

# Experiences from Abroad: Policy Responses to Aging Populations



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Washington, DC USA

*For a conference on*

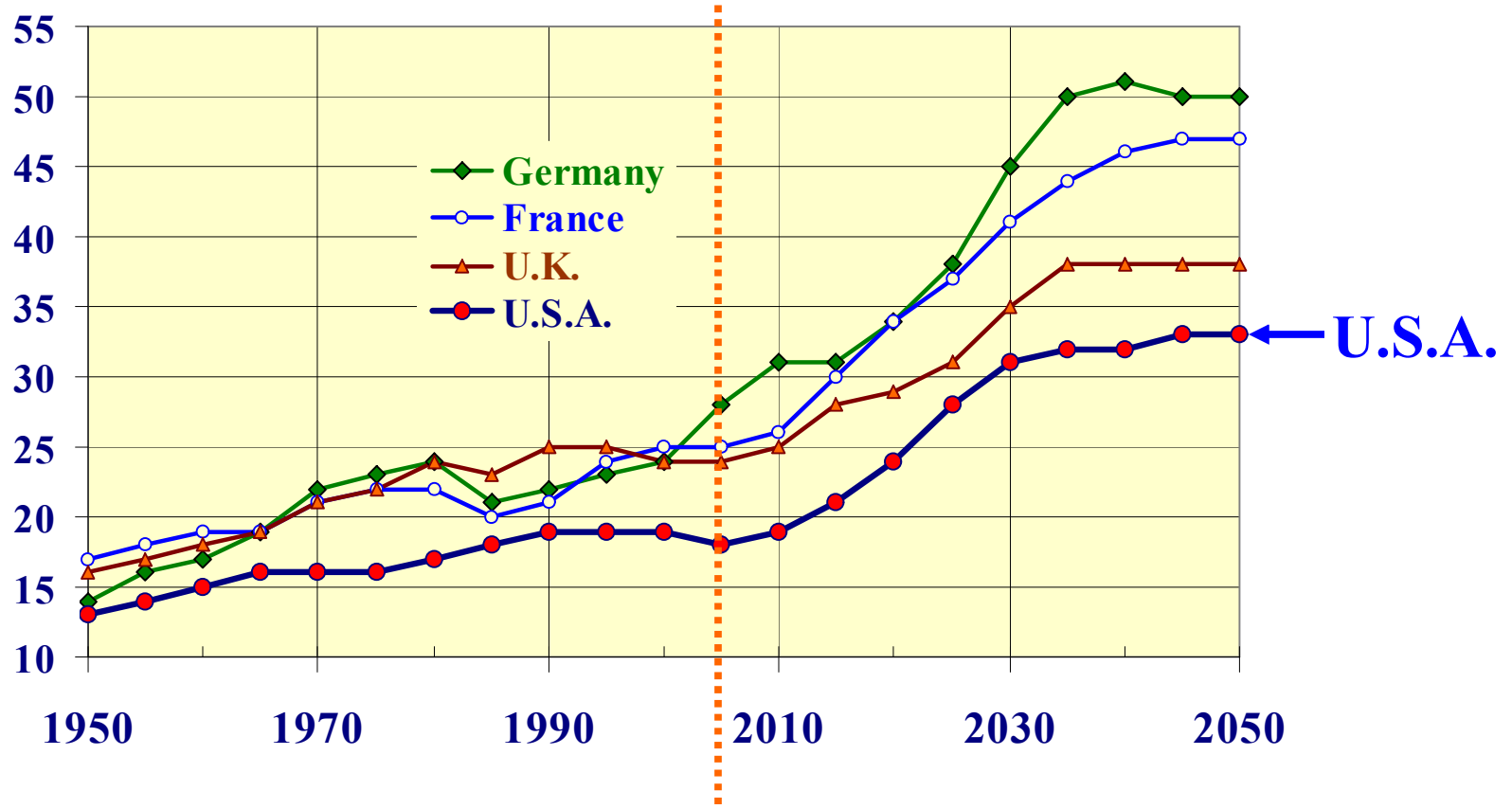
**“The Aging of the Workforce:  
Competitive Advantages or Vulnerabilities?”**

