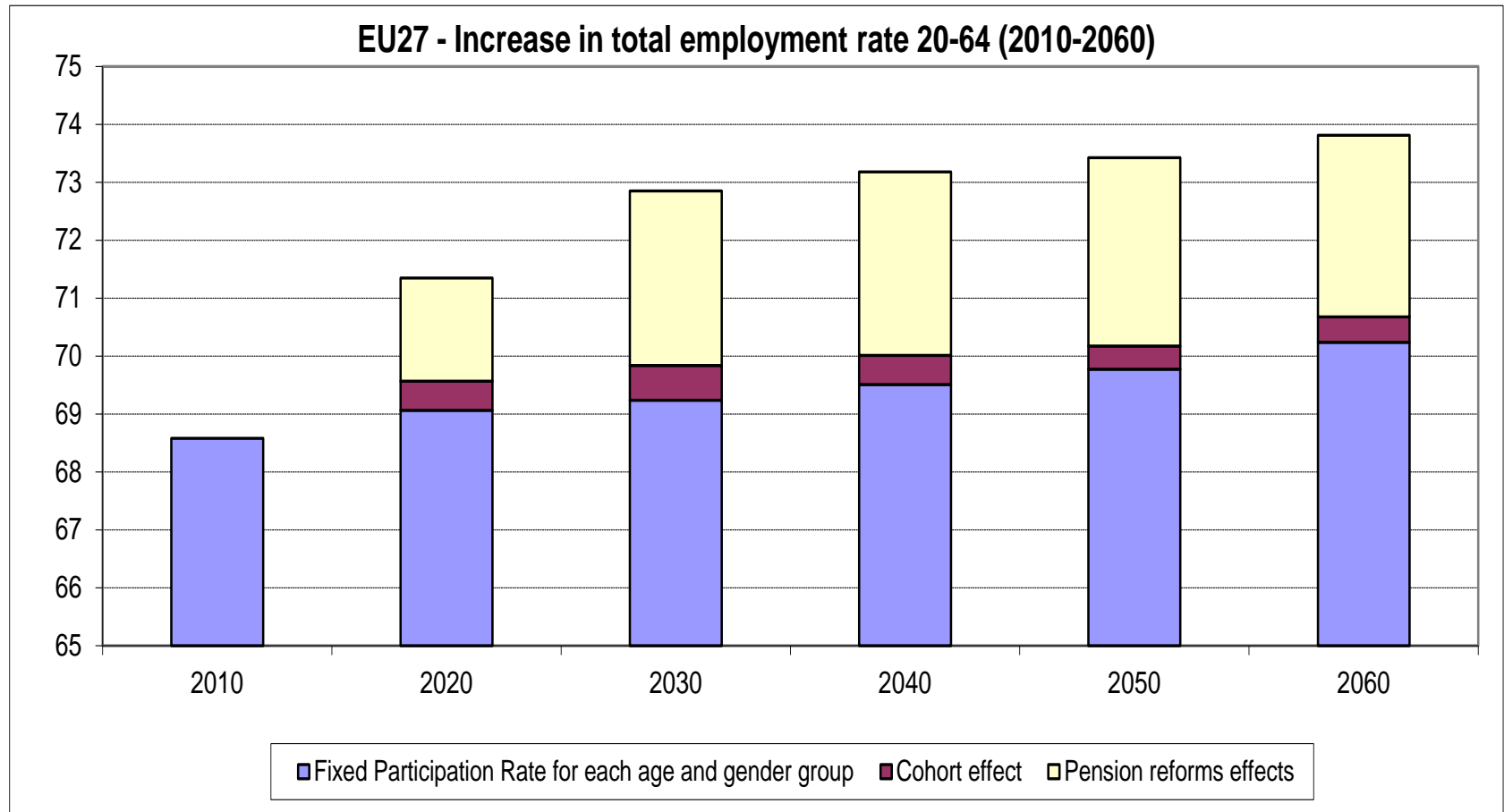
Pension reforms matter: exit age impact



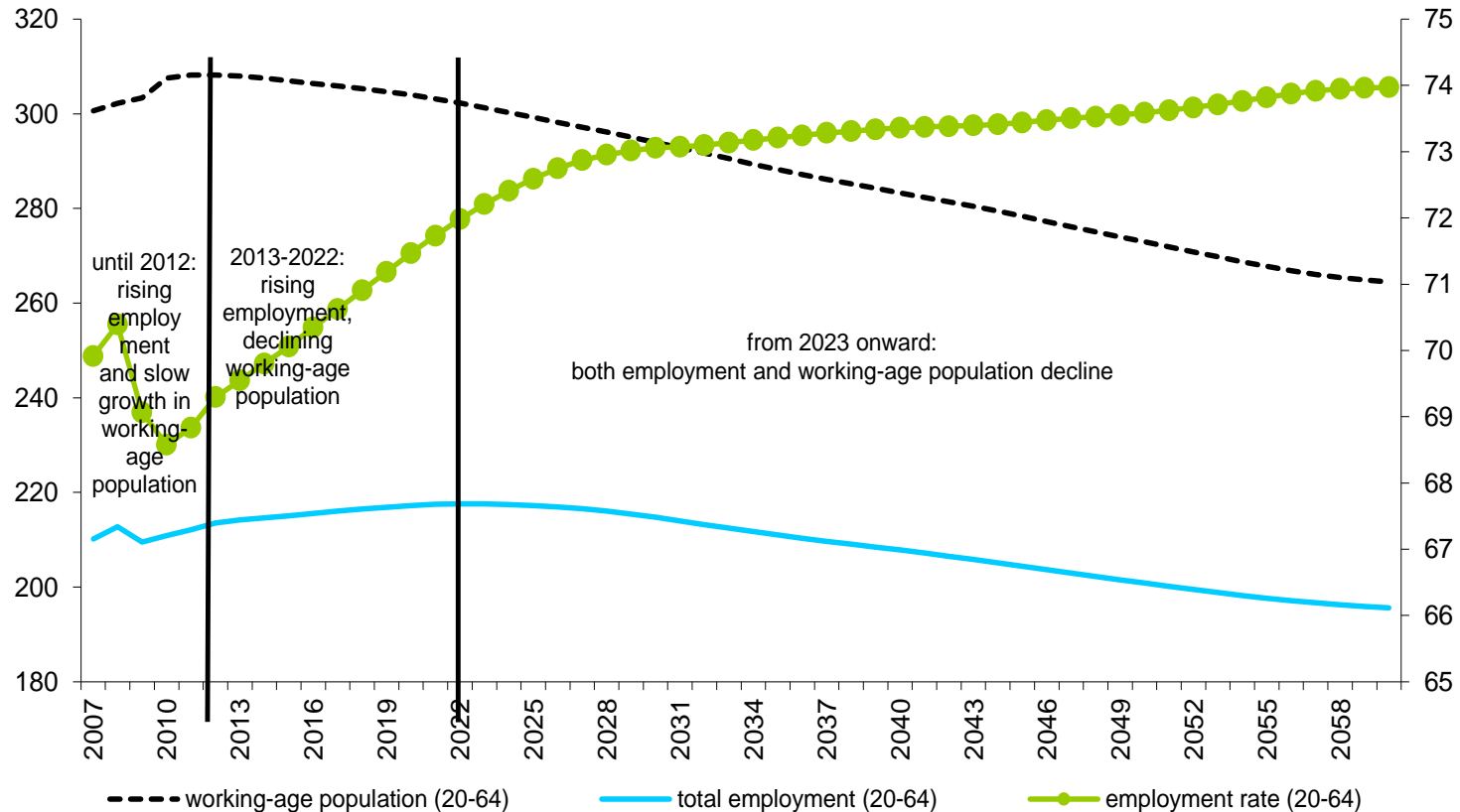


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Pension reforms matter: employment impact

