Is age just a number? Meeting the economic challenges of a graying world

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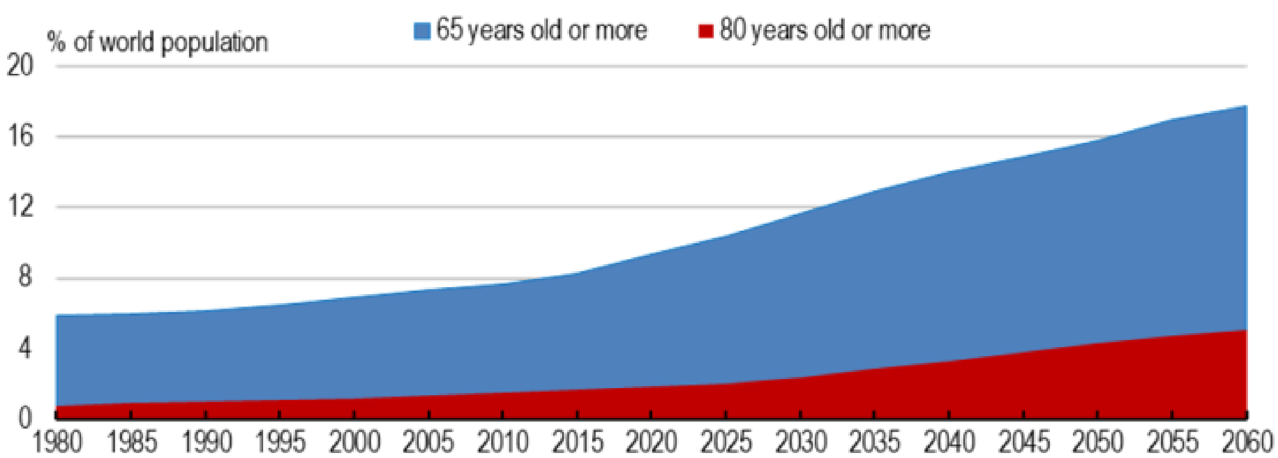
How fast is the world ageing?

The world is experiencing a staggering rise in the number of old people and they will live longer than even before. By 2060, the share of people older than 65 will double globally, from 9 to 18%, and the share of people over 80 will triple to 5.1% (Figure 1). Advanced economies are ageing rapidly as life expectancy increases and fertility continues to decline. Across emerging economies, the situations are contrasted, with China, Brazil and Turkey ageing fast while for instance India's population will age only slowly. Yet, all major economies will experience significant increases in the number of people over 65 supported by each working-age person – and should prepare for it, as highlighted in a new OECD paper. An ageing economy risks being a slower growing and more unequal one, unless policy starts changing now.

Figure 1. The share of the elderly in the world's population will rise dramatically