June 2, 2006

Newport, Rhode Island

# Population aging will occur faster in other rich countries

Ratio of persons 65 and older to persons 15-64 years old

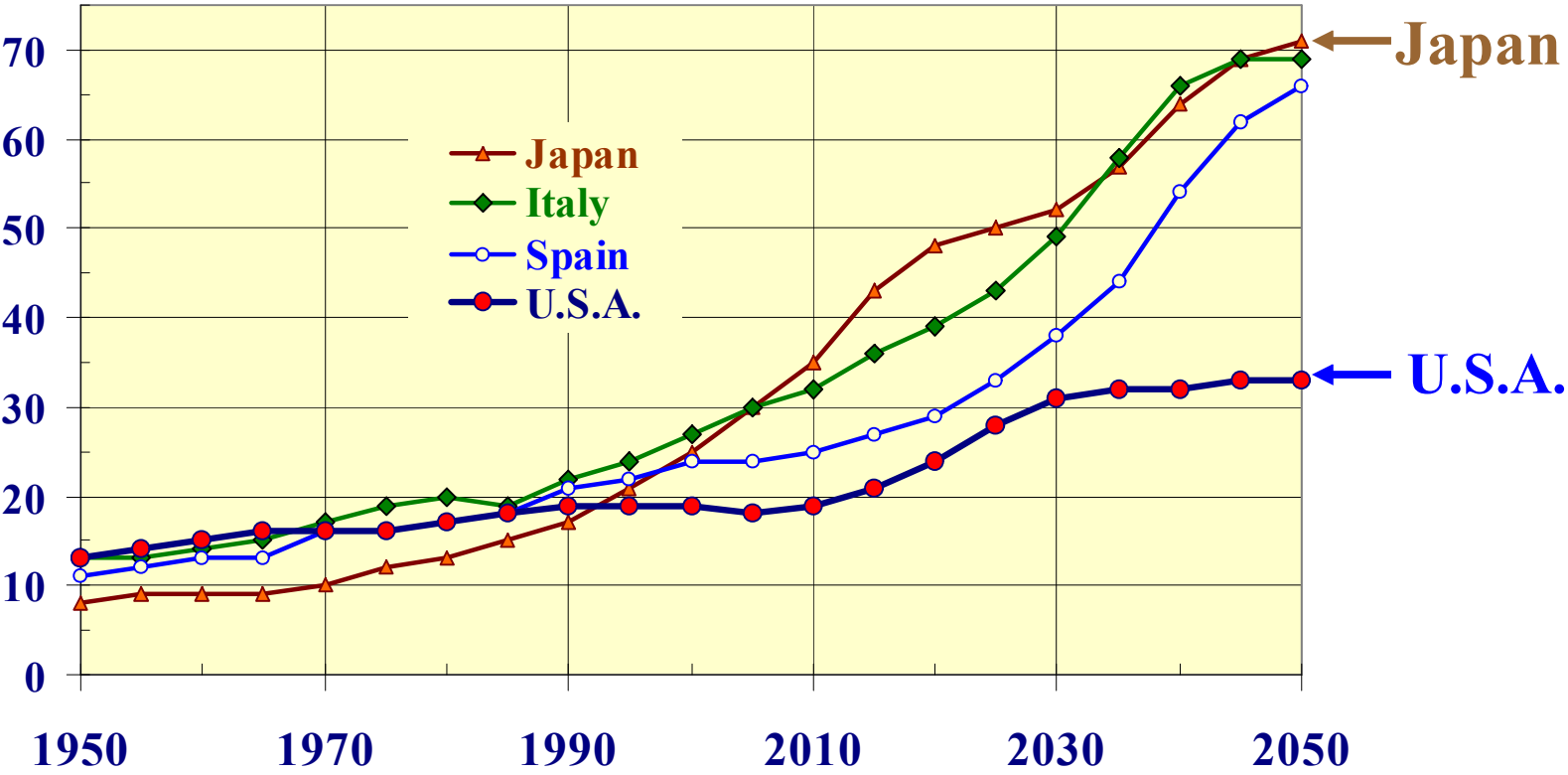


Source: United Nations (2005).

**We're here**

# Population aging will occur still faster in others

Ratio of persons 65 and older to persons 15-64 years old



Source: United Nations (2005).