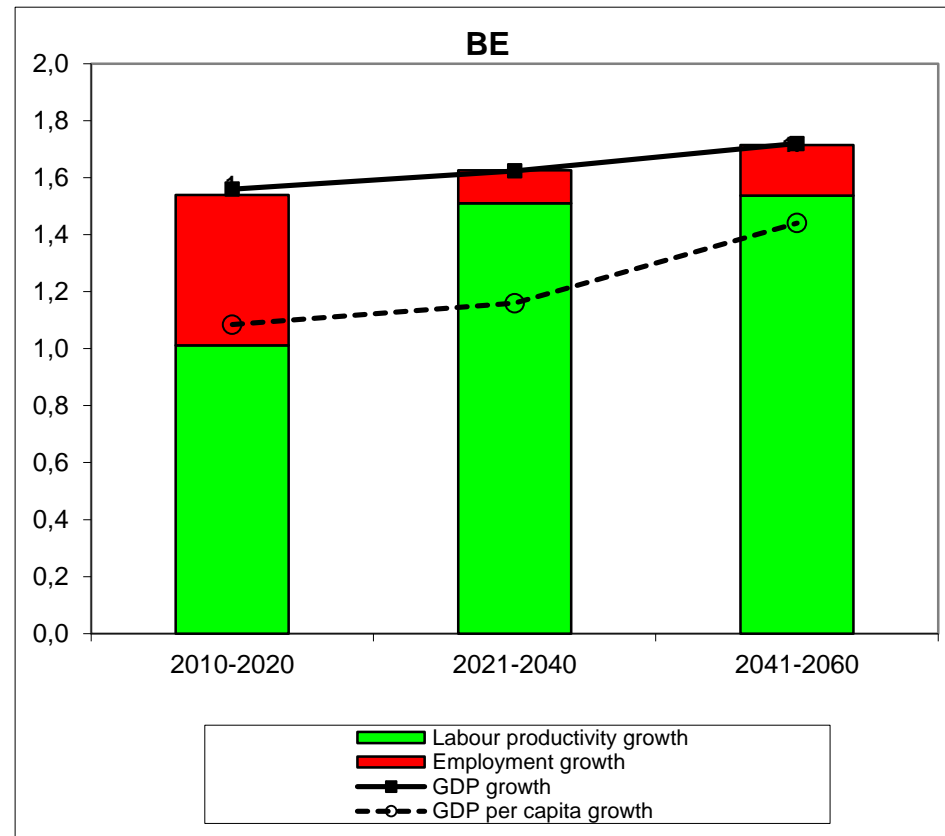
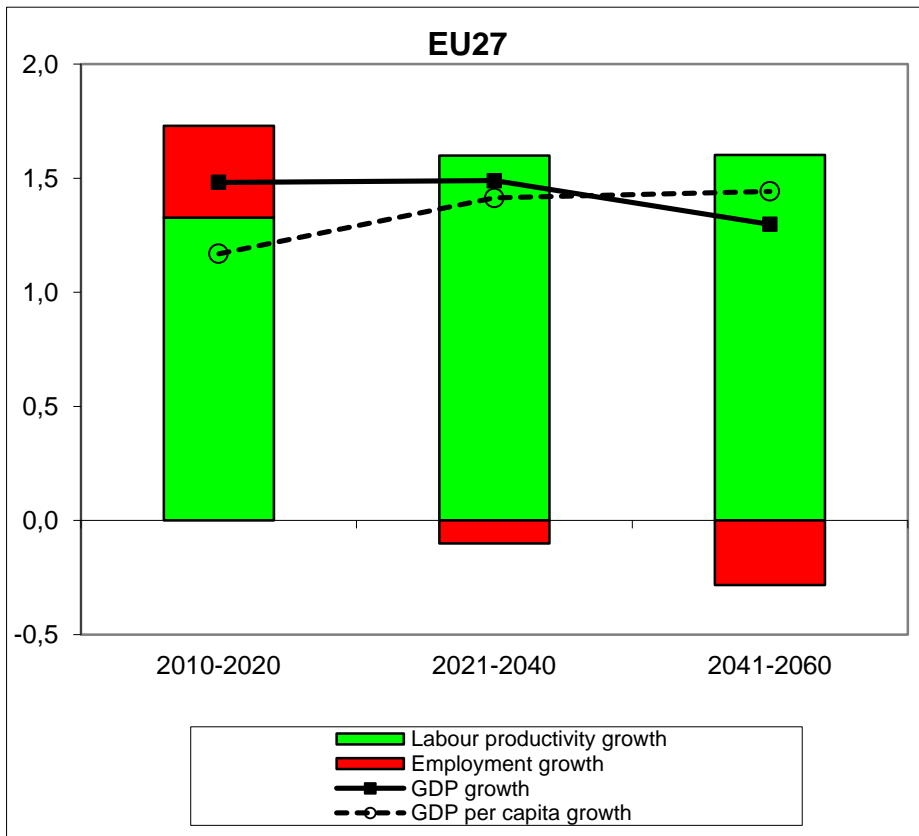


