Fiscal challenges and inclusive growth in ageing societies

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Japan

Laurence Boone
OECD Chief Economist
G20 populations are ageing rapidly

Expected life expectancy at age 65

Old-age dependency ratios
Number of people older than 65 years per 100 people of working-age (20-64)

G20 debt burden is already elevated

Note: LHS panel: Public debt ratios are based on the national accounts definitions except for EU countries where debt ratios based on Maastricht criteria are shown. RHS panel: Total stock of debt liabilities issued by the general government. Sources: OECD Economic Outlook database, and IMF Global Debt database.
WHAT ARE THE COSTS OF AGEING?
Ageing will weigh on living standards in most G20 countries

Working-age population contribution to GDP per capita growth between 2018 and 2030
By country, % per annum

Working-age population contribution to GDP per capita growth between 2030 and 2060
By country, % per annum

Ageing will increase public pension expenditure

Public expenditures on pensions

Note: * 2015 or latest available. **Projections are until 2060 for France, Germany, Italy and the United Kingdom; 2055 for Australia; and 2050 for the others. Projections assume no further policy changes in the projection period.

Source: European Commission and Standard and Poor's.
Ageing will increase health expenditures

Public health spending today

- % of GDP
- 2016 or latest available ▲ 2000

Public health spending projections

- % of GDP
- 2016 ▲ 2030 ▲ 2060

Note: Public health expenditures includes long-term health care spending. LHS panel: Expenditure excludes investments, unless otherwise stated. 1. Australian expenditure estimates exclude all expenditure for residential aged care facilities in welfare (social) services. 2. Includes investments.

Source: OECD Health Statistics 2017 database; OECD Long-Term Model; and OECD calculations.
Ageing increase fiscal pressures

Change in tax revenue necessary by 2060 to stabilize debt ratios at current levels

Note: Projections are based on current policy settings. Based on projected government pension expenditures from European Commission (2018) and Standard and Poor's (2016), and projected growth in public health care expenditure per capita with the methodology of Marino et al. (2017). Other primary expenditure is assumed to remain constant in real terms on a per capita basis. “Other factors” mostly capture the initial gap between primary revenue and the level that would stabilise the debt to GDP ratio, but also changes in GDP growth rates over the projection period.

Ageing could exacerbate poverty risk

Poverty rate is highest above 75 years

By age

% 66-75 76+ Whole population

Note: 2016 or latest year available. Poverty defined as having incomes below 50% of median equivalised household disposable income, after taxes and transfers.
Source: OECD Income Distribution database.
REFORMS TO ADDRESS AGEING COSTS
Standard structural reforms can help boost living standards

Per cent increase in GDP per capita by 2060 relative to baseline with product market liberalization

- Employment rate
- Capital per worker
- TFP
- Real GDP per capita

Per cent increase in GDP per capita by 2060 relative to baseline with labour market reforms

- Employment rate
- Capital per worker
- TFP
- Real GDP per capita

Note: LHS panel: OECD countries are assumed to implement a package of reforms over the 2020-to-2030 period that would improve OECD measures of product market regulation to the average levels for the five leading countries. RHS panel: OECD countries are assumed to implement a permanent policy reform package between 2020 and 2030 that would close half of the current gaps relative to simple averages of five policy indicators for the five leading countries. Policy indicators are: public spending on active labour market policies per unemployed person, union bargaining excess coverage, public spending on family benefits in kind, maternity leaves and tax wedges for single earners.

Educational attainment and life expectancy are important drivers of the increased participation of older people.

Decomposition of change in participation rate of 55-to-74 years old
Change 2002 to 2017, percentage points of the population aged 55 to 74

Note: ‘Other factors’ include changes in sex composition, changes in unemployment gaps and interactions effects that cannot be attributed to specific factors. The unexplained component is the difference between the actual change in the participation rate of 55-to-74 years-olds according to OECD labour force statistics and the model prediction.
Source: OECD labour force statistics and OECD calculations.
Highly educated older workers are more employable

Employment rates of older workers
55 to 64, by educational group

Note: Data on upper-secondary education or below are not available for Japan.
Source: Calculations from the OECD Education Database.
Retirement ages will continue to increase further in some countries

Statutory retirement age in G20 countries

By country

Current

Future

Brazil
Indonesia
India
Saudi Arabia
South Africa
Russia
China
Turkey
Korea
France
EU 28
Argentina
United Kingdom
Mexico
Japan
Germany
Canada
Australia
United States
Italy

40
45
50
55
60
65
70
75

Note: Retirement age for men entering the labour at age 20. Future retirement age is for people who entered the labour force in 2016, based on currently legislated provisions. Announced but not yet legislated measures are not reflected. Source: OECD Pensions at a Glance dataset.
Linking retirement age to life expectancy could improve living standards

Increase in GDP per capita by 2060 if minimum and normal retirement ages rise by at least two-thirds of gains in life expectancy at 65, relative to baseline

Source: OECD calculations.
Automatic adjustments are more common after recent reforms

- **Link retirement age to life expectancy**: Denmark, Finland, Italy, the Netherlands, Portugal, Slovak Republic