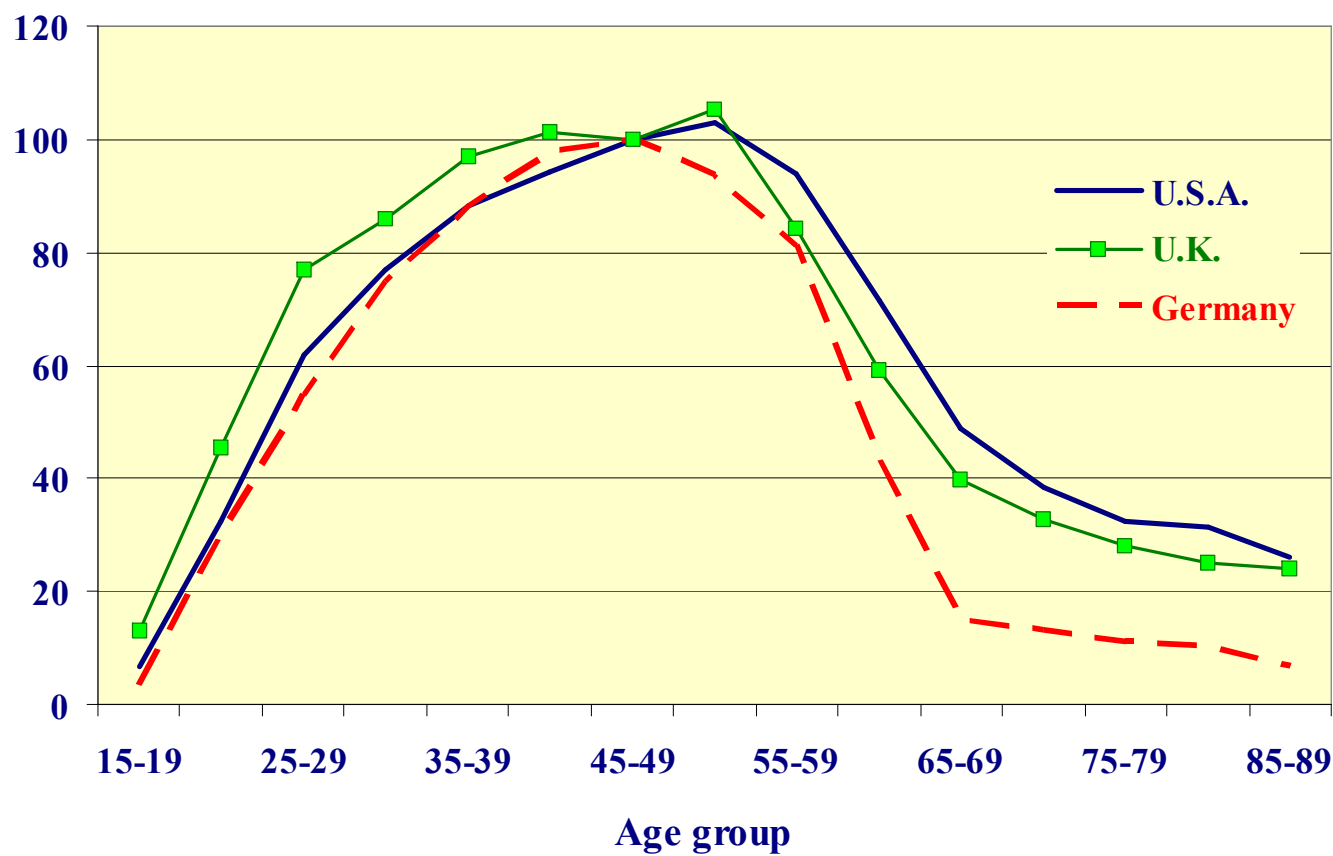
# **Population aging is a challenge for all the rich countries**



- **It will reduce growth of the workforce, slowing growth of wages and pension contributions**
- **In many countries, workforce will actually decline**
- **Aging will increase burden on taxpayers: Financing age-related benefits**