Three phases of employment



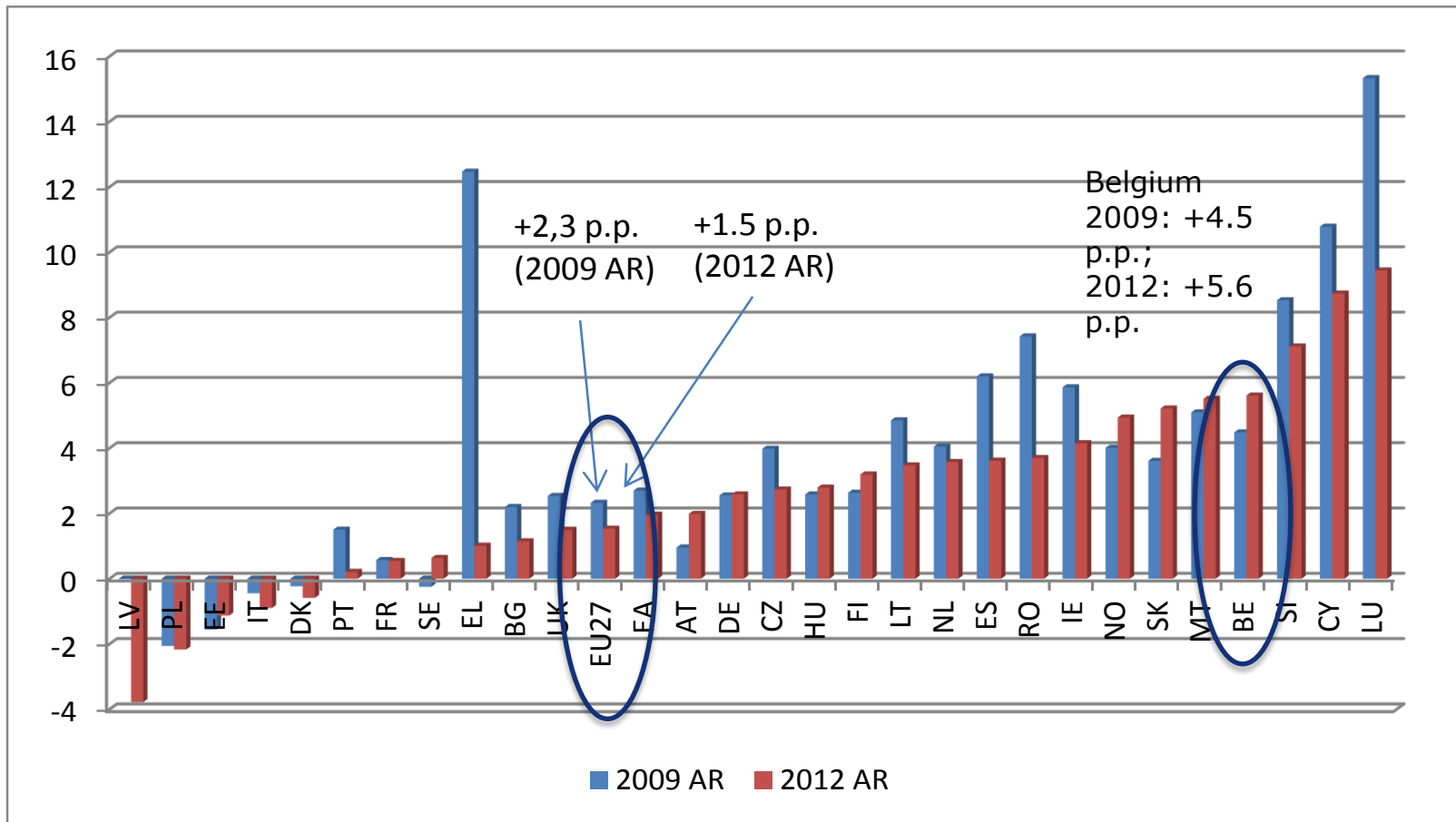
- Phase 1** : rising employment and slow growth in working-age population
- Phase 2** : rising employment, declining working-age population
- Phase 3** : both employment and working-age population decline