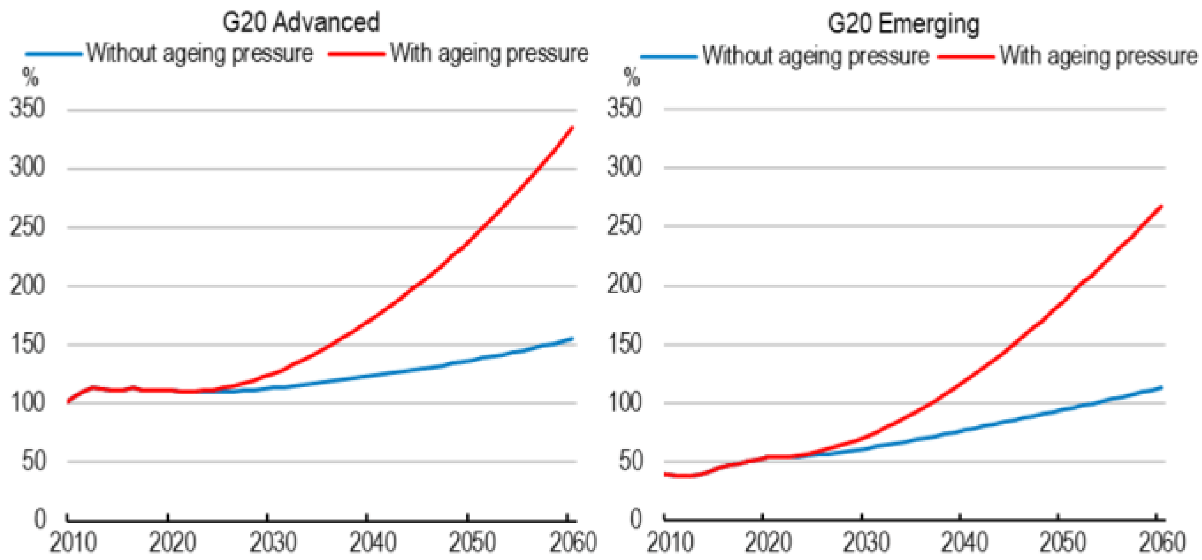


Source: United Nations World Population Prospects: The 2017 Revision.

Why is it a challenge for many economies?

Older and fewer workers risk dragging down growth in living standards: there will be less working-age people in the population, older workers tend to be employed less, and may be less productive and entrepreneurial. For fiscal and social security systems, pension, health and long-term care costs could become unmanageable for many countries. If reforms are not undertaken rapidly enough to deal with these pressures, ageing-related expenditures would add to already high public debt in many countries in the next decades (Figure 2), or require steep tax revenue increases or severe cuts in productive public expenditure.

Figure 2. Without reforms, ageing expenditures could endanger the sustainability fo public finances
Stylised debt scenarios, gross public debt in % of GDP

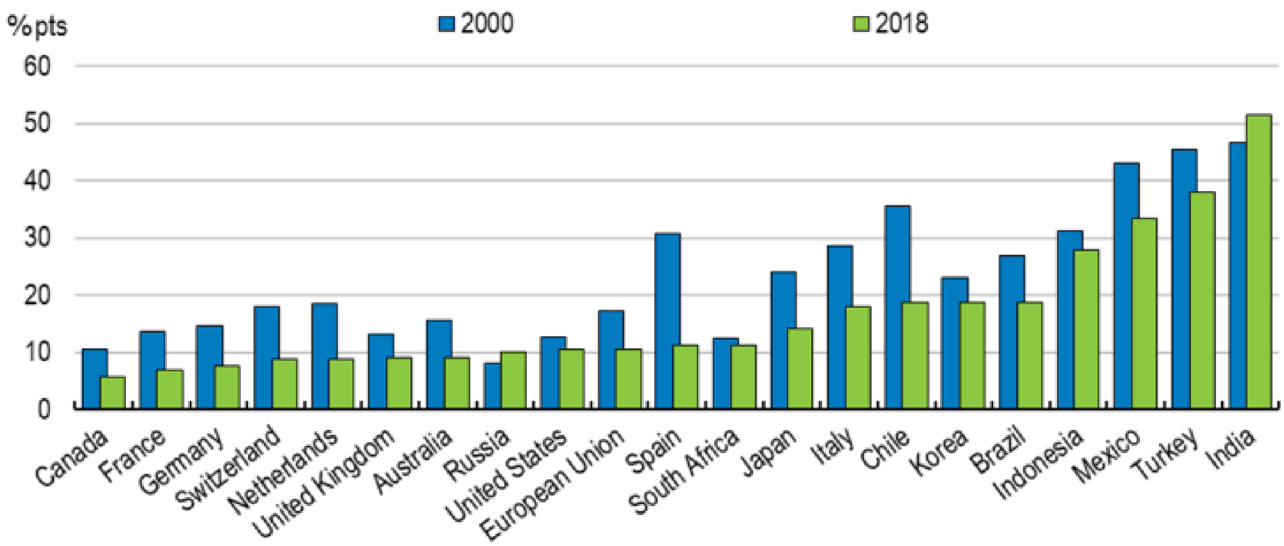


Source: OECD calculations.