# Income from earnings and property falls steeply after age 55 ...

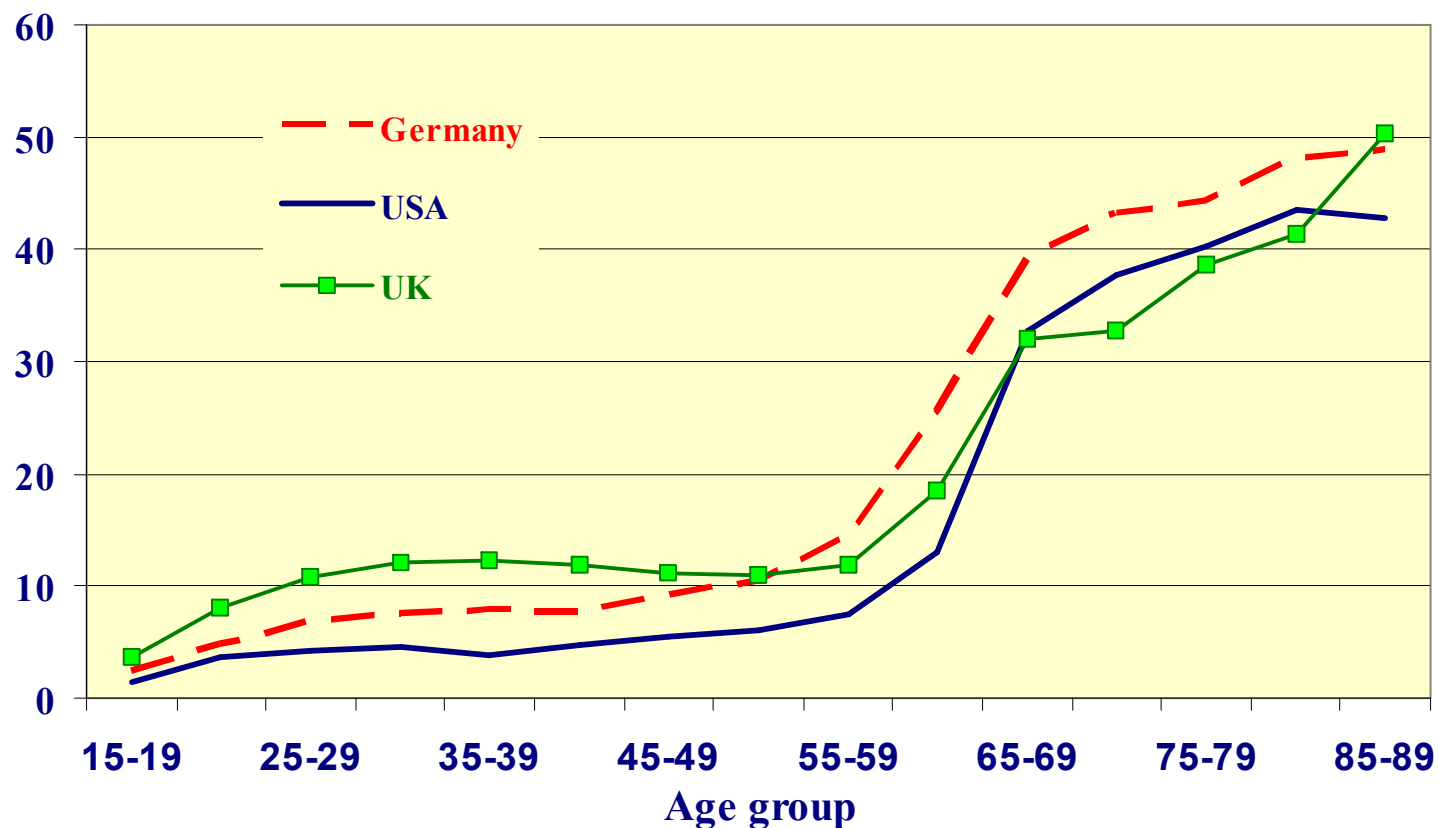
Earned Income Received as % of  
Average Earned Income Received by 45-49 Year-olds



Source: Author's calculations based on household income survey data for 1999 or 2000.

# ... and government transfer benefits increase sharply

Transfers Received Measured as % of  
Average Earned Income Received by 45-49 year-olds



Source: Author's calculations based on household income survey data for 1999 or 2000.