GDP growth in the medium and long run

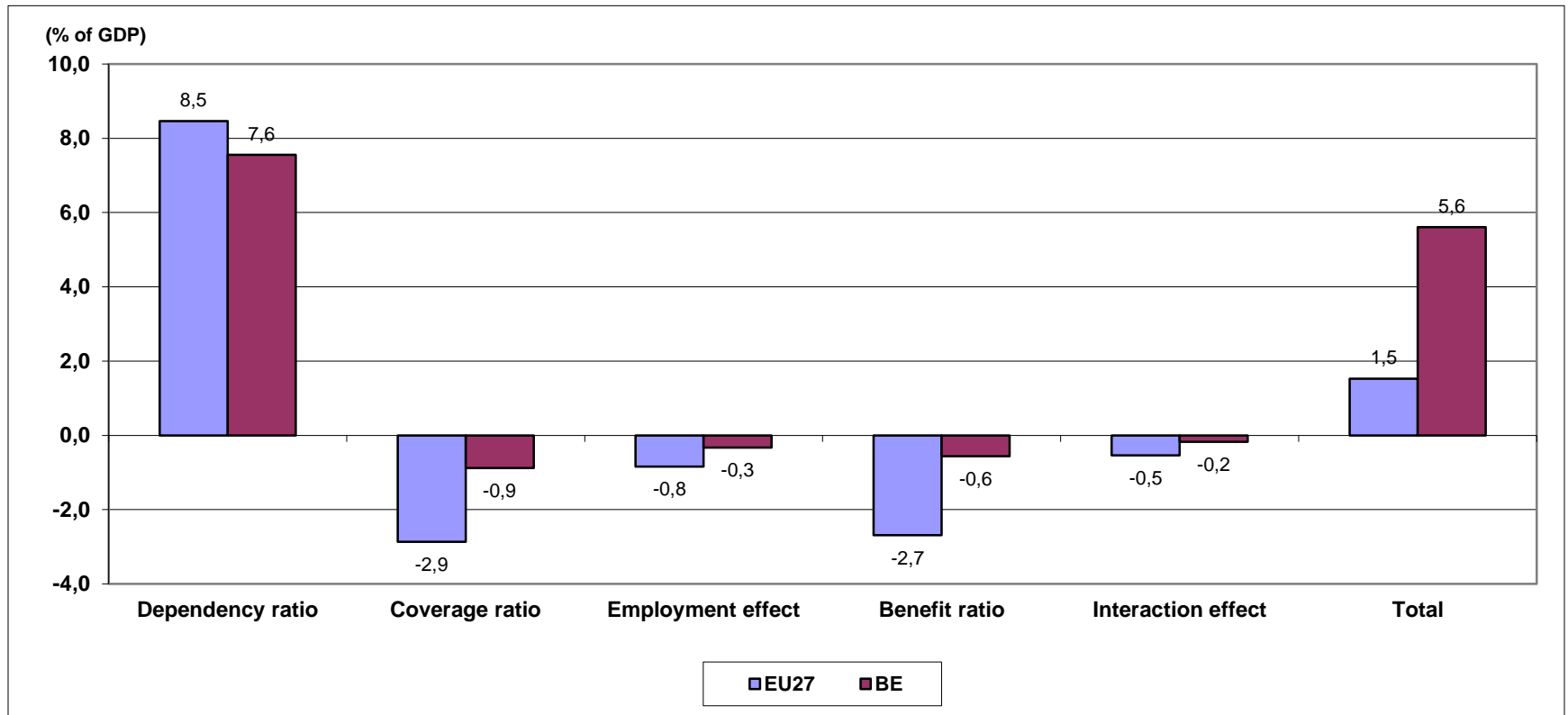


Progress with pension reforms: spending

(change 2010-2060 in p.p. of GDP - 2009 and 2012 Ageing Report)