- **Automatic adjustments of benefits**:  
  - To *life expectancy*  
  - To *dependency ratios or fiscal balances of PAYGO* (*paying attention to low income earners*)  
    - Germany, Japan, Portugal, Spain, Sweden

- **Flexible retirement** (combining work+retirement; retirement age) **with adequate financial incentives**: e.g. Germany
Make better use of migrants’ skills

Differences in employment rates between foreign-born and native, by level of education, 2015-16

% pts

Low-educated  Highly educated

Turkey  Germany  Australia  Mexico  France  Indonesia  United Kingdom  G20 total  Canada  EU total (28)  Spain  Brazil  Argentina  Russia  Italy  South Africa  United States
Lifting employment and productivity key to ensure fiscal sustainability and foster inclusiveness in ageing societies

- Tackle barriers to employment of older workers such as mandatory retirement, lack of flexible work arrangements and seniority wage settings
- Promote skills development for older workers and life long-learning
- Improve labour force participation of women, youth and migrants

Pension and social security reforms need to address double challenge of ensuring fiscal sustainability and providing adequate coverage

- Link retirement age to life expectancy and allowing for flexible work/retirement with adequate financial incentives
- Health systems: contain costs and improve efficiency to ensure fiscal sustainability
- In emerging G20 countries, reducing informality to ensure sufficient coverage and financing of pensions, health and LTC is the key challenge
ADDITIONAL SLIDES
Income sources of older people vary widely

Note: Public transfers include public transfers earnings-related pensions and resource-tested benefits. Income from work includes both earnings (employment income) and income from self-employment. Capital income includes private pensions as well as income from the returns on non-pension savings. The data shown are for disposable incomes (i.e., net of personal income tax and social security contributions), measured on a household basis and adjusted for differences in household size.

Source: OECD Income Distribution Database.
Persistently low interest rates pose challenges for solvency and adequacy of private pension systems

Source: Thomson Reuters.
Life-long learning is important, particularly for older workers

Workers reporting lack of computer skills
2012

Workers’ participation in training
% of all employed in each age group, 2012

Note: Left: average of 22 OECD economies. Right: Job-related training during year prior to the survey in 2012. The OECD average from PIAAC excludes Hungary, Iceland, Latvia, Luxembourg, Mexico, Portugal and Switzerland. Source: OECD estimations from the OECD Survey of Adult Skills (PIAAC).
Participation of older people can increase further

Change in the participation rate of 55-to-74 year-olds
2002-2017 with contributions by sex

Source: OECD labour force statistics and OECD calculations.
Pursue the reduction of early retirement programmes

Participants in early retirements programmes in selected countries

% of population aged 55 to 64

Note: the countries selected are those with long time series. Early retirement programmes are defined as those facilitating full or partial early retirement of older workers who are assumed to have little chance of finding a job or whose retirement facilitates the placement of an unemployed person or a person from another target group. Early retirement benefits normally cease when the beneficiary becomes entitled to an old age pension. Data for Poland are not available before 2005.

Normal retirement ages are not keeping pace with increases in life expectancy

Change in normal retirement age relative to life expectancy at 65
Under currently legislated rules, change 2016 to 2060, difference in years

Note: The figure shows the differences between the increase in the normal retirement age and the increase in life expectancy at age 65 over the period 2016 to 2060 on average for men and women. Retirement age for men and women entering the labour market at age 20. Future retirement age is for people who entered the labour force in 2016, based on currently legislated provisions. Announced but not yet legislated measures are not reflected.

Room to increase contribution rates to increase pension adequacy differs across G20 countries

Mandatory pension contribution rates for an average worker in 2016
% of gross earnings of the worker

Note: Contribution rates include employee and employer contributions. The rates for both employee and employer are based on the gross earnings of the worker. * indicates social insurance contribution, including non-pension benefits
Replacement rate and sources vary among G20 countries

Future gross pension replacement rates from mandatory public, private and voluntary private pension schemes
Percent of individual earnings, average earner

Note: Theoretical gross replacement rates, computed for an individual who enters the labour market in 2016, earns the average income and contributes for a full career, 2016 legislation
Source: OECD pension models.
Replacement rate vary among G20 countries

Projected future net replacement rates from mandatory pension schemes

Note: The future net replacement rate is estimated assuming labour market entry at age 20 in 2016 and a working life equal to the normal pensionable age in each country. This normal pensionable age is defined as the age at which individuals can first withdraw their full pension benefits, without actuarial reductions or penalties. The net replacement rates shown are calculated for mandatory schemes for an individual with 100% and 50% of average worker earnings.

Source: OECD calculations based on the pension model
Improving financial literacy can help make better informed retirement choices and increase voluntary savings for retirement.

**Financial literacy**

% of respondents achieving the minimum target score on financial knowledge

Note: The minimum target score is reached when answering 70% of the financial knowledge questions correctly. G20 is the simple average of the country percentages for all G20 countries with comparable data. G20 countries that are excluded from this figure do not have comparable data.

Source: G20/OECD INFE report on adult financial literacy in G20 countries.