# The prospect of an older population did not seriously affect policy before 1990 ...

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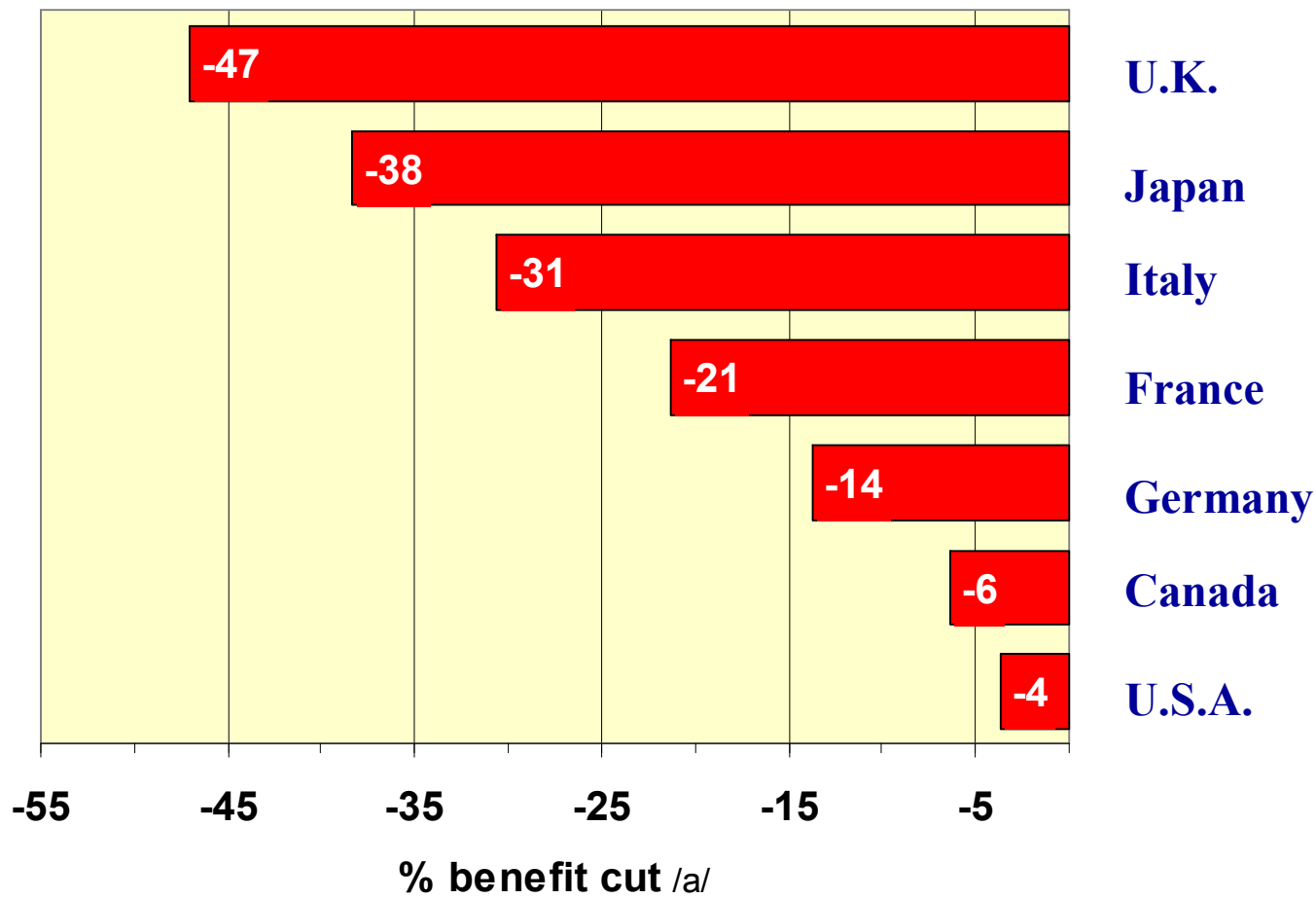
- **... except in Britain and the United States**
  - Incentives to increase the role of private, mostly defined-contribution pensions
  - Scaling back future public pension promises
    - Very gradually in USA, through higher retirement age
    - Much more dramatically in Britain, through reductions in pension indexation
  - **In the USA, stronger incentives for a longer work life**
- Pension and labor reforms were postponed elsewhere
- Many European countries actually encouraged *earlier* retirement through special unemployment and disability schemes for aged

# Public pension reform accelerated in past 15 years



- Major overhaul of public pension plans
  - **Scaling back future public pension promises**
    - Later pension-claiming age, esp. for women
    - More years of earnings included in pension calculation
  - **Stronger incentives for longer careers**
    - Smaller financial penalties for working late in life
- In some countries – Sweden, Italy – the reforms were spurred by immediate budget concerns
- Many reforms will achieve big, though gradual, cuts in pension replacement rates