Underlying pension expenditure drivers



2012 pension reforms in Belgium and the Netherlands

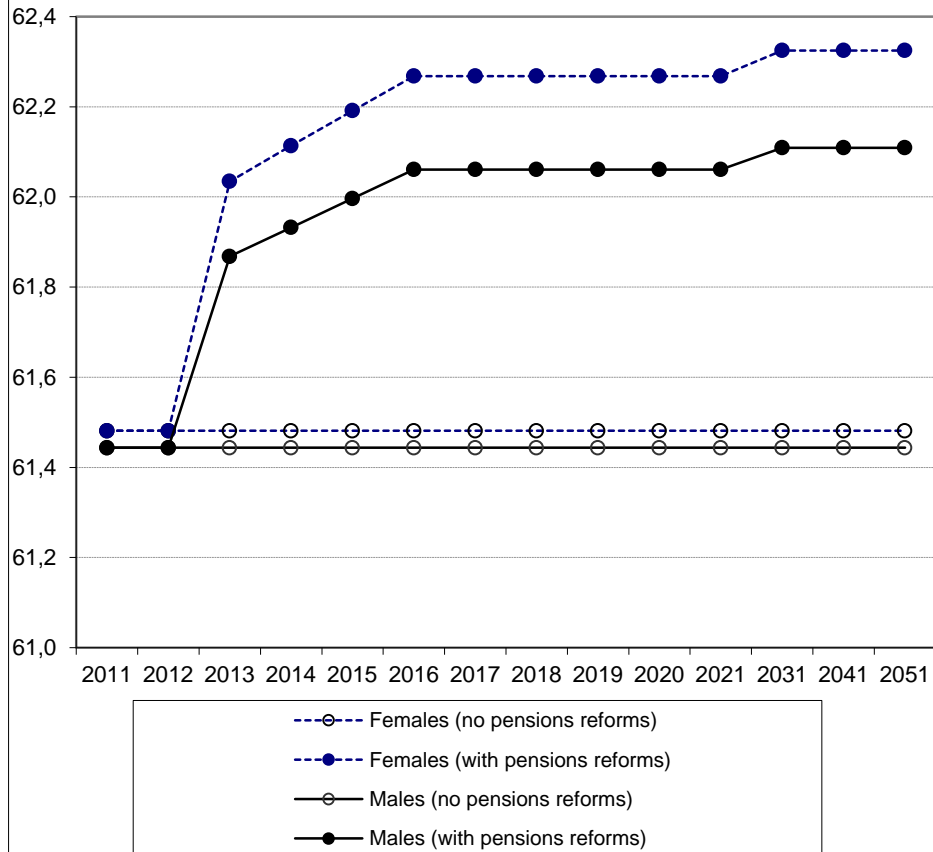
- **Belgium: Restrictions in early retirement and pre pensions**
- **The Netherlands: Gradual increase in statutory retirement age to 67 and link to gains in life expectancy thereafter**



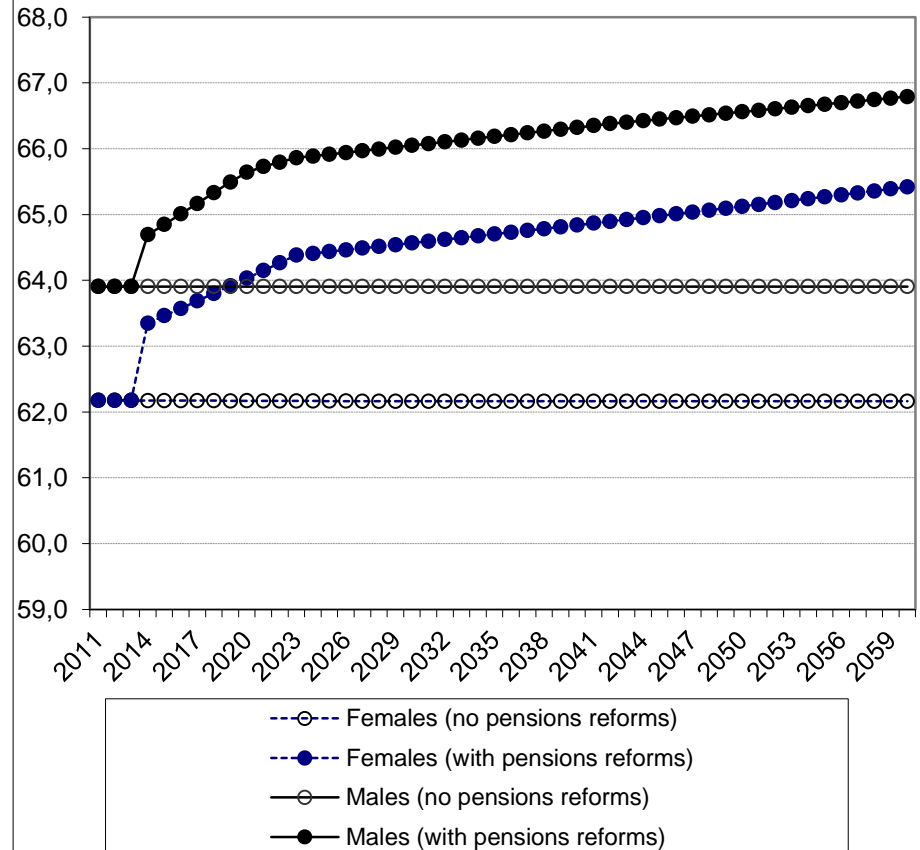
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Reform effect BE/NL: effective exit age