Are ageing societies doomed to slow economic decline?

The risk of slow growth and crippled public finances is not an inescapable fate, but rather a call for policy action. To deal with the challenges brought by ageing, governments need a whole of government approach across many policy areas. First, the pressures arising from rising ratios of pensioners to workers can be partly offset by better utilising untapped reservoirs of productive workers. There is a lot that policymakers can do to close the gender gap in employment and wages (Figure 3), to make a better use of migrants' skills, to raise the employment and opportunities of low-skilled and young workers. Second, today's seniors often can and wish to remain active longer, and should be given the opportunities and incentives to do so. Third, pensioners are a vibrant consumer market, and there will be many opportunities to develop innovations in mobility and health solutions for the elderly, as well as in automation technologies to help firms cope with scarce labour. Finally, reforms to boost productivity, such as encouraging competition and innovation, and to raise human capital through strong investment in health and education quality, can help offset the effects of ageing.

Figure 3. The gender employment gap has been reduced, but remains high in some countries
Difference in employment rates (employment to the population aged 15-64 years old) between men and women



Source: OECD Labour Force Statistics.

Will pension systems still be able to provide sufficient retirement income?

Countries have a diversity of pension systems – public and private, pre-funded or pay-as-you-go, with defined benefits or defined contributions. But they share a common thorny challenge: is there an impossible choice to be made between meeting the promises made to the young and to the old, preserving a sustainable path for growth and public debt, and ensuring that the burden is shared in a fair manner within and between generations?

In most countries, the scope for raising contributions or taxes without over-burdening the young, or to reduce pension entitlements without exacerbating old-age poverty, is limited at best. Increasing the retirement age as life expectancy improves offers a better way forward, though the pension design should not penalise the poor with shorter life expectancies. More flexibility to allow people to combine work and pensions can also help keep people active longer if they so wish.

Private pensions schemes are shifting from employee-sponsored schemes to personal retirement saving plans in many countries, raising the risk of insufficient contributions and shifting risks to individuals. Incentivising private savings, through for instance automatic enrolment mechanisms or matching contributions to subsidise savings, must go with improving financial education.

Finally, when making pension reforms goverments will need to avoid unintended regressive effects. Longevity might not be increasing as fast for lower-income groups than for the rest of the population. Moreover, longer periods spent in retirement could exarcebate the incidence of old-age poverty. The poverty risk is higher for people above 75 years than for any other age category. In addition, pension payments are around 27% lower for women, among those over 65. To minimise the impact of changing pension rules on low-income people, adequate provisions are needed, including carefully designed and well targeted minimum and basic pensions, as well as survivor pensions and anti-poverty programmes.

Is working longer realistic?

As people live healthier for longer, dedicating a few extra years to work makes sense, but it will require more than the stroke of a (lawmaker's) pen. Barriers to the hiring and retention of older workers should be tackled. Mandatory retirement ages and pension rules that discourage people from working longer should be eliminated. Today, governments and companies also invest little in retraining older people, but as people work for longer this investment becomes all the more necessary and profitable.

Relying on initial education to provide people with skills for a lifetime is becoming ever less realistic for longer careers in a fast-changing world. Training tailored to the needs of senior workers, especially to keep up with digital tools in the workplace, needs to be stepped up to enable seniors to find jobs and make the best use of their potential. Businesses can provide support to older workers by offering opportunities to retrain and reskill, offer more flexible contracts with shorter working hours or teleworking, and help seniors move to less physically demanding jobs. At the same time, ageing underlines the importance of public investment in education at all stages of life, so that more people acquire the skills they need to thrive in the modern labour market throughout their careers.

Reference:

Rouzet, D., et al. (2019), "Fiscal challenges and inclusive growth in ageing societies”, *OECD Economic Policy Papers*, No. 27, OECD Publishing, Paris, https://doi.org/10.1787/c553d8d2-en.