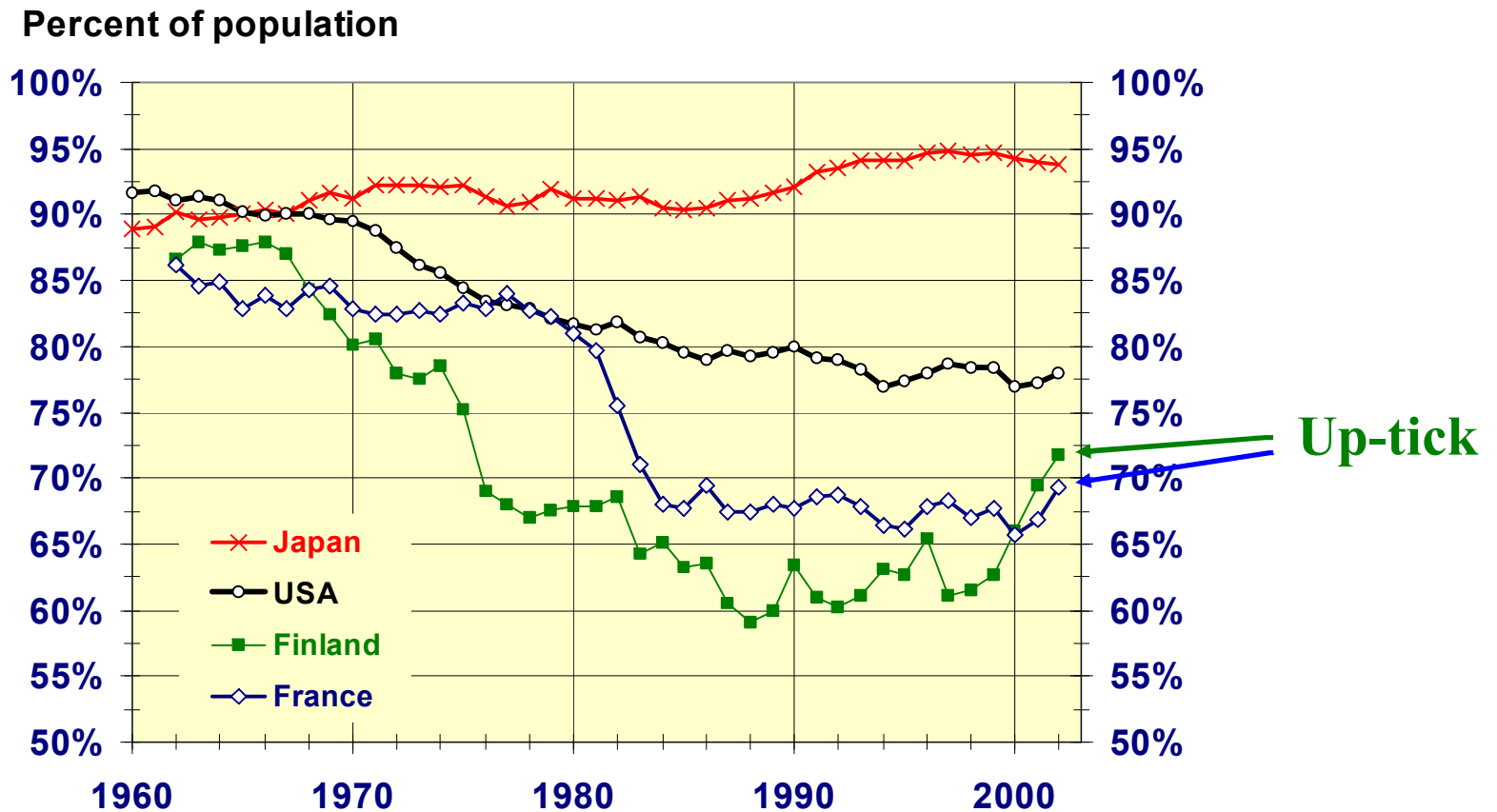
# **% decline in average old-age pension relative to real average wage, 2000 – 2050 [ OECD estimates ]**



/a/ Benefit cut is the percentage reduction in new retirees' pension replacement rate.