Average effective retirement age in Belgium



Average effective retirement age in the Netherlands



Reform effect BE/NL: participation rate

- Belgium:

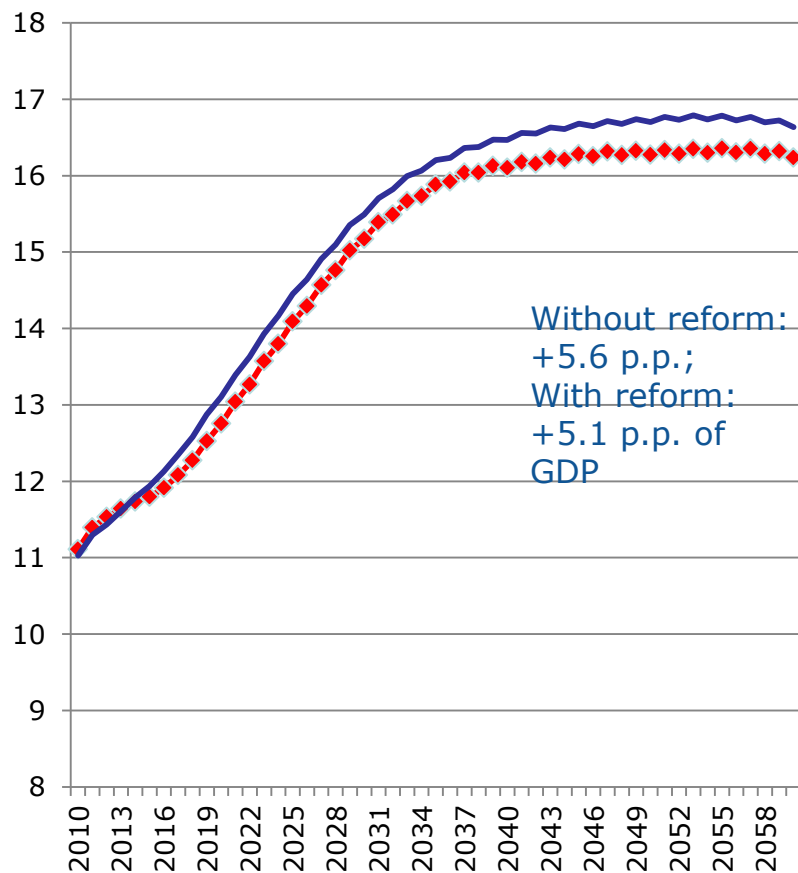
TOTAL	WITH NEW PENSIONS REFORM			WITHOUT PENSION REFORM			REFORM EFFECT		
	PARTICIPATION RATE			PARTICIPATION RATE			DIFFERENCE		
Age	2010	2030	2060	2010	2030	2060	2010	2030	2060
55_59	55.8	71.8	70.4	55.8	70.4	69.0	0.0	1.4	1.4
60_64	21.1	37.6	37.9	21.1	28.6	28.2	0.0	9.0	9.7
65_74	3.1	5.2	5.1	3.1	5.2	5.1	0.0	0.0	0.0
15_64	67.7	69.4	69.5	67.7	68.4	68.5	0.0	1.1	1.0
15_74	60.3	59.1	59.4	60.3	58.2	58.6	0.0	0.9	0.9

- The Netherlands:

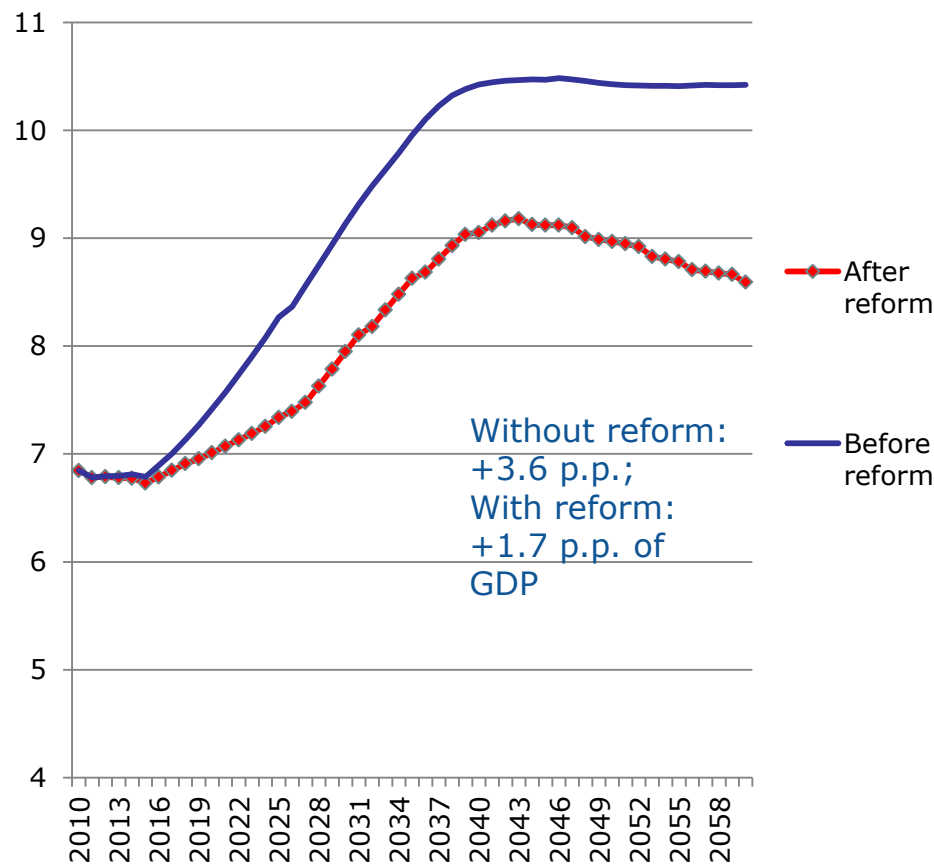
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Age	2010	2030	2060	2010	2030	2060	2010	2030	2060
55_59	73.1	84.4	86.1	73.1	77.7	77.8	0.0	6.7	8.3
60_64	38.8	65.9	72.3	38.8	46.5	46.7	0.0	19.4	25.6
65_74	9.6	22.7	28.2	9.6	15.1	14.9	0.0	7.6	13.4
15_64	78.2	82.6	83.5	78.2	79.6	79.9	0.0	3.1	3.6
15_74	70.5	72.3	74.4	70.5	68.5	69.2	0.0	3.8	5.2

Reform effect BE/NL: pension spending

Belgium



The Netherlands



Policy recommendations for further pension reforms

The Commission set out its line in the 2012 Annual Growth Survey on pension-related issues, again repeated in the White Paper on Pensions and the 2013 Annual Growth Survey:

- align the retirement age with increases in life expectancy (done already by IT, ES, EL, DK, NL and SK);
- restrict access to early retirement schemes and other early exit pathways (done e.g. by BE and AT);
- support longer working lives;
- equalise the pensionable age between men and women; and,
- support the development of complementary retirement savings to enhance retirement incomes.

Country-specific recommendations (CSR) during the 2012 European Semester

- 17 out of 27 Member States got a CSR proposal on pensions (11 on linking retirement age with life expectancy)
- Main messages in line with 2011, 2012 and 2013 Annual Growth Survey messages
- Belgium CSR2: "Continue to improve the long-term sustainability of public finances by curbing age-related expenditure, including health expenditure. In particular, implement the reform of pre-retirement and pension schemes and take further steps to ensure an increase in the effective retirement age, including through linking the statutory retirement age to life expectancy."

Conclusion

- Pension reforms in recent years with visible positive impact on participation rates, effective retirement ages as well as restrictions in pension spending
- Positive effect to be expected also in the future
- Belgian pension reform is a step in the right direction to increase the effective retirement age
- Further reforms might be necessary to increase participation and reduce pension spending in the medium- and long-run



Thank you for your attention!

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C.2 - Sustainability of public finances

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