# New pension incentives have begun to affect workforce engagement

Men between 55-59 years old in labor force, 1960 - 2002

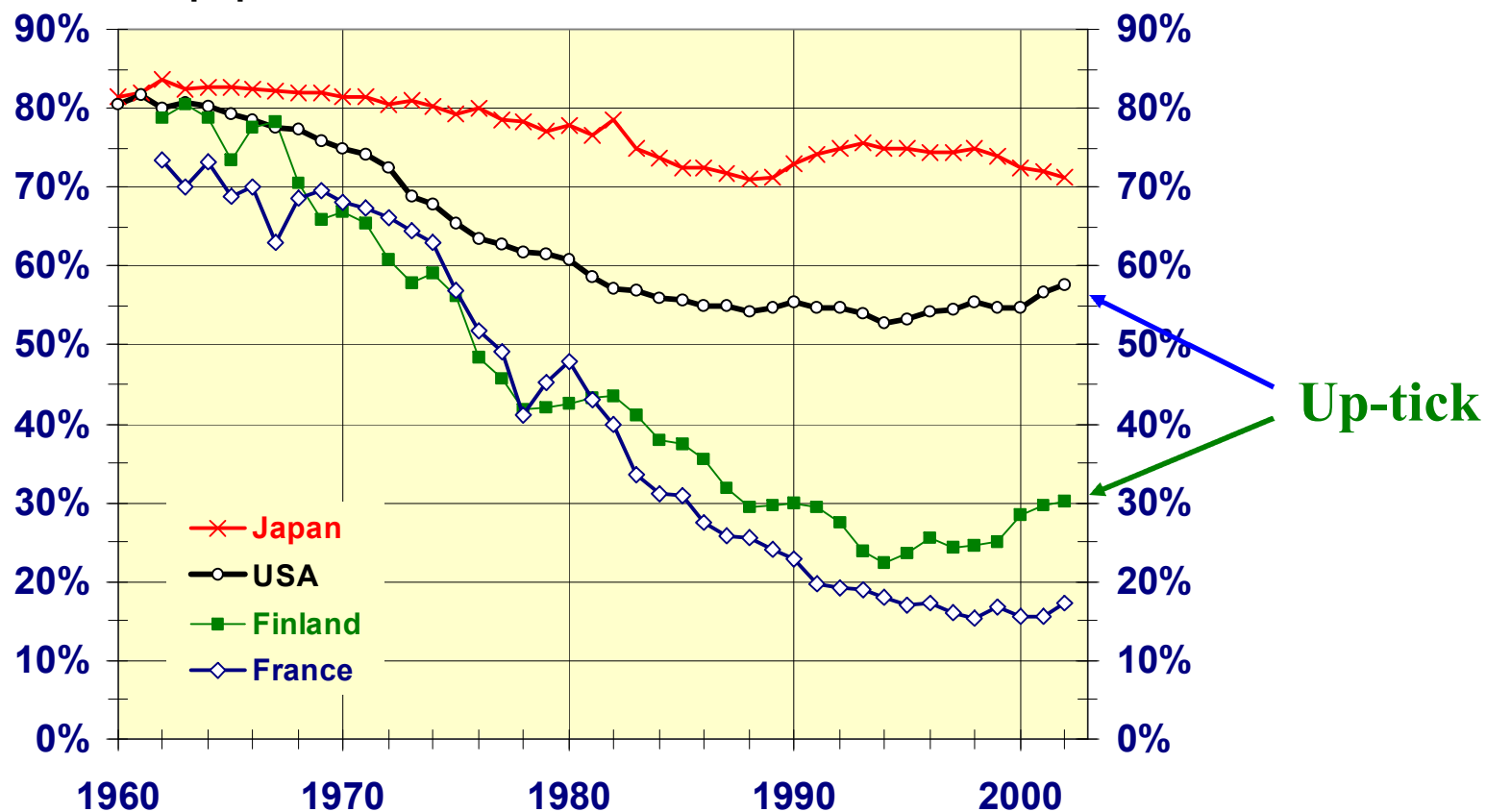


Source: Author's calculations based on labor force data from OECD and U.S. BLS.

# New pension incentives have begun to affect workforce engagement

Men between 60-64 years old in labor force, 1960 - 2002

Percent of population



Source: Author's calculations based on labor force data from OECD and U.S. BLS.

# Final remarks



- **Rising old-age dependency can be partly offset by --**
  - Lower child dependency (Low birth rate = Few kids to support)
  - Higher female employment (in countries where female employment is now low)
- **In high-unemployment Europe, effects of aging can be partly offset by higher overall employment--**
  - Several European countries now have unemployment rates near 10%
  - Labor force participations rates – especially past age 55 – depressed by work-discouraging policies

# Final remarks



- Many rich countries have begun to reform pensions, cutting future pensions ... and tax burdens on younger, smaller generations
- The U.S.A. began its public pension reforms earlier than other countries, but the U.S. reforms will reduce pensions less than other countries' reforms
- The U.S.A. faces less aging, but America's aging challenge is still enormous because of soaring health care costs